

# 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

## GLOBAL OFFERING



Joint Sponsors  
(in alphabetical order)



CICC  
中金公司

CREDIT SUISSE

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



CICC  
中金公司

CREDIT SUISSE

Morgan Stanley

\*For identification purposes only

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## IMPORTANT

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**IMPORTANT:** If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



### 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)

#### GLOBAL OFFERING

Number of Offer Shares under the : 533,336,000 H Shares (subject to the  
Global Offering Over-allotment Option)  
Number of Hong Kong Offer Shares : 53,334,000 H Shares (subject to reallocation)  
Number of International Offer Shares : 480,002,000 H Shares (including 26,675,462  
Reserved Shares under the Preferential  
Offering) (subject to reallocation and the  
Over-allotment Option)  
Maximum Offer Price : HK\$6.30 per H Share, plus brokerage of 1%,  
SFC transaction levy of 0.0027% and Stock  
Exchange trading fee of 0.005% (payable in full  
on application in Hong Kong dollars and  
subject to refund on final pricing)  
Nominal value : RMB1.00 per H Share  
Stock code : 2718

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix VII — Documents Delivered to the Registrar of Companies and Available for Inspection," has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and our Company on the Price Determination Date or such later date as may be agreed by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and our Company but in any event no later than Monday, March 25, 2019. The Offer Price will be not more than HK\$6.30 per Offer Share and is currently expected to be not less than HK\$4.20 per Offer Share. Applicants for Hong Kong Offer Shares are required to pay, on application, the Maximum Offer Price of HK\$6.30 for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price should be less than HK\$6.30. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and our Company on or before Monday, March 25, 2019, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below as stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [www.dongzhengafc.com](http://www.dongzhengafc.com) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Details of the arrangement will then be announced by us as soon as practicable. For further information, please refer to the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares and Reserved Shares".

We are incorporated, and all of our businesses are located, in the PRC. Potential investors should be aware of the differences in legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investments in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our H Shares. Such differences and risk factors are set out in "Risk Factors", "Regulatory Overview", "Appendix IV — Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions" and "Appendix V — Summary of the Articles of Association of the Company" to this prospectus. Prior to making an investment decision, potential investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in "Risk Factors".

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Further details of such circumstances are set out in "Underwriting — Underwriting arrangements and expenses — Grounds for Termination".

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered (i) in the United States to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements under the U.S. Securities Act and (ii) outside the United States in offshore transactions in accordance with Regulation S.

\* For identification purposes only

March 14, 2019

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## EXPECTED TIMETABLE<sup>(1)</sup>

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*If there is any change in the following expected timetable of the Hong Kong Public Offering and the Preferential Offering, we will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and in the Hong Kong Economic Times (in Chinese).*

Despatch of **BLUE** Application Forms to Qualifying  
ZhengTong Shareholders on or before . . . . . Thursday, March 14, 2019

Hong Kong Public Offering and Preferential Offering  
commence and **WHITE** and **YELLOW** Application  
Forms available from . . . . . 9:00 a.m. on Thursday, March 14, 2019

Latest time for completing electronic applications under  
(i) the **White Form eIPO** service and (ii) **Blue Form  
eIPO** service through the designated website  
[www.eipo.com.hk](http://www.eipo.com.hk)<sup>(2)</sup> . . . . . 11:30 a.m. on Tuesday, March 19, 2019

Application lists open<sup>(3)</sup> . . . . . 11:45 a.m. on Tuesday, March 19, 2019

Latest time for (i) lodging **WHITE, YELLOW** and  
**BLUE** Application Forms, (ii) completing payment for  
(a) **White Form eIPO** applications and (b) **Blue Form  
eIPO** applications by effecting internet banking  
transfer(s) or PPS payment transfer(s), and (iii) giving  
electronic application instructions to HKSCC. . . . . 12:00 noon on Tuesday, March 19, 2019

Application lists close<sup>(3)</sup> . . . . . 12:00 noon on Tuesday, March 19, 2019

Expected Price Determination Date . . . . . Tuesday, March 19, 2019

(1) Announcement of the Offer Price, the level of  
indications of interest in the International Offering,  
the level of applications in the Hong Kong Public  
Offering and the Preferential Offering and the basis  
of allocation of the Hong Kong Offer Shares and  
the Reserved Shares to be published in the South  
China Morning Post (in English) and the Hong  
Kong Economic Times (in Chinese) on or before . . . . . Monday, March 25, 2019

(2) Results of allocations in the Hong Kong Public  
Offering and the Preferential Offering to be  
available through a variety of channels as described  
in the section entitled “How to Apply for Hong  
Kong Offer Shares and Reserved Shares — E.  
Publication of Results” from . . . . . Monday, March 25, 2019

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## EXPECTED TIMETABLE<sup>(1)</sup>

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- (3) Announcement containing (1) and (2) above to be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.dongzhengaf.com](http://www.dongzhengaf.com) from . . . . . Monday, March 25, 2019

Results of allocations in the Hong Kong Public Offering and the Preferential Offering will be available at [www.iporesults.com.hk](http://www.iporesults.com.hk) (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID” function from . . . . . Monday, March 25, 2019

Despatch/Collection of H Share certificates<sup>(4)</sup> and refund cheques/**White** Form and **Blue** Form e-Refund payment instructions (if applicable) on or before . . . . . Monday, March 25, 2019

Dealings in the H Shares on the Stock Exchange expected to commence on . . . . . Tuesday, March 26, 2019

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*Notes:*

- (1) All dates and times refer to Hong Kong dates and times.
- (2) You will not be permitted to submit your application under the **White Form eIPO** service through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, March 19, 2019, the application lists will not open or close on that day. See “How to Apply for Hong Kong Offer Shares and Reserved Shares — D. Effect of Bad Weather on the Opening and Closing of the Application Lists.”
- (4) The H Share certificates will only become valid certificates of title at 8:00 a.m. on the Listing Date, which is expected to be Tuesday, March 26, 2019, provided that the Global Offering has become unconditional in all respects. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of H Share certificates or prior to the H Share certificates becoming valid do so entirely at their own risk.

For details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares and Reserved Shares, see “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares and Reserved Shares,” respectively.

If the Global Offering does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed. In such a case, the Company will make an announcement as soon as practicable thereafter.

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## EXPECTED TIMETABLE<sup>(1)</sup>

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Qualifying ZhengTong Shareholders may also obtain a printed copy of this prospectus, free of charge, during normal business hours from any of the designated branches of the receiving banks and the designated offices of each of the Joint Global Coordinators as set out in the section headed “How to Apply for Hong Kong Offer Shares and Reserved Shares” in this prospectus. Distribution of this prospectus and/or the **BLUE** Application Forms into any jurisdiction other than Hong Kong may be restricted by law. Persons into whose possession this prospectus and/or the **BLUE** Application Forms come (including, without limitation, agents, custodians, nominees and trustees) should inform themselves of, and observe, any such restrictions. Any failure to comply with such restrictions may constitute a violation of the securities laws of any such jurisdiction.

Receipt of this document and/or the **BLUE** Application Form(s) does not and will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this document and/or the **BLUE** Application Form(s) must be treated as sent for information only and should not be copied or redistributed.

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## CONTENTS

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### IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

*This prospectus is issued by us solely in connection with the Hong Kong Public Offering, the Preferential Offering, the Hong Kong Offer Shares and the Reserved Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares and the Reserved Shares offered by this prospectus pursuant to the Hong Kong Public Offering and the Preferential Offering. This prospectus may not be used for the purpose of making, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Hong Kong Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus for purposes of a public offering and the offering and sale of the Hong Kong Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. The Hong Kong Public Offering and the Preferential Offering are made solely on the basis of the information contained and the representations made in this prospectus. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained nor made in this prospectus and the Application Forms must not be relied on by you as having been authorized by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers, employees, agents or representatives of any of them or any other parties involved in the Global Offering. Information contained on our website at [www.dongzhengafcc.com](http://www.dongzhengafcc.com) does not form part of this prospectus.*

	Page
<b>EXPECTED TIMETABLE</b> .....	i
<b>CONTENTS</b> .....	iv
<b>SUMMARY</b> .....	1
<b>DEFINITIONS</b> .....	16
<b>FORWARD-LOOKING STATEMENTS</b> .....	29
<b>RISK FACTORS</b> .....	31
<b>WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES</b> .....	60
<b>INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING</b> .....	64

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## CONTENTS

---

	Page
<b>DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING</b> .....	69
<b>CORPORATE INFORMATION</b> .....	73
<b>INDUSTRY OVERVIEW</b> .....	75
<b>REGULATORY OVERVIEW</b> .....	88
<b>HISTORY AND CORPORATE STRUCTURE</b> .....	111
<b>BUSINESS</b> .....	116
<b>RISK MANAGEMENT</b> .....	157
<b>RELATIONSHIP WITH CONTROLLING SHAREHOLDERS</b> .....	179
<b>CONNECTED TRANSACTIONS</b> .....	197
<b>DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT</b> .....	205
<b>SHARE CAPITAL</b> .....	220
<b>SUBSTANTIAL SHAREHOLDERS</b> .....	224
<b>FINANCIAL INFORMATION</b> .....	225
<b>ASSETS AND LIABILITIES</b> .....	262
<b>FUTURE PLANS AND USE OF PROCEEDS</b> .....	280
<b>UNDERWRITING</b> .....	282
<b>STRUCTURE OF THE GLOBAL OFFERING</b> .....	295
<b>HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES</b> . . . .	309
<b>APPENDIX I — ACCOUNTANTS' REPORT</b> .....	I-1
<b>APPENDIX II — UNAUDITED PRO FORMA FINANCIAL INFORMATION</b> .....	II-1
<b>APPENDIX III — TAXATION AND FOREIGN EXCHANGE</b> .....	III-1
<b>APPENDIX IV — SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS</b> .....	IV-1
<b>APPENDIX V — SUMMARY OF THE ARTICLES OF ASSOCIATION OF THE COMPANY</b> .....	V-1
<b>APPENDIX VI — STATUTORY AND GENERAL INFORMATION</b> .....	VI-1
<b>APPENDIX VII — DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION</b> .....	VII-1

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this section are defined in the sections headed “Definitions and Glossary” in this prospectus.*

### OVERVIEW

We are the only auto finance company, or AFC, with a dealership background in China, licensed and regulated by the China Banking and Insurance Regulatory Commission. We specialize in providing auto finance products and services for the purchase of luxury-brand cars. In 2018, we disbursed 31,577 retail loans for the purchase of luxury-brand cars with an aggregate principal amount of RMB6,108.2 million, accounting for 75.7% of the number of retail loans we disbursed in total and 86.3% of the aggregate principal amount of retail loans we disbursed during the same period. Given our focus on luxury-brand cars, the average loan principal amount that our retail loan customers received in 2017 was RMB220,028, which ranked third among all the AFCs in China in 2017, and was substantially higher than the industry average of RMB98,411 for the same period. We had a market share of 2.0% in terms of the aggregate principal amount of loans disbursed for luxury-brand cars by all AFCs in 2017, according to the CIC Report.

Our Company is a subsidiary of ZhengTong, our Controlling Shareholder. The listing of our H Shares on the Main Board of the Stock Exchange is a spin-off from ZhengTong.

Established in March 2015, we offer tailored financing products and services to our end customers by leveraging the know-how and industry insights of our parent company ZhengTong, which has been in the dealership business for nearly 20 years. As of December 31, 2016, 2017 and 2018, our dealer network consisted of 226, 351 and 1,280 dealers, respectively. As of December 31, 2018, our dealer network covered 182 cities in China, comprising all of the four first-tier cities, i.e., Beijing, Shanghai, Shenzhen, Guangzhou, as well as 36 second-tier cities and 142 third-tier and other lower-tier cities. The following table sets forth the number of ZhengTong Dealers and External Dealers within our sales network as of the dates indicated.

	As of December 31,		
	2016	2017	2018
ZhengTong Dealers .....	91	100	113
External Dealers .....	135	251	1,167
<b>Total</b> .....	<b>226</b>	<b>351</b>	<b>1,280</b>

Furthermore, we established strategic cooperation with certain luxury-brand automakers to expand our customer base, whereby the automakers seek to promote the sale of specific car models by providing interest subsidies. See “Business — Our Business — Retail Loan Business — Self-operated Retail Loan Business — Self-operated Loan Products” and “Relationship with Controlling Shareholders — Our Business Relationship with ZhengTong” for a more detailed description.

Since our inception, we have continued diversifying our funding sources. As an AFC licensed by the CBIRC, we have access to a variety of funding sources, including inter-bank borrowing and the



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## SUMMARY

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national inter-bank lending market, which are otherwise unavailable to non-CBIRC licensed entities. During the Track Record Period, we established and maintained stable relationships with various banks in China and obtained credit lines from them. As of the Latest Practicable Date, there were 37 banks in China with which we had outstanding placements or unutilized credit facilities. We plan to continue to diversify our funding sources through means such as issuing ABS and financial bonds on the national inter-bank lending market. During the Track Record Period, we incurred interest expenses of RMB121.1 million, RMB169.8 million and RMB320.5 million in 2016, 2017 and 2018, respectively.

We seek to enhance our customer acquisition and management, operating efficiency as well as risk management capabilities through various technologies. We aim to further strengthen our brand recognition base through our Weixin official account and mini-programs. We have established an operating system that streamlines the loan approval and disbursement process by integrating various functions including data and performance indicator tracking, finance and client relationship management.

We have also established a database comprised of credit information sourced from the PBOC and other relevant user-authorized customer data we collected for risk management purposes. Utilizing big data analytics, we have built an algorithm-based credit risk assessment model and an automated risk control decision-making engine to reduce the lead time for loan review and approval, which allow us to improve customer experience and efficiently monitor loan delinquency status. We also launched an automated retail loan review and approval system in March 2018. Since then and up till December 31, 2018, nearly 35% of successful retail loan applications were approved by an automated process and the retail loans can be disbursed within hours after being approved. As of December 31, 2016, 2017 and 2018, our non-performing loan ratio was 0.37%, 0.28% and 0.27%, respectively.

Our business primarily consists of: (i) retail loan business, whereby we offer retail loan and other financing services to end customers for their purchase of cars; and (ii) dealer loan business, whereby we provide loans to dealers to facilitate their purchase of cars to be sold to their end customers.

### **Retail loan business**

Our retail loan business is comprised of self-operated retail loan business and retail loan facilitation business.

***Self-operated retail loan business.*** Our self-operated retail loan business consists of standard retail loan business and joint retail loan business. Under our standard retail loan business, we disburse retail loans to customers using our own funds and charge interests on the loans. We also offer direct lease products whereby we purchase cars according to end customers' requirement and then lease the cars to the end customers in exchange for monthly lease payments. Under our joint retail loan business, we collaborate with commercial banks to disburse loans using both our own capital and funding from commercial banks. We then charge customers interests for the portion of the loan funded by us and charge the commercial banks a service fee.

***Retail loan facilitation business.*** To satisfy end customers' financing needs beyond our own funding, we also refer customers to commercial banks. We provide other loan-related services such as loan consultation and loan applications preparation, and collect service fees from these customers upon the signing of the loan agreements with the commercial banks. During the loan application review process, these commercial banks independently review the loan applications and conduct their own loan approval process. The commercial banks assume full credit risks for such loans. We do not bear any credit risk or provide guarantees for such loans.

## SUMMARY

The following table sets forth certain key operating information of our retail loan business:

	For the year ended or as of December 31,								
	2016			2017			2018		
	Self- operated Retail Loan	Retail Loan Facilitation	Total	Self- operated Retail Loan	Retail Loan Facilitation	Total	Self- operated Retail Loan	Retail Loan Facilitation	Total
Revenue <sup>(1)</sup>									
(RMB in millions).....	248.3	168.2	416.5	387.6	195.9	583.5	769.5	281.8	1,051.3
Interest income (RMB in millions) .....	246.3	—	246.3	378.2	—	378.2	719.7	—	719.7
Fee and commission income (RMB in millions) .....	2.0	168.2	170.2	9.4	195.9	205.3	49.8	281.8	331.6
Average interest rate <sup>(2)</sup> .....	10.2%	—	10.2%	10.3%	—	10.3%	9.9%	—	9.9%
Gross outstanding balances of retail loans as of period end (RMB in millions).....	3,418.2	— <sup>(3)</sup>	3,418.2	5,032.2	— <sup>(3)</sup>	5,032.2	7,786.1	— <sup>(3)</sup>	7,786.1
Number of retail loans disbursed/facilitated during the period.....	15,548	20,946	36,494	18,654	26,655	45,309	41,730	47,165	88,895
Amount of retail loans disbursed during the period (RMB in millions).....	3,311.1	— <sup>(3)</sup>	3,311.1	3,950.4	— <sup>(3)</sup>	3,950.4	7,080.2	— <sup>(3)</sup>	7,080.2
Average amount of loan disbursed (RMB) <sup>(4)</sup> .....	212,959.9	—	212,959.9	211,772.3	—	211,772.3	169,202.2	—	169,202.2

*Notes:*

- (1) Includes interest income and fee and commission income. We are unable to disclose the respective net income contribution of each of self-operated retail loan and retail loan facilitation business to the Retail Loan Business due to the significant overlap between the operating expenses of these two businesses.
- (2) Represents interest income during the period divided by the average amount of gross outstanding balances of retail loans, which is calculated by totaling the gross outstanding balance as of the end of each day and dividing the sum by the days in that period. We are unable to present the average service fee rate for our joint retail loan business for each year of the Track Record Period in a meaningful manner given that fee and commission income from our joint retail loan business is recognized during the loan tenor, which typically ranges from 1 to 5 years for new cars.
- (3) For retail loan facilitation business, we only provide loan facilitation services and do not disburse any loan, therefore we did not have any outstanding balances of retail loan as of the end of the respective period, nor did we disburse any retail loan during each year of the Track Record Period.
- (4) Represents the amount of retail loans disbursed during the period divided by the number of retail loans disbursed during the period. The amounts shown above do not represent the average loan principal amount borrowed by our retail loan customers because only the amounts disbursed by us for joint retail loan business are counted in the amounts of retail loans disbursed during the periods.

## SUMMARY

### Dealer loan business

We provide loans to dealers to facilitate their purchase of new cars to be sold to their end customers. The dealer loan business helps us gain a better understanding of dealers' needs and strengthen our relationships with these dealers.

The following table sets forth a breakdown of the number, aggregate principal amount, and the gross outstanding balance of our dealer loans by the type of dealers for the periods or as of the dates indicated:

	For the year ended or as of December 31,								
	2016			2017			2018		
	ZhengTong Dealers	External Dealers	Total	ZhengTong Dealers	External Dealers	Total	ZhengTong Dealers	External Dealers	Total
Interest income (RMB in millions) .....	14.5	14.0	28.5	27.7	13.2	40.9	15.7	19.8	35.5
Average interest rate <sup>(1)</sup> .....	5.85%	7.23%	6.46%	6.27%	7.29%	6.57%	7.29%	7.97%	7.65%
Gross outstanding balances of dealer loans as of period end (RMB in millions) .....	213.4	142.2	355.6	716.4	199.6	916.0	683.1	207.4	890.5
Number of dealer loans disbursed during the period.....	1,306	4,154	5,460	4,310	1,439	5,749	2,931	2,410	5,341
Amount of dealer loans disbursed during the period (RMB in millions).....	545.6	741.5	1,287.1	1,695.8	277.9	1,973.7	1,207.3	618.6	1,825.9
Average amount of loan disbursed (RMB) .....	417,764.2	178,502.7	235,732.6	393,457.1	193,120.2	343,311.9	411,901.4	256,686.1	341,864.2

*Note:*

- (1) Represents interest income during the period divided by the average amount of gross outstanding balances of dealer loans, which is calculated by totaling the gross outstanding balance as of the end of each day and dividing the sum by the days in that period.

### OUR INDUSTRY AND COMPETITIVE LANDSCAPE

China's retail auto finance market currently comprises four major groups of participants, which include commercial banks, AFCs, financial leasing companies, and internet finance companies. Traditionally, the auto finance business was dominated by commercial banks. However, AFCs have gradually become the largest player in the retail auto finance market. According to the CIC Report, as of 2017, AFCs accounted for approximately 57% of the retail auto finance market in terms of loan principal amount, while commercial banks accounted for approximately 38% of the retail auto finance market.

As of December 31, 2018, there were 25 AFCs licensed and regulated by the CBIRC in the PRC, among which we were the only AFC with a dealership background. All the other licensed AFCs were either affiliated with or in joint ventures with particular automakers. As an AFC with a dealership background, we have more flexibility in terms of offering loan products and services for different car brands, while most of our competitors can only offer loan products for car brands with which they are affiliated, resulting in more limited product offerings and fewer tailored loan options for end customers.

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## SUMMARY

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### OUR COMPETITIVE STRENGTHS

We believe that the following strengths contribute to our success and differentiate us from our competitors:

- strategic focus on the luxury-brand auto finance market since our inception;
- unique dealership background and nationwide coverage;
- stable and diversified funding sources;
- superior customer experience enabled by innovation and technology;
- prudent and multi-dimensional risk management system under extensive supervision of the CBIRC; and
- experienced management team.

### OUR STRATEGIES

We intend to implement the following strategies to further grow our business:

- expand and optimize our dealer network by continuing to work directly with dealers, focusing on luxury-brand car dealers and expanding our geographic reach;
- optimize our product and service portfolio by developing more innovative products and offering more customized services;
- enhance our operational and management capabilities by more accurately evaluating dealers' performance and assessing their risk profiles;
- enhance our technological capabilities by increasing our investment in new technologies and recruiting additional talents; and
- further diversify our funding sources by issuing ABS and financial bonds on the national inter-bank market.

### RISK FACTORS

Our business and the Global Offering involve certain risks, some of which are set out in the section headed "Risk Factors." You should read that section in its entirety carefully before you decide to invest in the Offer Shares. Some of the major risks we face include:

- we have a limited operating history and may not be able to maintain our rapid growth in the future or adequately adjust our development strategies in response to developments or changes in the market;
- if we fail to maintain stable relationships with dealers in our sales network, our business, results of operations and financial conditions could be materially and adversely affected;
- our business, financial conditions and results of operations may be materially and adversely affected if the operational performance of the dealers we work with deteriorate significantly;
- our business, financial conditions and results of operations may be materially and adversely affected by changes in our relationships with the Controlling Shareholders; and
- if our non-performing loans increase significantly, we may have to significantly increase our provisions for impairment losses, which may adversely affect our financial conditions and results of operations.

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## SUMMARY

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### RISK MANAGEMENT

The primary risks related to our operations include credit risks. We are also exposed to information technology risks, legal and compliance risks and reputational risks. We have established an integrated risk management system to identify, measure, evaluate, monitor, report, and control these risks in quantitative and qualitative manners and are continuously invested in the optimization and upgrading of this system. Specifically:

- for credit risk management, we adopt different risk management measures for our retail loan business and dealer loan business and have established an effective risk management framework for loan application review, approval, loan disbursement as well as post-disbursement management;
- for liquidity risk management, we have established an effective risk management framework with respect to budget planning, transaction settlement, bank account management, funding source management and capital expenditure;
- for market risk management, we measure the repricing and maturity match characteristics of our assets and liabilities and evaluate the potential impact of interest rates changes by applying interest rates sensitivity and gap analysis; and
- for operational risk management, we have established specific rules, mechanisms and protocols to control seven key categories of operations risks through a variety of measures.

For more details, see “Risk Management” in this prospectus.

The following table shows our key risk management indicators and related regulatory requirements as of the dates indicated:

	As of December 31,			Requirement
	2016	2017	2018	
Core tier-one capital adequacy ratio <sup>(1)</sup> .....	19.98%	37.12%	30.18%	≥5%
Tier-one capital adequacy ratio <sup>(2)</sup> .....	19.98%	37.12%	30.18%	≥6%
Capital adequacy ratio <sup>(3)</sup> .....	20.66%	37.89%	31.26%	≥8%
Liquidity ratio <sup>(4)</sup> .....	105.62%	235.41%	1,180.0%	≥25%
Overall non-performing loan ratio <sup>(5)</sup> .....	0.37%	0.28%	0.27%	≤5%
Provision coverage ratio <sup>(6)</sup> .....	264.08%	354.69%	582.29%	N/A
Provision for impairment losses ratio <sup>(7)</sup> .....	0.99%	1.00%	1.59%	N/A

*Notes:*

- (1) Calculated by dividing core tier-one capital, net of core tier-one capital deductions, by risk-weighted assets. For the components of core tier-one capital, core tier-one capital deduction and risk-weighted assets under the Measure, see “Regulatory Overview — Automotive Financing Companies — Regulations of Capital Adequacy.”
- (2) Calculated by dividing tier-one capital, net of tier-one capital deductions, by risk-weighted assets. For the components of tier-one capital, tier-one capital deductions and risk-weighted assets under the Measures, see “Regulatory Overview — Automotive Financing Companies — Regulations of Capital Adequacy.”
- (3) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets. For the components of our total capital, capital deductions and risk weighted assets under the Measures, please see “Regulatory Overview — Automotive Financing Companies — Regulations of Capital Adequacy.”

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## SUMMARY

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- (4) Calculated by dividing assets due in one month by liabilities due in one month. In 2018, CBIRC issued the Administrative Measures for the Liquidity Risk of Commercial Banks (商業銀行流動性風險管理辦法). In accordance with such regulation, CBIRC uses liquidity ratio (calculated by dividing current asset by current liability) to assess the liquidity risk of commercial banks. The local regulatory authority requires our Company to implement such measures.
- (5) Calculated by dividing the balance of non-performing loans by the gross balance of the loans and advances to customers.
- (6) Calculated by dividing allowance for impairment losses on loans and advances by the amount of non-performing loans.
- (7) Calculated by dividing the amount of allowance for impairment losses on loans and advances by the gross balance of the loans and advances to customers.

We are subject to and have complied with the capital adequacy requirements imposed by the supervisory authorities since our inception in 2015. For details, see “Regulatory Overview — Automotive Financing Companies — Regulations of Capital Adequacy.” We monitor and manage our credit risks on an ongoing basis through a variety of measures, see “Risk Management — Major Risk Management — Credit Risk Management.” The increases in our capital adequacy indicator ratios from 2016 to 2017 were primarily a result of the capital injections from our shareholders in 2017. The decreases in 2018 were mainly due to the increase in loans we disbursed as our businesses grew.

For further details of our asset quality of our loan portfolio, see “Assets and Liabilities — Assets — Asset Quality of Our Loans and Advances to Customers.”

### OUR CONTROLLING SHAREHOLDERS

We were established by ZhengTong and Dongfeng in 2015. As of the Latest Practicable Date, ZhengTong held 95% of our issued share capital. The Wang Family Trusts Founders, through the Wang Family Trusts, owned all the issued shares of Joy Capital, which in turn owned approximately 56.37% of the shares of ZhengTong as at the Latest Practicable Date. Credit Suisse Trust Limited is the trustee of the Wang Family Trusts, with the Wang family members being the discretionary beneficiaries. Immediately after the completion of the Global Offering, ZhengTong will hold approximately 71.25% of our issued share capital, assuming the Over-allotment Option is not exercised, and 68.67% of our issued share capital, assuming the Over-allotment Option is exercised in full. Therefore, the Wang Family Trusts Founders, Joy Capital and ZhengTong will continue to be our Controlling Shareholders upon Listing.

As disclosed in “Relationship with Controlling Shareholders” in this prospectus, there is no competition between the business of the Remaining Group and our business.

We have entered into three framework agreements related to non-exempt continuing connected transactions with the Remaining Group, namely the Revolving Loan Facility Framework Agreement, the Administrative Cost Reimbursement Framework Agreement and the Joint Promotion Framework Agreement. Notwithstanding these transactions, we are of the view that we do not and will not significantly rely on the Remaining Group. See “Relationship with Controlling Shareholders — Independence from the Controlling Shareholders” in this prospectus for further details.

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## SUMMARY

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### SUMMARY HISTORICAL FINANCIAL INFORMATION

You should read the summary historical financial information set forth below in conjunction with our financial statements included in the Accountants' Report set forth in Appendix I to this prospectus, which are prepared in accordance with HKFRS, and the sections headed "Financial Information" and "Assets and Liabilities" of this prospectus.

#### Selected Data from Statement of Profit or Loss and Other Comprehensive Income

	Year ended December 31,		
	2016	2017	2018
	(RMB in thousands)		
Interest income . . . . .	280,340	424,600	759,035
Interest expenses . . . . .	(121,148)	(169,768)	(320,485)
<b>Net interest income</b> . . . . .	<u>159,192</u>	<u>254,832</u>	<u>438,550</u>
Fee and commission income . . . . .	170,226	205,323	331,554
Fee and commission expenses . . . . .	(912)	(905)	(1,425)
<b>Net fee and commission income</b> . . . . .	<u>169,314</u>	<u>204,418</u>	<u>330,129</u>
Other net income <sup>(1)</sup> . . . . .	3,913	2,710	47,098
<b>Operating income</b> . . . . .	<u>332,419</u>	<u>461,960</u>	<u>815,777</u>
Operating expenses . . . . .	(67,879)	(70,042)	(127,955)
Impairment losses . . . . .	(31,795)	(43,395)	(84,343)
<b>Profit before taxation</b> . . . . .	<u>232,745</u>	<u>348,523</u>	<u>603,479</u>
<b>Profit and total comprehensive income for the year</b> . . . . .	<u>174,485</u>	<u>260,773</u>	<u>452,517</u>

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*Note:*

(1) Other net income mainly represents government grants, net of donation expenses.

Our other net income recorded in 2018 was significantly higher than other historical periods, primarily attributable to the government grant of RMB48.4 million given by Pudong New Area People's Government in that period, as support for the financial services sector and reward for our overall contribution to the Pudong New Area with respect to, among others, economic development, employment and technological innovation. We also expect to receive such government grants in 2019 and 2020 but may not continue to receive such government grants afterwards.

We had profit and total comprehensive income of RMB174.5 million, RMB260.8 million and RMB452.5 million in 2016, 2017 and 2018, respectively, as a result of our overall business growth during the Track Record Period. Our profit and total comprehensive income is primarily generated from our retail loan business. For details of our operating results from each business segment, see "Financial Information—Segment Operating Results."

## SUMMARY

### SEGMENT OPERATING RESULTS

Operating segments are reported in a manner consistent with our internal reporting. We report by two business segments during the Track Record Period, namely, the retail loan business and dealer loan business.

#### Summary of Business Segment Data

Based on the types of our products and services, our operating segments include retail loan business, dealer loan business, and others (representing property and equipment, intangible assets, other assets and liabilities, interest income arising from deposits with central bank, banks and other financial institutions, other net income, etc., which cannot be attributed to a single reportable segment). The following table sets forth the segment income from each business segment for the periods indicated:

	Year ended December 31,											
	2016			2017			2018					
	Retail Loan Business	Dealer Loan Business	Others	Total	Retail Loan Business	Dealer Loan Business	Others	Total	Retail Loan Business	Dealer Loan Business	Others	Total
Interest income . . . . .	246,276	28,511	5,553	280,340	378,241	40,948	5,411	424,600	719,714	35,445	3,876	759,035
Interest expenses . . . . .	(108,578)	(12,570)	—	(121,148)	(153,185)	(16,583)	—	(169,768)	(305,442)	(15,403)	—	(320,485)
<b>Net interest income</b> . . . . .	<b>137,698</b>	<b>15,941</b>	<b>5,553</b>	<b>159,192</b>	<b>225,056</b>	<b>24,365</b>	<b>5,411</b>	<b>254,832</b>	<b>414,272</b>	<b>20,402</b>	<b>3,876</b>	<b>438,550</b>
Fee and commission income . . . . .	170,226	—	—	170,226	205,323	—	—	205,323	331,554	—	—	331,554
Fee and commission expenses . . . . .	(912)	—	—	(912)	(905)	—	—	(905)	(1,425)	—	—	(1,425)
<b>Net fee and commission income</b> . . . . .	<b>169,314</b>	<b>—</b>	<b>—</b>	<b>169,314</b>	<b>204,418</b>	<b>—</b>	<b>—</b>	<b>204,418</b>	<b>330,129</b>	<b>—</b>	<b>—</b>	<b>330,129</b>
Other net income . . . . .	—	—	3,913	3,913	—	—	2,710	2,710	—	—	47,098	47,098
Operating income . . . . .	307,012	15,941	9,466	332,419	429,474	24,365	8,121	461,960	744,401	20,402	50,974	815,777
Operating expenses . . . . .	(63,530)	(4,349)	—	(67,879)	(65,449)	(4,593)	—	(70,042)	(123,781)	(4,174)	—	(127,955)
Impairment losses . . . . .	(32,449)	654	—	(31,795)	(40,458)	(2,802)	(135)	(43,395)	(85,678)	1,200	135	(84,343)
<b>Profit before taxation</b> . . . . .	<b>211,033</b>	<b>12,246</b>	<b>9,466</b>	<b>232,745</b>	<b>323,567</b>	<b>16,970</b>	<b>7,986</b>	<b>348,523</b>	<b>534,942</b>	<b>17,428</b>	<b>51,109</b>	<b>603,479</b>



## SUMMARY

### Selected Data from Statements of Financial Position

	As of December 31,		
	2016	2017	2018
(RMB in thousands)			
<b>Assets</b>			
Cash and deposits with central bank . . . . .	4,280	7,003	35,213
Deposits with banks and other financial institutions . . . . .	239,879	270,494	780,960
Loans and advances to customers . . . . .	3,736,577	5,869,004	8,426,177
Finance lease receivables . . . . .	—	19,898	102,980
Property and equipment . . . . .	5,874	4,558	5,113
Intangible assets . . . . .	12,460	17,413	15,357
Deferred tax asset . . . . .	20,587	62,193	73,804
Other assets . . . . .	35,283	41,853	92,557
<b>Total assets</b> . . . . .	<u>4,054,940</u>	<u>6,292,416</u>	<u>9,532,161</u>
<b>Liabilities</b>			
Placements from banks and other financial institutions . . . . .	3,232,885	4,020,000	6,085,347
Guarantee deposits . . . . .	27,642	78,894	79,632
Deposits from shareholders . . . . .	—	—	600,000
Current taxation . . . . .	54,392	76,884	59,478
Other liabilities . . . . .	40,754	56,598	224,611
<b>Total liabilities</b> . . . . .	<u>3,355,673</u>	<u>4,232,376</u>	<u>7,049,068</u>
<b>NET ASSETS</b> . . . . .	<u>699,267</u>	<u>2,060,040</u>	<u>2,483,093</u>

During the Track Record Period, we had net assets of RMB699.3 million, RMB2.1 billion and RMB2.5 billion as of December 31, 2016, 2017 and 2018, respectively, primarily because of the increased balances of the loans and advances to customers we had as assets in our balance sheet, which were partially offset by placements from banks and other financial institutions recorded as liabilities.

We manage our liquidity risk by monitoring the maturity mismatch of our assets and liabilities on a daily basis and regularly evaluating possible counter measures to minimize our exposure to liquidity risks. The following table provides an analysis of our contractual maturity profiles of our financial assets in comparison with those of the financial liabilities and the net liquidity gap as of December 31, 2018. As of the Indebtedness Date, we had unutilized banking facilities of RMB2.0 billion, which can be utilized to address our liquidity needs. For outstanding revolving loans, we would touch base with the banks for the renewal of credit two months prior to the credit repayment date. For borrowings on the national inter-bank lending market, we would reasonably arrange draw-down dates and repayment due dates and adjust loan disbursement amount and frequency accordingly. Based on our communications with the banks, our repayment obligations and the capital requirements for our business operations, we will make drawdowns on such credit facilities as and when needed. For more details of the maturity profiles of our financial assets and financial liabilities and our net liquidity gap during the Track Record Period, see “Financial Information — Liquidity.”

	As of December 31, 2018						
	Repayable on demand/ terms undated	Less than 1 month	1-3 months	3-12 months	1-5 years	Total amount	Carrying amount
(RMB in thousands)							
<b>Assets</b>							
Cash and deposits with central bank . . . . .	35,213	—	—	—	—	35,213	35,213
Deposits with banks and other financial institutions . . . . .	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
<b>Total</b> . . . . .	<u>904,654</u>	<u>409,906</u>	<u>1,019,994</u>	<u>3,830,379</u>	<u>4,222,420</u>	<u>10,387,353</u>	<u>9,403,514</u>

## SUMMARY

As of December 31, 2018

	Repayable on demand/ terms undated					Total amount	Carrying amount
	Less than 1 month	1-3 months	3-12 months	1-5 years			
(RMB in thousands)							
<b>Liabilities</b>							
Placements from banks and other financial institutions . . . . .	—	(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)
<b>Total</b> . . . . .	<u>(187,523)</u>	<u>(131,576)</u>	<u>(2,294,429)</u>	<u>(4,150,602)</u>	<u>(395,012)</u>	<u>(7,159,142)</u>	<u>(6,938,878)</u>
<b>Net liquidity gap</b> . . . . .	<u>717,131</u>	<u>278,330</u>	<u>(1,274,435)</u>	<u>(320,223)</u>	<u>3,827,408</u>	<u>3,228,211</u>	<u>2,464,636</u>

### Selected Data from Cash Flow Statements

	Year ended December 31,		
	2016	2017	2018
(RMB in thousands)			
Operating cash flows before movement in working capital . . . . .	269,542	397,797	697,831
Net cash generated from/(used in) operating activities . . . . .	99,455	(1,062,771)	540,635
Net cash used in investing activities . . . . .	(6,537)	(4,066)	(8,738)
Net cash generated from/(used in) financing activities . . . . .	—	1,100,000	(2,937)
Net increase in cash and cash equivalents . . . . .	92,918	33,163	528,960
Cash and cash equivalents at beginning of the year . . . . .	<u>145,956</u>	<u>238,874</u>	<u>272,037</u>
Cash and cash equivalents at the end of the year . . . . .	<u>238,874</u>	<u>272,037</u>	<u>800,997</u>

Our net cash used in operating activities was RMB1.1 billion in 2017, primarily as a result of a significant decline in our placements from banks and other financial institutions in that year. We significantly reduced our placements from banks and other financial institutions in 2017 because we received an aggregate amount of capital injections from our shareholders of RMB1.1 billion in that year to fund our operations, which was classified as financing activities on our cash flow statements. Our net cash generated from operating activities was RMB540.6 million in 2018. The increase was mainly because of the increase in profit before tax and net increase in placements from banks and other financial institutions.

Our operating cash inflow before being adjusted for movements in working capital was RMB269.5 million, RMB397.8 million and RMB697.8 million for the years ended December 31, 2016, 2017 and 2018, respectively. For details of composition of the movements in our working capital for each period, see “Financial Information—Liquidity—Cash Flows—Net Cash (Used in)/Generated from Operating Activities.”

During the Track Record Period, operating cash flow was primarily affected by changes in our working capital, such as loans and advances to customers and placements from banks and other financial institutions. We actively monitor our liquidity, including our operating cash flow

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## SUMMARY

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performance, and are dedicated to continuously minimizing our liquidity risk exposure. For details of our risk management measures relating to our liquidity and cash flows, see “Risk Management—Liquidity Risk Management—Routine Liquidity Risk Management.” We plan to fund our working capital needs primarily through increasing the placements from banks and other financial institutions. We will continue to strengthen our cooperation with commercial banks to ensure our access to timely funding. In the meantime, we will strive to use our funding efficiently and to reduce the likelihood of maturity mismatch, and further improve our liquidity. In addition, to fund our business development, we plan to continue to diversify our funding sources through means such as issuing ABS and financial bonds on the national inter-bank lending market. See “Business—Our Strategies—Further Diversify Our Funding Sources.”

### Key Financial and Operating Ratios

The following table sets forth our key financial and operating ratios for the periods or as of the dates indicated:

	For the Year Ended December 31,		
	2016	2017	2018
Net interest spread <sup>(1)</sup> . . . . .	4.02%	3.80%	3.39%
Net interest margin <sup>(2)</sup> . . . . .	5.17%	5.55%	5.48%
Return on total assets <sup>(3)</sup> . . . . .	5.81%	5.04%	5.72%
Return on equity <sup>(4)</sup> . . . . .	28.51%	18.90%	19.92%

*Notes:*

- (1) Net interest spread equals the ratio of interest income to the average balance of interest-earning assets minus the ratio of interest expenses to the average balance of interest-bearing liabilities.
- (2) Net interest margin equals net interest income for the period divided by the average balance of interest-earning assets.
- (3) Return on total assets equals profit and total comprehensive income for the year divided by the average of the opening and closing balances of total assets of the period.
- (4) Return on equity equals profit and total comprehensive income for the year divided by the average of the opening and closing balances of total equity of the period.

There was no material fluctuation in the foregoing ratios during the Track Record Period, as we continually ramp up our businesses.

### GLOBAL OFFERING STATISTICS

	Based on an Offer Price of HK\$4.20	Based on an Offer Price of HK\$6.30
Market capitalization of our Shares <sup>(1)</sup> . . . . .	HK\$8,960.0 million	HK\$13,440.0 million
Unaudited pro forma adjusted net tangible asset value per Share <sup>(2)</sup> . . . . .	HK\$2.33	HK\$2.83

*Notes:*

- (1) The calculation of market capitalization is based on the assumption that 2,133,336,000 Shares will be in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), including 533,336,000 H Shares to be issued pursuant to the Global Offering, 1,520,000,000 Unlisted Foreign Shares held by ZhengTong and 80,000,000 Domestic Shares held by Dongfeng.
- (2) The unaudited pro forma adjusted net tangible assets attributable to the shareholders of our Company per Share in the above table is calculated after the adjustments referred to in the section entitled “Unaudited Pro Forma Financial Information” set out in Appendix II to in this prospectus and on the basis of 2,133,336,000 Shares in issue immediately following the completion of the Global Offering, assuming that the Global Offering has been completed on December 31, 2018 and that the Over-allotment Option is not exercised.

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## SUMMARY

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### DIVIDEND POLICY

Our Board has the absolute discretion to recommend any dividend, which will be subject to approval of our Shareholders. Any payment and the amount of any dividends will depend on a number of factors, including our earnings and financial condition, operating requirements, capital requirements and any other factors that we may deem relevant. Under the PRC Company Law and our Articles of Association, all of our Shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding. Under applicable PRC laws, we may only pay dividends out of our profit after tax. Profit after tax for a given year represents net profit as determined under PRC GAAP or HKFRS, whichever is lower, less:

- any of our accumulated losses in prior years;
- appropriations we are required to make to the statutory reserve, which is currently 10% of our net profit as determined under PRC GAAP, until such reserve reaches an amount equal to 50% of our registered capital;
- a general reserve we are required to set aside through profit appropriation which should be not lower than 1.5% of the ending balance of our risk-bearing assets on an annual basis; and
- appropriations to a discretionary surplus reserve as approved by the Shareholders at a general meeting.

See “Financial Information—Dividend Policy” for further information. As of December 31, 2018, our distributable reserves were RMB326.5 million.

We did not make any cash dividends distribution during the Track Record Period, and currently do not have any specific future dividend plans. After Listing, we will continue to assess and determine any dividend payments, based on our business conditions and prevailing market circumstances.

### GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (i) the Hong Kong Public Offering of 53,334,000 H Shares (subject to reallocation) in Hong Kong as described in “Structure of the Global Offering — The Hong Kong Public Offering” in this prospectus; and
- (ii) the International Offering of an aggregate of initially 480,002,000 H Shares (including 26,675,462 Reserved Shares under the Preferential Offering) (subject to reallocation and the Over-allotment Option), (a) in the United States to QIBs in reliance on Rule 144A or another available exemption; and (b) outside the United States in reliance on Regulation S (including to professional and institutional investors in Hong Kong). Of the 480,002,000 Offer Shares initially being offered under the International Offering, 26,675,462 Offer Shares are available for subscription by the Qualifying ZhengTong Shareholders under the Preferential Offering as the Assured Entitlement.

The Offer Shares will represent approximately 25% of the issued share capital of our Company immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised.

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## SUMMARY

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### USE OF PROCEEDS

Assuming an Offer Price of HK\$5.25 per H Share, being the mid-point of the Offer Price range stated in this prospectus, we estimate that we will receive net proceeds from the Global Offering of approximately HK\$2,672.2 million (assuming the Over-allotment Option is not exercised) after deduction of underwriting fees and other estimated expenses in connection with the Global Offering. We expect to use the net proceeds from the Global Offering to strengthen our capital base to support the ongoing growth of our business. Specifically:

- (A) 70% of the net proceeds (approximately HK\$1,870.5 million) will be used to support the development of our business with External Customers, of which:
  - 65% of the net proceeds (approximately HK\$1,736.9 million) will be used to fund the self-operated retail loans to be disbursed to External Customers;
  - 5% of the net proceeds (approximately HK\$133.6 million) will be used to develop the network of the External Dealers;
- (B) 15% of the net proceeds (approximately HK\$400.8 million) will be used to fund self-operated retail loans to be disbursed to ZhengTong Customers;
- (C) 5% of the net proceeds (approximately HK\$133.6 million) will be used to develop our technological, operational and risk management capabilities; and
- (D) 10% of the net proceeds (approximately HK\$267.2 million) will be used for general working capital.

In the event that the Offer Price is set at the high point or the low point of the indicative Offer Price range, the net proceeds of the Global Offering will increase or decrease by approximately HK\$546.0 million, respectively. Under such circumstances, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis. If the Over-allotment Option is exercised in full, the additional net proceeds that we will receive will be approximately HK\$409.5 million, assuming an Offer Price of HK\$5.25 per Share, being the mid-point of the proposed Offer Price range. If the Over-allotment Option is exercised, we intend to apply such additional net proceeds for the above uses on a pro-rata basis.

### LISTING EXPENSES

Our listing expenses mainly include underwriting commissions and professional fees paid to legal advisers and the reporting accountants for their services rendered in relation to the Listing and the Global Offering. Assuming an Offer Price of HK\$5.25 per H Share, being the midpoint of the proposed Offer Price range as stated in this prospectus, and the Over-allotment Option is not exercised, listing expenses to be borne by us are estimated to be approximately HK\$127.8 million (or approximately RMB112.0 million). For the year ended December 31, 2018, we had incurred listing expenses of RMB30.6 million which are expected to be accounted for as a deduction from equity. Approximately RMB11.1 million of such expenses will be charged to our income statement and RMB100.9 million will be recorded as IPO service fees that will be charged against equity upon a successful listing.

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## SUMMARY

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The listing expenses above are the latest practicable estimate and are provided for reference only, and actual amounts may differ. Our Directors do not expect listing expenses to be incurred after the Track Record Period to have a material and adverse impact on our financial results for the year ending December 31, 2019.

### RECENT DEVELOPMENTS

From January 1, 2019 to the Latest Practicable Date, we expanded into 3 additional cities in China and further broadened our dealer network by collaborating with 63 additional dealers. During the same period, we disbursed 5,761 self-operated retail loans with a total disbursement amount of RMB1,095.5 million. Our Directors have confirmed that there has been no material adverse change in our financial, operational or trading position since January 1, 2019 and up to the date of this prospectus.

### SPIN-OFF

Having considered, among other things, that our retail loan business and dealer loan business have grown to a sufficient size that warrants a separate listing on the Stock Exchange, ZhengTong submitted a spin-off proposal to the Stock Exchange pursuant to Practice Note 15 to the Listing Rules. The Stock Exchange has confirmed that ZhengTong may proceed with the Spin-off as proposed. Our Company will comply with the requirements under Practice Note 15 to the Listing Rules and the applicable requirements of the Listing Rules regarding the Spin-off. See “History and Corporate Structure — the Spin-off” in this prospectus for further details of the Spin-off.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following words and expressions shall have the following meanings.*

“ <b>ABS</b> ”	asset(s)-backed securities
“ <b>Administrative Cost Reimbursement Framework Agreement</b> ”	the administrative cost reimbursement framework agreement entered into between our Company and ZhengTong, as referred to in “Connected Transactions — Non-exempt Continuing Connected Transactions — 1. Administrative Cost Reimbursement Framework Agreement”
“ <b>AFC</b> ”	auto finance company licensed and regulated by the China Banking and Insurance Regulatory Commission
“ <b>affiliate(s)</b> ”	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“ <b>Application Form(s)</b> ”	<b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering and <b>BLUE</b> Application Form(s) relating to the Preferential Offering
“ <b>Articles</b> ” or “ <b>Articles of Association</b> ”	the articles of association of our Company which shall become effective on the Listing Date, as amended from time to time, a summary of which is set out in Appendix V to this prospectus
“ <b>associate(s)</b> ”	has the meaning ascribed thereto under the Listing Rules
“ <b>Assured Entitlement</b> ”	the entitlement of the Qualifying ZhengTong Shareholders to apply for the Reserved Shares on an assured basis pursuant to the Preferential Offering determined on the basis of their respective shareholdings in ZhengTong on the Record Date
“ <b>Audit Committee</b> ”	audit committee of the Board
“ <b>Beneficial ZhengTong Shareholder(s)</b> ”	any beneficial owner(s) of ZhengTong Shares whose ZhengTong Shares are registered, as shown in the register of members of ZhengTong, in the name of a registered ZhengTong Shareholder on the Record Date
“ <b>BLUE Application Form(s)</b> ”	the application form(s) to be sent to Qualifying ZhengTong Shareholders for the subscription of the Reserved Shares pursuant to the Preferential Offering

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## DEFINITIONS

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<b>“Blue Form eIPO”</b>	the application for Reserved Shares to be issued in a Qualifying ZhengTong Shareholder’s own name by submitting applications online through the designated website of the Blue Form eIPO at <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>
<b>“Blue Form eIPO Service Provider”</b>	Computershare Hong Kong Investor Services Limited
<b>“Board”</b>	the board of Directors
<b>“business day”</b>	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
<b>“BVI”</b>	the British Virgin Islands
<b>“CAGR”</b>	compound annual growth rate
<b>“CBIRC” or “CBRC”</b>	the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會), a regulatory authority formed via the merger of its predecessors, the China Banking Regulatory Commission (中國銀行業監督管理委員會) and China Insurance Regulatory Commission (中國保險監督管理委員會), according to the Notice of the State Council regarding the Establishment of Organizations (國務院關於機構設置的通知) (Guo Fa [2018] No. 6) issued by the State Council on March 24, 2018, including, where appropriate, its local counterparts
<b>“CCASS”</b>	the Central Clearing and Settlement System established and operated by HKSCC
<b>“CCASS Clearing Participant”</b>	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
<b>“CCASS Custodian Participant”</b>	a person admitted to participate in CCASS as a custodian participant
<b>“CCASS Investor Participant”</b>	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
<b>“CCASS Participant”</b>	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
<b>“China” or “PRC”</b>	the People’s Republic of China, except where the context requires otherwise and only for the purposes of this prospectus, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan



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## DEFINITIONS

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<b>“CIC”</b>	China Insights Consultancy Limited, the industry consultant and an independent third party
<b>“CIC Report”</b>	a commissioned industry report from CIC
<b>“Companies Ordinance”</b>	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
<b>“Companies (Winding Up and Miscellaneous Provisions) Ordinance”</b>	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
<b>“Company”, “our Company”, “the Company”, “we” or “us”</b>	Shanghai Dongzheng Automotive Finance Co., Ltd.* (上海東正汽車金融股份有限公司), formerly known as Shanghai Dongzheng Automotive Finance Co., Ltd.* (上海東正汽車金融有限責任公司), a limited liability company established in the PRC on March 11, 2015 and registered as a joint stock company with limited liability on August 15, 2018
<b>“connected person(s)”</b>	has the meaning ascribed thereto under the Listing Rules
<b>“connected transaction(s)”</b>	has the meaning ascribed thereto under the Listing Rules
<b>“Controlling Shareholder(s)”</b>	has the meaning ascribed thereto under the Listing Rules and unless the context otherwise requires, refers to ZhengTong, Joy Capital and the Wang Family Trusts Founders
<b>“CSDCC”</b>	the China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限公司)
<b>“CSRC”</b>	the China Securities Regulatory Commission (中國證券監督管理委員會)
<b>“Deposit Services Framework Agreement”</b>	the deposit services framework agreement entered into between our Company and ZhengTong, as referred to in “Connected Transactions — Fully Exempt Continuing Connected Transactions”
<b>“Director(s)”</b>	the director(s) of our Company
<b>“Domestic Shares”</b>	ordinary shares in our capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi by PRC nationals and/or PRC-incorporated entities

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## DEFINITIONS

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“Dongfeng”	Dongfeng Motor Corporation* (東風汽車集團有限公司, formerly known as Dongfeng Motor Company* (東風汽車公司)), a wholly state-owned enterprise incorporated on June 25, 1991 under the laws of the PRC which directly holds 5% equity interest in the Company immediately prior to the Global Offering, and one of our Promoters
“EIT”	enterprise income tax of the PRC
“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), as amended, supplemented or otherwise modified from time to time
“Exchange Participant(s)”	has the meaning ascribed thereto under the Listing Rules
“External Customer(s)”	the customer(s) of External Dealers
“External Dealer(s)”	auto dealer(s) other than ZhengTong Dealers
“Global Offering”	the Hong Kong Public Offering and the International Offering (including the Preferential Offering)
“GREEN Application Form(s)”	the application form(s) to be completed by the <b>White Form eIPO</b> Service Provider designated by our Company and H Share Registrar
“H Share(s)”	overseas listed foreign share(s) in our ordinary share capital, with nominal value of RMB1.00 each in the share capital of our Company, which are to be subscribed for and traded in HK dollars and for which an application has been made for listing and permission to trade on the Stock Exchange
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“HKFRS”	Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China

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## DEFINITIONS

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<b>“Hong Kong dollars” or “HK dollars” or “HK\$”</b>	Hong Kong dollars, the lawful currency of Hong Kong
<b>“Hong Kong Offer Shares”</b>	the 53,334,000 H Shares initially being offered for subscription in the Hong Kong Public Offering at the Offer Price (subject to reallocation as described in “Structure of the Global Offering” in this prospectus)
<b>“Hong Kong Public Offering”</b>	the offering by our Company of initially 53,334,000 H Shares for subscription by the public in Hong Kong at the Offer Price (plus a brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) on the terms and subject to the conditions described in this prospectus and the Application Forms, as further described in “Structure of the Global Offering — The Hong Kong Public Offering” in this prospectus
<b>“Hong Kong Public Offering Documents”</b>	this prospectus and the Application Forms
<b>“Hong Kong Takeovers Code” or “Takeovers Code”</b>	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
<b>“Hong Kong Underwriters”</b>	the underwriters of the Hong Kong Public Offering as listed in “Underwriting — Hong Kong Underwriters” in this prospectus
<b>“Hong Kong Underwriting Agreement”</b>	the underwriting agreement dated Wednesday, March 13, 2019 relating to the Hong Kong Public Offering, entered into among, inter alia, the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and our Company, as further described in “Underwriting” in this prospectus
<b>“Indebtedness Date”</b>	January 31, 2019
<b>“independent third party(ies)”</b>	any entity or person who is not a connected person of our Company or an associate of any such person within the meanings ascribed thereto under the Listing Rules

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## DEFINITIONS

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<b>“International Offer Shares”</b>	the 480,002,000 H Shares being initially offered for subscription and purchased at the Offer Price under the International Offering (including, for the avoidance of doubt, 26,675,462 Reserved Shares for the Preferential Offering) together, where relevant, with any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option, subject to reallocation as described in “Structure of the Global Offering” in this prospectus
<b>“International Offering”</b>	the conditional placing of the International Offer Shares at the Offer Price outside the United States in offshore transactions in accordance with Regulation S and in the United States to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements under the U.S. Securities Act, as further described in “Structure of the Global Offering” in this prospectus (for the avoidance of doubt, of the International Offer Shares initially being offered under the International Offering, the Reserved Shares are made available for subscription by the Qualifying ZhengTong Shareholders under the Preferential Offering)
<b>“International Underwriters”</b>	the underwriters of the International Offering
<b>“International Underwriting Agreement”</b>	the international underwriting agreement relating to the International Offering and expected to be entered into by, among others, our Company and the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) on or about Tuesday, March 19, 2019, as described in “Underwriting — Underwriting Arrangements and Expenses — The International Offering” in this prospectus
<b>“Joint Bookrunners”</b>	China International Capital Corporation Hong Kong Securities Limited, Credit Suisse (Hong Kong) Limited, Morgan Stanley Asia Limited (in relation to the Hong Kong Public Offering only) and Morgan Stanley & Co. International plc (in relation to the International Offering only)
<b>“Joint Global Coordinators”</b>	China International Capital Corporation Hong Kong Securities Limited, Credit Suisse (Hong Kong) Limited and Morgan Stanley Asia Limited
<b>“Joint Lead Managers”</b>	China International Capital Corporation Hong Kong Securities Limited, Credit Suisse (Hong Kong) Limited and Morgan Stanley Asia Limited

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## DEFINITIONS

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<b>“Joint Promotion Framework Agreement”</b>	the joint promotion framework agreement entered into between our Company and ZhengTong, as referred to in “Connected Transactions — Non-exempt Continuing Connected Transactions — 3. Joint Promotion Framework Agreement”
<b>“Joint Sponsors”</b>	China International Capital Corporation Hong Kong Securities Limited and Credit Suisse (Hong Kong) Limited (in alphabetical order)
<b>“Joy Capital”</b>	Joy Capital Holdings Limited, a company incorporated in the BVI on July 5, 2006, and a Controlling Shareholder
<b>“Latest Practicable Date”</b>	March 6, 2019 being the latest practicable date for ascertaining certain information in this prospectus before its publication
<b>“Listing”</b>	the listing of the H Shares on the Main Board
<b>“Listing Committee”</b>	the Listing Committee of the Stock Exchange
<b>“Listing Date”</b>	the date, expected to be on or about Tuesday, March 26, 2019, on which the H Shares are to be listed and on which dealings in the H Shares are to be first permitted to take place on the Stock Exchange
<b>“Listing Rules”</b>	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
<b>“Main Board”</b>	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
<b>“Mandatory Provisions”</b>	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), as amended, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were originally promulgated by the former Securities Commission of the State Council and the former State Commission for Restructuring the Economic Systems on August 27, 1994
<b>“Maximum Offer Price”</b>	HK\$6.30 per H Share (being the high end of the Offer Price range stated in this prospectus)
<b>“MOF”</b>	the Ministry of Finance of the PRC (中華人民共和國財政部)

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## DEFINITIONS

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<b>“MOFCOM”</b>	the Ministry of Commerce of the PRC (中華人民共和國商務部)
<b>“National Bureau of Statistics” or “NBSC”</b>	the National Bureau of Statistics of the PRC (中華人民共和國國家統計局)
<b>“Nomination Committee”</b>	nomination committee of the Board
<b>“Non-competition Undertaking”</b>	the non-competition undertaking dated March 1, 2019 given by the Controlling Shareholders, as referred to in “Relationship with Controlling Shareholders — No Competition with Controlling Shareholders — Non-competition Undertaking”
<b>“Offer Price”</b>	the final offer price per H Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee), expressed in Hong Kong dollars, at which Hong Kong Offer Shares are to be subscribed for pursuant to the Hong Kong Public Offering and International Offering Shares are to be offered pursuant to the International Offering, to be determined as described in “Structure of the Global Offering — Pricing of the Global Offering” in this prospectus
<b>“Offer Share(s)”</b>	the Hong Kong Offer Shares and the International Offer Shares (including, for the avoidance of doubt, the Reserved Shares) together, where relevant, with any additional H Shares to be issued by our Company pursuant to the exercise of the Over-allotment Option
<b>“Over-allotment Option”</b>	the option expected to be granted by our Company to the International Underwriters, exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) at any time and from time to time on or before the expiration of the period of thirty (30) calendar days after the last day for lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to 80,000,400 additional H Shares (representing in aggregate 15% of the initial Offer Shares) to cover over-allocations in the International Offering, if any, details of which are described in “Structure of the Global Offering — The International Offering — Over-allotment Option” in this prospectus
<b>“PBOC”</b>	the People’s Bank of China (中國人民銀行), the central bank of the PRC
<b>“PRC Company Law”</b>	the Company Law of the PRC (中華人民共和國公司法), as amended, supplemented or otherwise modified from time to time

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## DEFINITIONS

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<b>“PRC GAAP”</b>	generally accepted accounting principles in the PRC
<b>“PRC Legal Advisors”</b>	Jingtian & Gongcheng, the PRC legal advisors to our Company
<b>“Preferential Offering”</b>	the preferential offering to the Qualifying ZhengTong Shareholders of 26,675,462 H Shares (representing approximately 5% of the Offer Shares initially being offered under the Global Offering) as an Assured Entitlement out of the International Offer Shares being offered under the International Offering at the Offer Price, on and subject to the terms and conditions set out in this prospectus and in the <b>BLUE</b> Application Form, as further described in “Structure of the Global Offering — The Preferential Offering” in this prospectus
<b>“Price Determination Agreement”</b>	the agreement to be entered into between our Company and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) on the Price Determination Date to record and fix the Offer Price
<b>“Price Determination Date”</b>	the date, expected to be Tuesday, March 19, 2019, on which the Offer Price is fixed for the purposes of the Global Offering, and in any event no later than Monday, March 25, 2019, or such other date as agreed between the parties to the Price Determination Agreement
<b>“Promoters”</b>	the promoters of the Company, namely ZhengTong and Dongfeng
<b>“prospectus”</b>	this prospectus being issued in connection with the Hong Kong Public Offering
<b>“province”</b>	each being a province or, where the context requires, a provincial-level autonomous region, a special economic zone or municipality under the direct administration of the State Council of the PRC
<b>“QIB”</b>	a qualified institutional buyer within the meaning of Rule 144A
<b>“Qualifying ZhengTong Shareholder(s)”</b>	ZhengTong Shareholder(s), whose name(s) appeared on the register of members of ZhengTong as at 4:30 p.m. on the Record Date
<b>“Record Date”</b>	Thursday, March 7, 2019, being the record date for determining the Assured Entitlement of the Qualifying ZhengTong Shareholders to the Reserved Shares

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## DEFINITIONS

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<b>“Regulation S”</b>	Regulation S under the U.S. Securities Act
<b>“Relevant Person(s)”</b>	the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, ZhengTong, any of their or the Company’s respective directors, officers or representatives or any other parties involved in the Global Offering
<b>“Remaining Group”</b>	ZhengTong and its subsidiaries, excluding our Company
<b>“Remuneration and Evaluation Committee”</b>	remuneration and evaluation committee of the Board
<b>“Reserved Share(s)”</b>	the 26,675,462 H Share(s) being offered by our Company pursuant to the Preferential Offering at the Offer Price to the Qualifying ZhengTong Shareholders as the Assured Entitlement, which are to be allocated out of the International Offer Shares as described in “Structure of the Global Offering” in this prospectus
<b>“Revolving Loan Facility Framework Agreement”</b>	the revolving loan facility framework agreement entered into between our Company and ZhengTong, as referred to in “Connected Transactions — Non-exempt Continuing Connected Transactions — 2. Revolving Loan Facility Framework Agreement”
<b>“Risk Management Committee”</b>	risk management committee of the Board
<b>“RMB” or “Renminbi”</b>	Renminbi yuan, the lawful currency of China
<b>“Rule 144A”</b>	Rule 144A under the U.S. Securities Act
<b>“SAFE”</b>	the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
<b>“SAMR”</b>	the State Administration for Market Regulation (國家市場監督管理總局), formerly known as the State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), and where the context permits, include its local counterparts
<b>“SASAC”</b>	the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
<b>“SAT”</b>	the State Administration of Taxation (國家稅務總局)
<b>“SFC”</b>	the Securities and Futures Commission of Hong Kong



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## DEFINITIONS

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<b>“SFO” or “Securities and Futures Ordinance”</b>	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
<b>“Share(s)”</b>	ordinary share(s) in the capital of our Company with a nominal value of RMB1.00 each
<b>“Shareholder(s)”</b>	holder(s) of the Share(s)
<b>“Special Regulations”</b>	the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), as amended, supplemented or otherwise modified from time to time
<b>“Spin-off”</b>	the separate listing of our H Shares on the Main Board, which is expected to be effected by way of the Global Offering, including the Preferential Offering
<b>“Stabilizing Manager”</b>	Credit Suisse (Hong Kong) Limited
<b>“State Council”</b>	the State Council of the PRC (中華人民共和國國務院)
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“subsidiary(ies)”</b>	has the meaning ascribed thereto in section 15 of the Companies Ordinance
<b>“substantial shareholder(s)”</b>	has the meaning ascribed thereto in the Listing Rules
<b>“Supervisor(s)”</b>	member(s) of our Supervisory Committee
<b>“Supervisory Committee”</b>	the supervisory committee of our Company
<b>“Track Record Period”</b>	the three years ended December 31, 2016, 2017 and 2018
<b>“Underwriters”</b>	the Hong Kong Underwriters and the International Underwriters
<b>“Underwriting Agreements”</b>	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
<b>“United States” or “U.S.”</b>	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
<b>“Unlisted Foreign Shares”</b>	ordinary shares issued by our Company with a nominal value of RMB1.00 each and are held by persons other than PRC nationals or PRC incorporated entities and are not listed on any stock exchange

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## DEFINITIONS

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“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. SEC”	Securities and Exchange Commission of the United States
“U.S. Securities Act”	United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“Wang Family Trusts”	the Bright Brilliant Trust and the Ample Joy Trust
“Wang Family Trusts Founders”	Mr. Wang Muqing and Mr. Wang Weize (the son of Mr. Wang Muqing), being the founders of the Wang Family Trusts
“WHITE Application Form(s)”	the form of application for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be issued in the applicants’ own name
“White Form eIPO”	the application for the Hong Kong Offer Shares to be issued in the applicant’s own name, submitted online through the designated website of the <b>White Form eIPO</b> Service Provider at <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“YELLOW Application Form(s)”	the form of application for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be deposited directly into CCASS
“ZhengTong”	China ZhengTong Auto Services Holdings Limited (中國正通汽車服務控股有限公司), a Controlling Shareholder and one of the Promoters, a company incorporated on July 9, 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 (stock code: 1728)
“ZhengTong Customer(s)”	the customer(s) of ZhengTong Dealers
“ZhengTong Dealer(s)”	auto dealer(s) of the Remaining Group with which we cooperated
“ZhengTong Group”	ZhengTong and its subsidiaries
“%”	per cent

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## DEFINITIONS

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In this prospectus:

*The English names of the PRC nationals, enterprises, entities, departments, facilities, certificates, regulations, titles and the like are translation and/or transliteration of their Chinese names and are included for identification purposes only. In the event of inconsistency between the Chinese names and their English translations and/or transliterations, the Chinese names shall prevail.*

*In this prospectus, the terms “associate,” “connected person,” “connected transaction,” “controlling shareholder,” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.*

*Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*\* For identification purposes only*

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## FORWARD-LOOKING STATEMENTS

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Certain statements in this prospectus are forward looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as “will”, “expect”, “anticipate”, “estimate”, “believe”, “going forward”, “ought to”, “may”, “seek”, “should”, “intend”, “plan”, “projection”, “could”, “vision”, “goals”, “objective”, “target”, “schedule” and “outlook”) are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including the risk factors detailed in this prospectus), uncertainties and other factors some of which are beyond our Company’s control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our ability to maintain good relationships with business partners;
- our ability to control our credit risks and other risks inherent in our business;
- relevant government policies and regulations relating to our industry, business and corporate structure;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business and our business plans;
- our ability to successfully implement our business plans and strategies;
- the actions and developments of our competitors;
- future developments, trends and conditions in the industry and markets in which we operate or into which we intend to expand;
- our business prospects;
- our capital expenditure plans;
- the actions and developments of our competitors;
- our financial condition and performance;
- financial market developments;
- capital market developments;
- our dividend policy;
- changes in global economic conditions and material volatility in the global financial markets;
- general political, social and economic conditions, including those related to the PRC;

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## FORWARD-LOOKING STATEMENTS

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- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which we operate;
- changes or volatility in the automotive market in China;
- various business opportunities that we may pursue;
- macroeconomic measures taken by the PRC government to manage economic growth; and
- all other risks and uncertainties described in the section in this prospectus under the heading “Risk Factors”.

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution investors against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by the Listing Rules, we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Accordingly, you should not place undue reliance on any forward-looking information. Statements of or references to our intentions or those of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

All forward-looking statements in this prospectus are expressly qualified by reference to this cautionary statement.

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## RISK FACTORS

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*You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in the H Shares. Our business, financial conditions, results of operations or prospects could be materially and adversely affected by any of these risks and uncertainties. The market price of the H Shares could significantly decrease due to any of these risks and uncertainties, and you may lose all or part of your investment.*

*These factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date unless otherwise stated, will not be updated after the date hereof, and is subject to the cautionary statements in the section headed “Forward-looking statements” in this document.*

We believe that there are certain risks and uncertainties involved in our operations, many of which are beyond our control. These risks and uncertainties can be categorized into (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to doing business in the PRC; and (iv) risks relating to the Global Offering. Additional risks and uncertainties presently not known to us or not expressed or implied below, or those we currently deem immaterial, could also harm our business, financial conditions, operating results and prospects. You should consider our business and prospects in light of the challenges we face, including the ones discussed in this section.

### RISKS RELATING TO OUR BUSINESS

**We have a limited operating history and may not be able to maintain our rapid growth in the future or adequately adjust our development strategies in response to developments or changes in the market.**

We commenced our commercial operations in 2015 and have a limited operating history. The number of loans we disbursed and facilitated has grown significantly since our inception. Our operating income increased from RMB332.4 million for the year ended December 31, 2016 to RMB462.0 million and RMB815.8 million for the years ended December 31, 2017 and 2018, respectively, representing a CAGR of 56.7%. The increase was primarily attributable to the growth of our retail loan business. However, we cannot assure you that we will be able to grow at the same rate as we did in the past or avoid any decline in the future. Our historical performance may not be indicative of our future growth or financial results, primarily due to the following:

- We cannot assure you that the development of our sales network, risk management capability and technological capabilities will be able to fully support our growth in the future.
- The expansion of our loans and advances to customers during the Track Record Period was mainly dependent on registered capital injected by our shareholders and placements from banks and other financial institutions. As our business grows, the size of our loans and

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## RISK FACTORS

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advances to customers will also increase. We may not have adequate funding to support our continued expansion. We may not be able to manage the size of our total loans and advances to customers and the growth of our business against our ongoing liquidity needs. We may not be able to maintain the current profitability due to increased funding costs.

- As the auto finance industry matures and competition intensifies, we may not be able to timely or efficiently adjust our strategies and plans to allow for the same pace of development as during the Track Record Period.
- Other factors beyond our control, including decreasing consumer spending, declining growth of the auto finance industry and changes in rules, regulations, government policies or general economic conditions.

If any of the foregoing occurs, our business, results of operations, financial conditions and prospects may be adversely affected. As such, you should consider our business and prospects in light of these risks and our limited experience, and not unduly rely on our past results of operations or historical growth rate as an indicator of our future performance.

**If we fail to maintain stable relationships with dealers within our sales network, our business, results of operations and financial conditions could be materially and adversely affected.**

We have built a sales network with extensive geographical coverage to source and acquire end customers. As of December 31, 2018, our sales network consisted of 1,280 dealers, including 113 ZhengTong Dealers and 1,167 External Dealers. Dealers are the primary customer acquisition channel for our retail loan business. Our business and future growth depends on our ability to maintain stable relationships with these dealers.

While we have entered into cooperative agreements with dealers to conduct our retail loan business, these agreements are non-exclusive. As such, we cannot assure you that we will be able to maintain long-term relationships with the dealers within our sales network. In addition, we cannot assure you that these dealers will continue to refer customers to us, as the volume of customer referrals is and will continue to be subject to factors most of which are beyond our control. See “—Our business, financial conditions and results of operations may be materially and adversely affected if the operational performance of the dealers we work with deteriorate significantly.” Further, if we are unable to provide suitable products or services to the customers of the dealers within our sales network, these dealers may refer fewer customers to us and our relationship with them may deteriorate.

In particular, additional challenges and risks exist in connection with our cooperation with External Dealers, including:

- We rely on our in-house sales team to source and maintain our relationship with External Dealers, which requires significant resources and can result in unexpected expenses.

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## RISK FACTORS

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- We face competition from other participants in the auto finance industry who may offer dealers more favorable terms under their customer referral arrangements. Dealers we work with may decide to terminate their cooperation with us and work with our competitors instead.
- We may not be able to effectively manage the dealers we work with, which may hamper our capability to expand our dealer network.

If any of the foregoing were to occur, our business, financial conditions and results of operations may be materially and adversely affected.

**Our business, financial conditions and results of operations may be materially and adversely affected if dealers within our sales network were to charge a fee from us for having a presence at their stores.**

During the Track Record Period, some of the dealers within our sales network provided us with administrative assistance such as displaying marketing materials about our products and services and handing out brochures and promotional gifts. We have reimbursed the dealers for these administrative tasks subsequently on an as-incurred basis in the amount of RMB15.3 million, RMB10.6 million and RMB18.9 million for the years ended December 31, 2016, 2017 and 2018, respectively, but have not provided any commission, incentive or rebates to any dealer.

According to CIC, as a result of the increasingly intense competition in the auto finance market, it has become more common for dealers to seek advertising or referral fees, which typically ranges from RMB500 to RMB1,000 for each successful loan application, from finance service providers that have a presence at their stores. Had the dealers within our sales network charged us the minimum amount of RMB500 for each successful loan application that they referred to us in 2018, our expenses for the year ended December 31, 2018 would have increased by RMB44.4 million. Had the dealers within our sales network charged us the maximum amount of RMB1,000 for each successful loan application that they referred to us in 2018, our expenses for the year ended December 31, 2018 would have increased by RMB88.9 million.

The presence at the dealer stores is essential to our business as the vast majority of our customers are converted from visitors to dealer stores who seek to finance their car purchases. Through displaying our products at the dealer stores and dispatching sales personnel to the dealer stores, we get to promote our self-operated retail loan products and retail loan facilitation services to potential customers. As we continue to expand and optimize our dealer network, the composition of our dealer network will also become more diverse. Dealers within our future sales network may have different needs than those of our existing dealers. Thus, we cannot assure you that some dealers will not request a fee from us for their referral of end customers or our presence at their stores in the near future. Our operating costs will increase and our business, financial conditions and results of operations may be materially and adversely affected.

**Our business, financial conditions and results of operations may be materially and adversely affected if the operational performance of the dealers we work with deteriorate significantly.**

We experienced significant growth in our retail loan business through our cooperation with dealers during the Track Record Period. In addition, we provided loans to certain dealers under our



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## RISK FACTORS

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dealer loan business. Therefore, the results of operations and financial conditions of the dealers we cooperate with have a significant impact on our business. Any significant decrease in car sales or other forms of weakened business performance of these dealers could have a material and adverse effect on our business, financial conditions and results of operations.

Car sales and the business operation of dealers are generally affected by a variety of factors including, among others:

- macroeconomic conditions in China;
- changes in the regulatory environment of the automobile dealership industry in China;
- consumer demands and preferences;
- brand image and reputation;
- product quality, variety and pricing;
- quality of post-sales service; and
- relationship with automakers.

If the financial conditions and results of operations of dealers deteriorate, especially those that have referred a significant amount of retail loan customers to us, our business, financial conditions, results of operations and prospects could be materially and adversely affected.

**Our business, financial conditions and results of operations may be materially and adversely affected by changes in our relationships with our Controlling Shareholders.**

ZhengTong has been our immediate Controlling Shareholder since our inception. During the Track Record Period, we have developed business cooperation with ZhengTong in our retail loan business and dealer loan business. See “Relationship with Controlling Shareholders — Our Business Relationship with ZhengTong” for a more detailed description. In addition, our Controlling Shareholders have substantial influence over our business with respect to material matters, including decisions regarding mergers and acquisitions, consolidations and the sale of all or substantially all of our assets, election of Directors, the timing and amount of dividends or other distributions, if any, and other significant corporate actions. We will remain controlled by ZhengTong after the Global Offering and will continue to cooperate with ZhengTong and other ZhengTong affiliates. Our Controlling Shareholders will be able to exercise approximately 71.25% of the voting rights of our Company immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised). If ZhengTong or its affiliates reduce, suspend or terminate funding or customer acquisition support to us, we will need to obtain such support from other sources or improve these capabilities on our own. Moreover, we cannot assure you that any of our Controlling Shareholders will act in the best interest of our Company should any conflict arise. In the event that the interests of the Controlling Shareholders conflict with those of our other Shareholders, or if the Controlling Shareholders decide to make us pursue strategies that would conflict with the interests of public Shareholders, your

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## RISK FACTORS

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investment interests may be harmed. If they fail to act in the best interests of us, for example, if they fail to continue their cooperation with us or take actions that are detrimental to our interests, we may have to renegotiate the terms and conditions for our cooperation with them or find other business partners as replacements, which may be expensive, time-consuming and even disruptive to our operations. If we are unable to resolve any such conflicts, or if we suffer significant delays or other obstacles as a result of such conflicts, our business, results of operations and financial conditions could be materially and adversely affected.

**If our non-performing loans increase significantly, we may have to significantly increase our provisions for impairment losses, which may adversely affect our financial conditions and results of operations.**

We maintain allowances for impairment losses based on our estimated losses arising from our loan product portfolio, and any changes in such allowances are charged to our statement of profit or loss and other comprehensive income. As of December 31, 2016, 2017 and 2018, our allowance for impairment losses of loans and advances to customers was RMB37.2 million, RMB59.1 million and RMB136.0 million, respectively. Our provision for impairment losses ratio, which is calculated by dividing the amount of allowance for impairment losses on loans and advances by the total amount of loans and advances, was 0.99%, 1.00% and 1.59%, respectively, as of December 31, 2016, 2017 and 2018. See Note 27 to the Accountants' Report set forth in Appendix I in this prospectus and "Assets and Liabilities — Assets — Allowance for Impairment Losses on Loans and Advances to Customers." If our non-performing loans increase significantly, we may have to significantly increase our allowances for impairment losses, which may adversely affect our financial conditions and results of operations.

**We face significant competition, and some of our competitors may have more resources or stronger brand recognition than us.**

The auto finance industry in China is highly fragmented and competitive. Our primary competitors are other AFCs, commercial banks, and financial leasing companies. Some of our competitors may have better access to dealers and automakers, more funding sources or cheaper funding, more extensive sales networks, or closer relationships with customers in various markets. In particular, commercial banks may have access to greater capital resources and lower funding costs through deposits and other resources that we do not have, allowing them to provide auto finance loans at more attractive rates. Some of the dealers we work with may also refer their end customers to commercial banks in a similar manner as us. Moreover, we also face increasing competition with respect to customer acquisition from the rapid expansion of internet finance companies, who have been collaborating with offline channels to broaden their reach to end customers and are expected to further increase their market share in the near future. For a more a detailed description, see "Industry Overview — Competitive Landscape of Retail Auto Finance Industry." Our business, financial conditions and results of operations may be materially and adversely affected as a result of the aforementioned competition.

In addition, if the External Dealers we work with establish their own AFCs, we may lose the opportunity to provide retail loans and related services to their customers and this could have a material adverse effect on our business, financial conditions and results of operations.

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## RISK FACTORS

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**If we fail to maintain stable relationships with the commercial banks we currently work with or establish new relationships with other commercial banks for our retail loan facilitation business, our business, results of operations and financial conditions could be materially and adversely affected.**

During the Track Record Period, we worked with three commercial banks to provide retail loan facilitation services, whereby we refer customers to commercial banks and provide loan-related services such as loan consultation and preparation of the loan applications to be submitted to these commercial banks. We will then charge a service fee from each customer upon their signing of the loan agreement with the banks. We experienced significant growth in our retail loan facilitation business during the Track Record Period. For the years ended December 31, 2016, 2017 and 2018, our operating income from the retail loan facilitation business amounted to RMB167.7 million, RMB195.4 million and RMB281.0 million respectively, representing 54.6%, 45.5% and 37.7% of the operating income from our retail loan business.

According to CIC, retail loan facilitation service is an industry norm in the auto finance market. The dealers at which we currently offer loan facilitation services may seek to provide such services by themselves in the future. We also compete with other participants in the auto finance industry in establishing relationships with commercial banks and acquiring customers to be referred to commercial banks. As we do not have any written agreement with any of the three commercial banks that we work with in our retail loan facilitation business, one or more of these commercial banks may discontinue their cooperation with us in the future. In light of the increasing competition in the auto finance market, our competitors who have more resources may develop stronger relationships with the commercial banks we work with or other commercial banks and offer more attractive loan products to their referral customers leveraging such relationships. In that case, our relationships with the commercial banks we currently work with may be weakened and we may not be able to enter into new relationships with other commercial banks. If any of the foregoing is to occur, our business, financial conditions and results of operations could be materially and adversely affected.

**Our business is capital intensive, and any disruption to our funding sources or our inability to access the capital markets could have a material and adverse effect on our business, results of operations and financial conditions.**

Our liquidity depends on many factors, including the sufficiency of our working capital, our results of operations and our ability to raise capital cost-efficiently. During the Track Record Period, we relied primarily on registered capital injected by our shareholders and placements from banks and other financial institutions for our capital requirements. Any significant decrease in the credit facilities available to us or any increase in the cost of our credit facilities could hinder our ability to disburse new loans at competitive rates and to meet our liquidity requirements. For the years ended December 31, 2016, 2017 and 2018, the average cost for our interest-bearing liabilities (calculated as the ratio of our interest expenses to the average balance of interest-bearing liabilities for the period) was 5.08%, 5.45% and 6.09%, respectively. See “Financial Information—Summary of Key Financial and Operating Indicators of Our Company.” The credit facilities available to us could be affected by many factors, some of which are beyond our control, such as the macroeconomic conditions and the adoption of tighter monetary and credit policies by government entities. As a result, we cannot assure

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## RISK FACTORS

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you that we will be able to support our business expansion by maintaining adequate credit facilities at commercially reasonable rates or at all, or to successfully raise capital from alternative sources. Any failure to maintain sufficient working capital and liquidity could materially and adversely affect our business, results of operations and financial conditions.

In addition, in order to maintain sufficient funding, we may explore funding sources other than credit facilities, including issuing bonds and ABS. We applied to the CBIRC for the approval to issue asset-backed securities on the national inter-bank lending market, which may or may not be successful. Moreover, we may not have access to such funding sources due to macroeconomic conditions or other general market factors. If we are unable to timely access such alternative funding resources for any reasons, we may not be able to maintain a sufficient working capital and liquidity level. As a result, our business, results of operations and financial conditions could be materially and adversely affected.

**We may not be able to adapt our products and service offerings to respond to changing consumer preferences and market demands, which could have a material adverse effect on our business, results of operations and financial conditions.**

Our business prospects and continuing revenue growth depend largely on our ability to retain and expand our customer base. We offer retail loan products with different interest rates and payment terms that are tailored according to our customers' needs and credit profiles. However, these products and other new products that we introduce may not be sufficiently attractive to certain customers in respect of interest rate, repayment arrangements and down payment ratio. In addition, market practice may shift and drive consumer demands for products that are different from what we are able to offer. Our ability to deliver satisfactory customer experience is subject to a number of factors, including our ability to provide efficient services, our ability to continue to improve our products and services to meet changing customer needs and our ability to ensure that the dealers we work with provide satisfactory customer service. We cannot assure you that our new products and services will be well received. If not, we may incur financial losses and reputational damage and our results of operations could be materially and adversely affected. If we are unable to continue to introduce new products and services, improve our existing products and services, or adjust our product and service offerings to satisfy the change in consumer preferences and market demands, we may not be able to continue to attract new customers or maintain our current customer base, and our business, results of operations and financial conditions may be materially and adversely affected.

**Loan products we disburse may potentially be deemed as having a duration mismatch with the underlying funding sources.**

The retail loans we disburse typically have a term of one year to five years while our placements from banks typically have a maturity period of one year. Although we have developed sophisticated systems to match the maturity date of our placements from banks and the loan repayment schedule of our customers, we cannot guarantee that we will be able to maintain our liquidity at a sufficient level when our placements from banks are due, or at all. Should we become delinquent on any of our placements, we may be required to incur additional costs under our financing arrangement and our

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## RISK FACTORS

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relationships with our financing partners may be negatively affected, which will in turn limit our ability to maintain sufficient liquidity going forward. As such, any failure to adequately address the risks associated with such duration mismatch could materially and adversely affect our business, results of operations and financial conditions.

**Our result of operations and financial conditions are sensitive to changes of the benchmark interest rates set by PBOC.**

Our interest income is sensitive to the adjustments of the benchmark interest rates set by the PBOC. In recent years, PBOC has adjusted the benchmark interest rates several times, including a series of increases in 2010 and 2011 to curb inflation and cool down the PRC economy and a series of reductions from 2012 to 2015 in response to the global economic downturn. Adjustments by the PBOC to the benchmark interest rates on loans or deposits, or any changes in market interest rates, may negatively affect our financial conditions and results of operations. For example, changes in the PBOC benchmark interest rates could affect the average yield on our interest-earning assets and the average cost on our interest-bearing liabilities differently, and may narrow our net interest spread, leading to a reduction in our net interest income. In addition, increases in interest rates could result in increased financing costs, decrease in the overall demand for our loans and increased risks of loan default. As the PRC derivatives market has yet to fully develop, we have limited risk management tools available for us to hedge such risks.

**Restrictions imposed by the terms of our debt instrument covenants may adversely affect our financial conditions and limit our ability to plan for or respond to changes in our business.**

We have various bank loan agreements which impose certain restrictive conditions on us, including both operational and financial covenants. Such covenants primarily include, among others, requirements for us to obtain the lending institutions' prior consent for certain transactions such as disposal of material assets, merger and acquisition, and inform them upon the occurrence of certain issues such as liquidation and winding up. Breach of any of such covenants may result in an event of default and trigger our lenders' exercise of their rights on an accelerated basis, or could result in cross-defaults on the terms of our other existing and outstanding indebtedness, which could increase our debt financing costs and affect our ability to refinance our indebtedness. We cannot assure you that we will be able to continue to fully comply with such restrictive conditions, or refinance any of our indebtedness on commercially acceptable terms or at all. The occurrence of any of the foregoing may materially and adversely affect our business, financial conditions and results of operations.

**Our business, financial conditions and results of operations may be materially and adversely affected if we fail to effectively maintain the quality of our portfolio of loans and advances to customers.**

Our ability to effectively maintain the quality of our portfolio of loans and advances has been and will remain crucial to our business, financial conditions and results of operations. However, the quality of our loan portfolio may deteriorate for a variety of reasons beyond our control, including: (i) a general slowdown of the PRC economy or adverse macroeconomic developments and trends in China and worldwide, (ii) restrictive policies with respect to the PRC automobile industry, such as restrictions on car purchase or use, (iii) downward pressures on China's financing and credit markets

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## RISK FACTORS

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or the general tightening of monetary and credit policy, (iv) downward changes in the automobile market in China, (v) natural disasters or other force majeure events, and (vi) our ability to sufficiently review customer creditworthiness. We have set up a standard operational process for reviewing and approving applications for loans and credit lines. We may not be able to promptly review and approve loan applications or identify risks in our reviewing and approval process. The rapid growth of our business also makes it increasingly challenging for us to balance the efficiency and effectiveness of our review and approval process of loan or credit line applications. If we are unable to promptly review and approve loan applications or identify risks in our review and approval process, quality customers may choose to utilize our competitors' services instead and we could end up issuing loans to customers who are not creditworthy or have a higher risk profile, which may negatively affect our business growth and asset quality.

As of December 31, 2016, 2017 and 2018, the gross amount of our loans and advances to customers was RMB3,773.8 million, RMB5,928.1 million and RMB8,562.2 million, respectively, and our non-performing loan ratio was 0.37%, 0.28% and 0.27% for the same periods, respectively. If such loans become impaired for any reason, we cannot assure you that we will be able to successfully collect on non-performing loans or repossess or control any applicable collateral. In addition, we may have to significantly increase our allowance for impairment losses in response to any material deterioration of the quality of our loan portfolio and advances, which could have a material and adverse effect on our business, result of operations and financial conditions.

**If we are unable to obtain sufficient or accurate information of our customer's credit profile, our business, results of operations and financial conditions could be materially and adversely affected.**

As a part of our risk management measures, we conduct background checks on loan applicants. To this end and with proper authorization, we are able to access the PBOC's personal and enterprise Credit Reference Center and multiple external sources to assess our potential customers' credit profile. However, the PBOC system is limited to loan and repayment records and does not have an extensive coverage of residents in third-tier and other lower-tier cities. Therefore, we may not have access to a sufficient amount of credit records of our potential customers necessary for assessing their creditworthiness and loan repayment capabilities. For the years ended December 31, 2016, 2017 and 2018, we had impairment losses for loans and advances to customers of RMB31.8 million, RMB43.1 million and RMB73.2 million, respectively. If we extend loans to customers on the basis of incomplete or inaccurate information and such customers default on their loans, our assets quality as well as our business, results of operations and financial conditions could be materially and adversely affected.

**Our risk management framework, policies and procedures and internal controls may not fully protect us against various risks inherent in our business.**

We have established an internal risk management framework, with various policies and procedures in place to manage our risk exposures with respect to credit, operations, IT, legal and compliance. Our risk management policies and procedures are based upon regulations and policies issued by administrative authorities, industry practice, our financial conditions and our operational experience. However, our policies may not be adequate or effective in managing all future risk

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## RISK FACTORS

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exposures or protecting us against unidentified or unanticipated risks, which could be significantly greater than those indicated by our internal assessments and operational experience. Although we are continuously updating these policies and procedures, they may fail to predict future risks due to rapid changes in the market and regulatory conditions.

In addition, fraud or other misconduct by employees, customers, dealers we work with and other third parties or business partners may be difficult to detect and prevent. For example, our employees may engage in fraudulent business transactions or violate our internal policies and procedures. In addition, customers and dealers we work with may on their own or collectively use fake identification, forged documentation and/or engage in other fraudulent transactions. Fraud or other misconduct committed by our employees, customers, dealers or other third parties could subject us to financial loss and penalties imposed by governmental and regulatory authorities. We could also suffer from negative publicity, reputational damage, monetary losses or litigation costs as a result of the misconduct of our employees. Our risk management systems, IT systems and internal control procedures are designed to monitor our operations and overall compliance. However, we may be unable to identify non-compliance or suspicious transactions in a timely manner or at all. Furthermore, the precautions we take to prevent and detect such activities may not be effective. It is possible that fraud or other misconduct may have previously occurred but were undetected and that such fraud or misconduct could occur in the future.

Our internal controls may not effectively prevent the occurrence of any of the foregoing, which may have a material and adverse effect on our business, financial conditions and results of operations.

**We may be unable to realize the full value of collaterals or recover the outstanding balance of retail loans in a timely manner or at all upon the default of our customer, and significant decreases in the residual value of loan collaterals may lower the recoverability of our finance receivables and lead to costly legal proceedings, which may materially and adversely affect our results of operations.**

For each retail loan arrangement, we require our customers to pledge the cars purchased by the customers as collateral. However, if a customer defaults, we may be unable to realize the full value of the collaterals or recover the amounts outstanding in a timely manner due to the following reasons: (i) we may encounter difficulties in locating the collaterals as cars are mobile, unlike fixed or immovable assets, and (ii) we may not be legally entitled to repossess the collaterals even if we successfully locate the cars. According to relevant PRC laws and regulations, upon the default by a customer, we are generally entitled to be compensated in priority by the sale proceeds of the collateral, on the condition that we have reached an agreement with our customer in relation to the auction or sale of the collateral, or we sell or auction the collateral through a judicial sale. We are not allowed to obtain the ownership of the collateral without prior agreement or outside legal proceedings. Therefore, when a customer defaults under a retail loan agreement, we typically attempt to reach an agreement with the customer to settle the outstanding loan balance. However, we cannot assure you that our customer will not conceal or otherwise dispose of the collateral before we are able to take the appropriate measures. If we are unable to reach an agreement with our defaulted customers, we are entitled to petition to a court of competent jurisdiction to conduct a judicial sale, auction or other activities to sell the collateral. However, we cannot assure you that we will be able to receive a favorable ruling from the court. Even if we are able to receive a favorable ruling from the court, we

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## RISK FACTORS

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may not be able to realize the full value of the collateral as the sale price may be affected by the depreciation and deterioration of the collateral as well as market factors beyond our control. We also may experience other delays and incur unforeseen expenses in disposing of the collateral, such as litigating costs related to our attempts to recover the outstanding loan balance.

We may be involved in material legal proceedings from time to time. These are typically claims that arise in the ordinary course of our business, including, among others, collection procedures against our default customers and other types of disputes with customers. We cannot assure you that such proceedings and claims will not have a material and adverse effect on our business, results of operations and financial conditions.

**Our relationships with automakers and ZhengTong Dealers participating in joint promotion arrangements may deteriorate, which may adversely affect our results of operations.**

In line with industry practice, we entered into joint promotion agreements with two luxury-brand automakers that seek to promote the sale of specific car models during the Track Record Period through interest subsidies. Through this arrangement, our end customers get to enjoy interest rates that are lower than the market standard and are therefore more incentivized to borrow funds from us to make such purchases. For the years ended December 31, 2016, 2017 and 2018, the amount of loan balance from loans granted under our joint promotion arrangement with automakers was RMB1,148.0 million, RMB2,341.7 million and RMB2,165.6 million, respectively. Should our relationship with these two automakers deteriorate, our business volume likely will decrease and our customer base and relationships with dealers associated with these automakers may also suffer as a result. If any of these were to occur, our results of operations, financial conditions and business prospects may be adversely affected.

In addition, we also entered into joint promotion arrangement with ZhengTong Dealers during the Track Record Period, whereby the ZhengTong Dealers offered interest subsidies to their customers who applied for retail loans from us for purchasing certain car models. For the years ended December 31, 2016, 2017 and 2018, the amount of loan balance from loans granted under our joint promotion arrangement with ZhengTong Dealers was RMB3.8 million, RMB1,181.0 million and RMB2,131.5 million, respectively. We plan to discontinue this practice after Listing. The discontinuation of this arrangement may lead to fewer customers sourced by ZhengTong Dealers, which may adversely affect our results of operations and financial conditions.

**Our business is highly dependent on the proper functioning and improvement of our IT systems, credit assessment infrastructure and big data analytics. Any significant disruption in our information technology systems may materially and adversely affect our business and results of operations.**

Our business is highly dependent on the ability of our information technology systems to process a large number of transactions across different markets and products timely and securely. The proper functioning of our credit assessment, risk control, accounting, customer database, customer service and other data processing systems is critical to our business and results of operations. Our ability to operate and remain competitive depends largely on our ability to maintain the stability of our IT systems and to continue upgrading such system.



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## RISK FACTORS

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However, our financial, accounting or other data processing systems may fail to operate adequately and may become disabled as a result of events that are beyond our control, such as the disruption of electrical or communication services. Our computer systems and software, including software licensed from vendors and networks, may be vulnerable to unauthorized access, computer viruses, other malicious code or hacker attacks, which may result in significant business delays or interruptions, damage our IT systems, compromise our data integrity and result in identity theft, for which we could potentially be liable. In addition, our current IT systems may not be able to continue to satisfy our management's needs and respond to changes in the market timely and efficiently. We may also experience difficulties in upgrading, developing and expanding our systems and software quickly enough to accommodate our growing customer base and product offerings.

**Failure to ensure and protect the confidentiality of the personal data of our customers could subject us to penalties, negatively impact our reputation and deter customers from engaging our services.**

In providing our services, a challenge we face is the secure collection, storage and transmission of confidential information. We hold certain private information about customers, such as their names, address and contact information as well as financial and credit information. We also need to collect private information from our business partners, third-party service providers and other parties for the purpose of conducting the loan transactions. We are required to collect and use the private information in accordance with PRC laws and not to disclose or use such information without the consent from our customers. See "Regulatory Overview—Primary Risk Management."

We rely on numerous measures and software controls to protect the confidentiality of data provided to us or stored on our systems. All the personal data we collected is stored internally and protected from unauthorized intrusion. Only authorized employees may access our customers' personal data and such authorization is granted based on employee seniority and department function. We also monitor the log-in activities of our employees and alert relevant departments to any abnormal situation. We also rely on contracts with our business partners and third-party services providers to ensure they would duly protect the privacy of the information we provide to them and that they have obtained the consent from their customers over the private information they provide to us. However, confidential information in our systems may be compromised as a result of intentional or unintentional security breach or inadvertent errors. While we strive to protect our customers' privacy, if we, our business partners or third-party service providers inappropriately disclose any personal information, we could be subject to claims by our customers, government entities or others for identity theft, similar fraud claims or claims for other misuses of personal information such as unauthorized marketing or unauthorized access to personal information. Such events could subject us to fines and damages, damage our reputation and cause customers to lose their trust and confidence in us, thereby materially and adversely affect our reputation, business, financial conditions and results of operations.

**We recorded operating cash outflows during the Track Record Period.**

Our business is capital intensive and involves a substantial amount of operating cash turnover in our ordinary course of business. Major sources of our working capital include funds generated from our loan disbursement, placements from banks and other financial institutions and capital injections from our shareholders, among others. Cash flows associated with our loan disbursement and placements from banks and other financial institutions are classified as operating activities, while

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## RISK FACTORS

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those related to capital injections from our shareholders are classified as financing activities. We recorded net operating cash outflows of RMB1,062.8 million for the year ended December 31, 2017. For more details, see “Financial Information—Liquidity—Cash Flows.” We cannot assure you that we will have positive cash flows from operating activities in the future, and even if we achieve operating cash inflows, such cash inflows may not be sufficient to satisfy our anticipated capital needs, see “—Our business is capital intensive, and any disruption to our funding sources or our inability to access the capital markets could have a material adverse effect on our business, results of operations and financial conditions.” Our future cash flows from operating activities will be influenced by a number of factors, such as the demand for our products and services, our ability to control our costs and expenses as well as general economic conditions, many of which are beyond our control.

**If we fail to enhance and maintain our brand recognition, we may lose market share and our business, results of operations and financial conditions may be materially and adversely affected.**

Market recognition of our brand is critical for us to remain competitive. Our ability to maintain and enhance our brand recognition and reputation depends primarily on the high-quality products and services we provide to our customers. We may also engage in branding efforts such as marketing campaigns and online advertising. Our branding efforts, however, may not be successful or meet our expectation, and we may incur significant branding costs as a result. If we are unable to maintain and further enhance our brand recognition and reputation and promote the awareness of our products and services, we may not be able to maintain our current level of customer base and our results of operations may be materially and adversely affected. Furthermore, any negative or malicious publicity relating to our company, our products and services could harm our brand image and in turn materially and adversely affect our business and results of operations.

**We may fail to attract and retain an experienced management team and qualified personnel.**

Our continued success depends on our ability to attract and retain an experienced management team and skilled employees. Our ability to do so is influenced by a variety of factors, including the structure and competitiveness of the compensation package that we offer. Our management team and skilled employees may choose to leave us and we may terminate their employment from time to time. We cannot assure you that we will be able to retain our management team and skilled employees or find suitable or comparable replacements on a timely basis. Moreover, if any of our management team or skilled employees leaves us or joins a competitor, we may lose customers as a result. In addition, former employees may request certain compensation in relation to their resignation or retirement, which we typically negotiate on a case-by-case basis. However, if we are unable to reach a mutually acceptable resolution with such employees, they may take other actions including, but not limited to, initiating legal proceedings. Such legal proceedings may require us to pay damages, cause us to incur costs and harm our reputation. Each of these foregoing factors could have a material and adverse effect on our business, financial conditions and results of operations.

**We may be subject to intellectual property infringement claims or other allegations by third parties, which may materially and adversely affect our business, results of operations and prospects.**

We cannot be certain that our operations do not or will not infringe upon or otherwise violate the intellectual property rights or other rights held by third parties. We may be from time to time subject to legal proceedings and claims relating to the intellectual property rights or other rights of third parties.

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## RISK FACTORS

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To the extent that our employees or service providers use intellectual property owned by others in their work for us, disputes may arise as to the rights in related know-how and inventions or other proprietary assets. If any third-party infringement claims are brought against us, we may be forced to divert management's time and other resources from our business and operations to defend against these claims, regardless of their merits.

China's intellectual property right laws, the procedures and standards for granting trademarks, patents, copyrights, know-how or other intellectual property rights in China, the laws governing personal information rights as well as their application and interpretation, are still evolving and remain uncertain. If we were found to have violated the intellectual property rights of others, to the contrary of our understanding of the applicable laws and regulations, we may be subject to liability for our infringement activities, may be prohibited from using such intellectual property and may incur licensing or other fees or be forced to develop alternatives of our own. As a result, our reputation may be harmed and our business and financial performance may be materially and adversely affected.

**Our business is subject to seasonal fluctuations and unexpected interruptions.**

Our business is subject to seasonal fluctuations. For example, the number and amount of retail loans and dealer loans tend to decline during the first half of the year, in line with the pattern of car sales in China. However, changes in certain of our expenses do not necessarily correspond with such fluctuations. For example, we spend on marketing activities, staff recruitment and training and product development throughout the year, and we pay rent for our facilities based on the terms of the lease agreements. We expect to continue to experience seasonal fluctuations in our results of operations. These fluctuations could result in trading volatility and adversely affect the price of our H Shares.

**Our deferred tax assets are subject to the uncertainties of accounting estimates.**

We have deferred tax assets that are subject to the uncertainties of accounting estimates. As of December 31, 2016, 2017 and 2018, we had deferred tax asset of RMB20.6 million, RMB62.2 million and RMB73.8 million, respectively, primarily due to the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The realization of a deferred tax asset mainly depends on our management's judgement as to whether sufficient taxable profits or taxable temporary differences will be available in the future. Estimations of future taxable profits depend on numerous factors beyond the control of our management. The carrying amount of deferred tax assets is reviewed by our management at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be recovered.

**The government grants we received during the Track Record Period are non-recurring by nature.**

For the years ended December 31, 2016, 2017 and 2018, we received government grants of approximately RMB3.9 million, RMB4.6 million and RMB48.4 million, respectively, which are

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## RISK FACTORS

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non-recurring by nature. Among them, for the years ended December 31, 2016 and 2017, we received government grants from the Shanghai Municipal Finance Bureau of the MOF as funding support for newly established non-banking financial institutions based in Shanghai. For the years ended December 31, 2016, 2017 and 2018, we also received government grants from Pudong New Area People's Government as support for the financial services sector. While we expect to continue to receive such government grants from Pudong New Area People's Government in 2019 and 2020 based on written confirmation from Pudong New Area People's Government, there is no guarantee that our entitlement to such government grants will not be revoked. We cannot assure you that we will continue to receive government grants the amount of which is similar to what we received during the Track Record Period or any government grants at all after Listing. In such events, our financial conditions and results of operations may be materially and adversely affected.

**The application of HKFRS 9 requires subjective estimate of our credit risks, which may materially and adversely affect our financial conditions and results of operations.**

We adopted HKFRS 9 on January 1, 2018, which superseded HKAS 39 Financial Instruments: Recognition and Measurement, and applied HKFRS 9 retrospectively to items that existed at January 1, 2018 in accordance with the transition requirements. HKFRS 9 introduces a new impairment model for financial assets, replacing the “incurred loss” model in HKAS 39 with the expected credit loss (“ECL”) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognizes ECLs earlier than under the “incurred loss” accounting model in HKAS 39. The impact of HKFRS 9 on opening balance has caused an increase of RMB39.3 million in expected credit losses on financial assets measured at amortized cost and a decrease of RMB9.8 million in related tax, resulting in a net decrease of RMB29.5 million in retained earnings at January 1, 2018.

Under HKFRS 9, our management is required to make robust estimates on expected credit losses and the point at which there is a significant increase in credit risk based on available information that the management deems reasonable and applicable, all of which involve difficult judgement. Many of these factors are beyond our control and our estimation is subjective in nature. Should the amount turn out to be insufficient to cover the losses we may actually incur in the future, our financial conditions and results of operations may be materially and adversely affected.

**Our insurance coverage may be insufficient.**

We maintain insurance in line with the market practice of the auto finance industry. See “Business—Insurance”. However, we may incur losses that may not be fully compensated by insurance proceeds. In addition, we do not have full insurance coverage against losses arising from business interruption. If we incur losses that may not be fully compensated by our insurance proceeds or any losses not otherwise covered by insurances, our business, cash flows, results of operations, financial conditions and prospects may be materially and adversely affected.

**We may be subject to additional contributions of social insurance and housing provident funds and late payments and fines imposed by relevant governmental authorities.**

We did not register with the relevant governmental authority to make contributions to the relevant social security insurance and housing provident funds for certain employees during the Track

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## RISK FACTORS

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Record Period and up to the Latest Practicable Date. For details, see “Business — Legal Proceedings and Compliance.” As advised by our PRC Legal Advisors, according to the applicable PRC laws and regulations, the obligation to make contributions to the social security insurance and housing provident funds rests with our Company and cannot be delegated to any third party. Therefore, although our Company engaged third-party human resources agencies to pay on our behalf and believes that required amount of the social security insurance and housing provident funds contributions in respect of the affected employees has been paid, the Company has not discharged its legal obligations under the relevant PRC laws and regulations as such contributions should have been made by the Company itself.

Under the relevant PRC laws and regulations, the relevant governmental authority may require a company that fails to pay its portion of social security insurance funds contributions to make the outstanding contribution within a given period and may impose on the company an additional late payment fee at a daily rate of 0.05% of the outstanding contribution from the due date, and if the company fails to do so, may impose a fine on the company ranging from one to three times of the total amount of the unsubscribed contribution. In addition, the relevant governmental authority may require the company to complete its registration for housing provident funds within a given period, and, if the company fails to do so within the given period, the government authority may impose a fine ranging from RMB 10,000 to RMB 50,000 and may require the company to make the unsubscribed contribution within a given period. Under applicable PRC laws and regulations, the maximum potential fine or penalty is RMB4.9 million for the failure to meet our obligation to make contributions to the social security insurance during the Track Record Period and RMB1.3 million for the failure to meet our obligation to make contributions to the housing provident funds during the same period. If the relevant employees lodge a complaint before the relevant labor authorities, we may be required to pay the amount in full in arrears and pay penalties for the delay. If we are required to make additional payments in relation to such social security insurance and housing provident funds contributions, our operating expenses will increase, which could consequently adversely affect our financial condition and results of operations.

On July 20, 2018, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council of the PRC issued the Reform Plan of the State Tax and Local Tax Collection Administration System (國稅地稅徵管體制改革方案) (the “**Reform Plan**”). Under the Reform Plan, commencing from January 1, 2019, tax authorities are responsible for the collection of social security insurance contributions in the PRC. The effect of the Reform Plan is yet uncertain. We cannot guarantee that the amount of social security insurance contributions we would be required to pay will not increase nor that we would not be required to pay any deemed shortfalls or be subject to any penalties or fines, any of which may have a material and adverse effect on our business and results of operations.

### RISKS RELATING TO OUR INDUSTRY

**If the monetary or credit policies in the PRC are tightened, our business and results of operations may be adversely affected.**

The PRC government had attempted several times in the past to control credit growth and inflation in the PRC. If the PRC government implements any monetary or credit tightening measures, our business and results of operations may be adversely affected, including:

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## RISK FACTORS

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- The availability and cost of funding in the PRC is significantly affected by the fiscal policies of the PRC government and the availability of credit and liquidity in the PRC banking system. If the PRC government implements monetary or credit tightening measures, our access to capital resources will be reduced or otherwise restricted. We may also face higher financing costs and more onerous credit terms from commercial banks, which would have a material and adverse effect on our liquidity and working capital;
- The scale of our loan business would be affected by the monetary or credit measures of the PRC government as well. If the PRC government implements monetary or credit tightening measures, the amount of our newly-disbursed loans may be restricted, which could also affect our business, financial condition, profitability and results of operations; and
- Tightened credit policy could result in dealers' financing difficulties, increased financing costs and capital constraints, which may cause dealers' default risk to increase and have an adverse effect on the development of the automobile industry.

**Demand for cars in China is a key factor to the demand for our business and is affected by various factors beyond our control.**

According to the China Association of Automobile Manufacturers, passenger vehicles sales volume dropped by 4.1% on a year-on-year basis for 2018. Such decrease in demand for passenger vehicles may reduce the need for the auto finance services provided by us.

Demand for cars in China is affected by various factors, such as the cost of fuel and parking, tolls, environmental concerns and governmental regulations, which include tariffs, import regulation and taxes. For example, rising gasoline price and increased automobile consumption tax may result in a decrease in the demand for cars as consumers seek or utilize other modes of transportation. Gasoline prices experienced increases from 2016 to early 2018 in the global market and the gasoline prices in the PRC have generally increased in recent years. Increases in fuel prices may induce cost-sensitive customers to switch to more fuel-efficient cars or opt for alternatives to cars, such as public transportation or bicycles, and would reduce the need for the auto finance services provided by us. The PRC government and adopted an automobile consumption tax since January 1, 1994. If the PRC government implements higher automobile consumption tax rates for cars, or imposes additional restrictions or taxes, such measures may result in a decrease in the demand for cars and related financing services, which may have a material and adverse effect on our business, financial conditions and results of operations.

We are subject to various laws, regulations and rules governing the automobile industry at both the national and regional levels in China and are also affected by other industrial or monetary policies imposed by the PRC government. Adverse changes in the regulatory environment may decrease the demand for cars. For example, with a view to controlling air pollution, an increasing number of local governments have issued and implemented stricter emission standards for cars sold in the PRC in recent years. The implementation of such standards may reduce the demand for and purchase of cars and related financing services and may adversely affect our business, financial conditions, results of operations and prospects.

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## RISK FACTORS

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**The auto finance industry in China is subject to stringent regulation and supervision by the CBIRC, PBOC and other government authorities, which may significantly affect our business.**

The auto finance industry is subject to stringent regulation and supervision by the CBIRC and PBOC as well as constantly-changing national, provincial and local laws, rules, regulations, policies and measures. These regulatory authorities carry out periodic inspections, examinations and inquiries in respect of our compliance with the applicable laws, regulations, guidelines and regulatory requirements, which cover, among others, market entry, auto finance business operations, establishment of new branches or institutions, capital structure, tax and accounting policies, corporate governance, risk management, pricing and provision policies. For instance, according to the Administrative Measures on Governing the Automotive Financing Company (《汽車金融公司管理辦法》) (the “**Automotive Financing Regulations**”) promulgated by the CBIRC in 2008, the outstanding credit balance of any single customer of our Company shall not exceed 15% of our net capital and the outstanding credit balance of any single group customer of our Company shall not exceed 50% of our net capital. In addition, according to the Measures for the Administration of Automotive loans (《汽車貸款管理辦法》) (the “**Automotive Loan Measures**”) promulgated and amended by PBOC and CBIRC in 2017, which took effect on January 1, 2018, the loan maturity period (including extensions) of the loans we issue shall not exceed five years for new cars, three years for used cars and one year for dealer loans. See “Regulatory Overview.”

Moreover, to promote the development of the Chinese auto finance industry, the PRC central government has promulgated various AFC administrative measures and related rules since 2003, which were then replaced by the Automotive Financing Regulations. In line with the development of the auto finance industry, further regulatory changes and developments that may have a significant effect on the currently-effective Automotive Financing Regulations may come into effect, which may affect our operations in the auto finance industry. In addition, there are uncertainties in the interpretation and implementation of such laws, rules, regulations, policies and measures, which could potentially hinder or restrict our ability to respond to market changes and conduct our operations.

Our business activities and growth may be adversely affected if we do not respond to the aforementioned changes in a timely manner or fail to fully comply with the applicable laws, rules, regulations, policies and measures. Failure to timely respond to such administrative and regulatory changes could (i) lead to incidents of non-compliance, (ii) result in sanctions from regulatory authorities, (iii) result in monetary penalties, restrictions on our activities or revocation of our financing license. The occurrence of any of the foregoing could have a material and adverse effect on our business, financial conditions and results of operations.

**Failure to obtain, renew or retain financing licenses, permits or approvals or to comply with applicable laws and regulations may affect our ability to conduct our business.**

We are required by PRC laws and regulations to hold various licenses, permits and approvals issued by relevant regulatory authorities in order to conduct our business operations. Any infringement of the legal or regulatory requirements, or any suspension or revocation of these licenses, permits and approvals, may have a material adverse impact on our business. In addition, since licensing requirements within the auto finance industry are constantly evolving, we may be subject to more stringent regulatory requirements due to changes in the political or economic policies in China. We

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## RISK FACTORS

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cannot assure you that we will be able to satisfy such regulatory requirements. As a result, we may be unable to retain, obtain or renew relevant licenses, permits or approvals in the future. This may, in turn, hinder our business operations and materially and adversely affect our business, results of operations and financial conditions.

**We may face difficulties in meeting regulatory requirements relating to capital adequacy.**

Since January 24, 2008, AFCs in China have been required by the Automotive Financing Regulations to maintain a core capital adequacy ratio of 4.0% or above and a capital adequacy ratio of 8.0% or above. Our PRC Legal Advisors, based on the reviewing of our capital adequacy data and relevant regulatory confirmation the CBIRC issued to us, are of the view that, during the Track Record Period and up to the Latest Practicable Date, we have been compliant with the above requirements in respect of capital adequacy ratio under the Auto Finance Company Administrative Measures. As of December 31, 2018, our core tier-one capital adequacy ratio and capital adequacy ratio were 30.18% and 31.26%, respectively.

However, our ability to satisfy the applicable capital adequacy requirements in the future may be affected by a variety of factors beyond our control, including: (i) weakened ability to raise additional capital as a result of the deterioration of our assets, (ii) increase in our risk-weighted assets as a result of the expansion of our business, (iii) increase in the risk weighting for certain new asset classes proposed and implemented by the CBIRC from time to time, and (iv) decreases in our profits, total comprehensive income and retained earnings. As such, we cannot assure you that we will be able to continue to meet the capital adequacy requirements that the CBIRC may impose from time to time.

The CBIRC may also adopt further regulations to strengthen core capital requirements, which could have an adverse effect on our ability to incur external financing, issue bonds or seek other financing means in the future. In addition, in order to comply with the minimum capital adequacy ratios required by the regulatory authorities, we may have to adjust the size of our loans and other assets, which may involve divesting certain assets on terms that are unfavorable to us or contrary to our business plans. If we fail to meet the applicable capital adequacy requirements, the CBIRC may take corrective actions, which could include: (i) restricting the size of our loans and other assets, (ii) preventing us from declaring and distributing dividends, (iii) refrain from approving our issuance of debt securities, and (iv) declining to approve our applications for introducing new services. The occurrence of any of the foregoing could have a material and adverse effect on our business, financial conditions and results of operations.

In addition, our ability to raise additional capital is generally limited by certain factors, including (i) our future financial conditions, results of operations and liquidity position, (ii) government regulatory approvals, (iii) our credit rating, (iv) general market conditions for capital raising activities, and (v) economic, political and other conditions in and outside of the PRC. If we are unable to obtain sufficient additional capital in a timely and cost-effective manner, we may not be able to comply with the capital adequacy requirements and our business, financial conditions and results of operation could be materially and adversely affected.



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## RISK FACTORS

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**If we fail to fully comply with applicable anti-money laundering and counter-terrorism financing laws, rules and regulations, the relevant government agencies to which we report have the power and authority to impose severe fines and other penalties on us.**

We are required to comply with applicable anti-money laundering and counter-terrorism financing laws, rules and other regulations in the PRC. These laws, rules and regulations require us, among other things, to adopt and enforce “know-your-customer” policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. While we have adopted policies and procedures aimed at generally detecting and preventing the use of our networks for money laundering activities by our employees, customers or third parties and by terrorists, terrorism-related organizations and affiliated individuals, these policies and procedures may not completely eliminate instances where our networks may be used by other parties to engage in money laundering and other illegal or improper activities. See “Risk Management — Major Risk Management — Legal and Compliance Risk Management — Anti-Money Laundering.” To the extent we are unable to fully comply with applicable laws, rules and regulations, the relevant government agencies to which we report have the power and authority to impose severe fines and other penalties on us. In addition, our business and reputation would suffer if third parties use our network to facilitate money laundering or other illegal or improper activities.

**Any acquisition of 5% or more of our total outstanding shares will require the CBIRC’s prior approval, and any acquisition of more than 1% but less than 5% of our total outstanding shares shall be reported to the CBIRC.**

As a licensed AFC, we are subject to the Auto Finance Regulations and Implementing Measures of the China Banking Regulatory Commission for Administrative Licensing Matters Concerning Non-banking Financial Institutions (中國銀保監會非銀行金融機構行政許可事項實施辦法) promulgated by the CBIRC in June 2015 and further revised in August 2018, which provides that, with limited exception, the credentials of investors in AFCs, the equity structure of AFCs as well as the transfer of equity interests of AFCs shall be approved by the CBIRC or its local offices. Pursuant to the Provisional Measures on Administration of Equities of Commercial Banks (商業銀行股權管理暫行辦法), any investor, its related parties and parties acting in concert, who individually or jointly hold 5% or more of the total capital or total shares of a commercial bank for the first time or cumulatively, shall obtain approval of the CBIRC or its local offices in advance; any investor, its related parties and parties acting in concert, who individually or jointly hold more than 1% but less than 5% of the total capital or total share of a commercial bank, shall report to the CBIRC or its local offices within 10 working days from obtaining the corresponding equity interests. AFCs in principle are required to abide by the foregoing measures by reference. Therefore, if any investor fails to obtain the approval of the CBIRC for holding 5% or more of the total capitalization or total shares of an AFC, the CBIRC may take the following actions: (i) order such investor to rectify the violation; (ii) confiscate all the illegal gains such investor obtained; or (iii) impose fines on such investor. As a result, unless you are able to secure the relevant approvals from the CBIRC or its local offices, as provided for in our Articles of Association, your investment in the Company may be materially and adversely affected.

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## RISK FACTORS

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### RISKS RELATING TO DOING BUSINESS IN THE PRC

**China's economic, political and social conditions, as well as regulatory policies, significantly affect the financial markets in China, which in turn affects our liquidity, access to capital and ability to operate our business.**

We are incorporated, and our operations and all of our assets are located, in the PRC. Accordingly, our financial conditions and results of operations are subject to the economic, political and legal developments in China. China's economy differs from the economies of developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While China's economy has experienced significant growth in the past few decades, growth has been uneven across different regions and economic sectors and we cannot assure you that such growth is sustainable. For example, our business, financial conditions and results of operations may be adversely affected by the following factors:

- overall or regional economic downturn in China;
- inaccurate assessment of the economic conditions of the markets in which we operate;
- economic policies and initiatives undertaken by the PRC government;
- changes to prevailing market interest rates; and
- a higher rate of bankruptcy.

In addition, continued global financial uncertainties and the rising trade tension have had and may continue to have an adverse impact on investors' confidence and the financial markets in China. Moreover, concerns over capital market volatility, issues of liquidity, inflation, geopolitical issues, the availability and cost of credit and concerns about the rate of unemployment have resulted in adverse market conditions in China, which may materially and adversely affect our business, financial conditions and results of operations.

While the PRC government has implemented various measures to encourage economic development in China, we may not be able to always capitalize on these measures. Changes in the economic, political and social conditions or the relevant policies of the PRC government, such as changes in laws and regulations (or the interpretation thereof) or restrictive economic measures, could have an adverse effect on the overall economic growth of China, which could subsequently hinder our current or future business, growth strategies, financial conditions and results of operations.

**The legal system of the PRC is not fully developed, and there are inherent uncertainties that may affect the protection afforded to our business and our shareholders.**

Our business and operations in China are governed by the PRC laws and regulations. The PRC legal system is generally based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protection afforded to various industries in China. However, as these laws and

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## RISK FACTORS

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regulations are relatively new and continue to evolve, the interpretation and enforcement of these laws and regulations involve significant uncertainties and inconsistencies. Many laws, regulations, policies and legal requirements have only been recently adopted by PRC central or local government agencies, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. Furthermore, due to the limited volume of published cases and the non-binding nature of prior court decisions, the outcome of dispute resolution may not be as consistent or predictable as in other more developed jurisdictions, which may limit the legal protection available to us. Therefore, we cannot predict the effect of future legal developments in China, including the promulgation of new laws, changes in existing laws or their interpretation or enforcement, or the preemption of local regulations by national laws. In addition, any litigation in the PRC may be protracted and result in substantial costs as well as the diversion of resources and management attention. All of these uncertainties may limit the legal protections available to our investors and shareholders. As a result, there is substantial uncertainty as to the legal protection available to us.

**The PRC government’s control over foreign currency conversion may limit our foreign exchange transactions, including dividend payment to holders of our H Shares.**

Currently, Renminbi still cannot be freely converted into any foreign currency, and the conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. There is no assurance that, under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions conducted by us under the current account, including the payment of dividends following the completion of the Global Offering, do not require prior approval from the State Administration of Foreign Exchange (“SAFE”). However, we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the requisite licenses to carry out foreign exchange business.

We cannot assure you that these foreign exchange policies regarding payment of dividends in foreign currencies will still apply in the future. In addition, due to the restrictions imposed by foreign exchange regulations and foreign exchange shortage, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to our shareholders or to satisfy any other foreign exchange requirements.

**The national and regional economy in the PRC and our prospects may be adversely affected by natural disasters, acts of God and the occurrence of epidemics.**

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God or terrorism beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the PRC. Some regions in the PRC are under the threat of earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome, SARS, H5N1 avian flu, human swine flu, H7N9, Ebola virus or Middle East Respiratory Syndrome (“MERS”). Past incidences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in the PRC. A recurrence of SARS or an outbreak of any other epidemics in the PRC, such as the H5N1 or the H7N9 avian flu, especially in

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## RISK FACTORS

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the cities where we have operations, may result in material disruptions to our business, which in turn may adversely affect our financial conditions and results of operations. Any of the foregoing may result in material disruptions to our business, which in turn may adversely affect our financial conditions and results of operations.

### **You may be subject to PRC taxation.**

Non-PRC resident individual holders of H Shares whose names appear on our register of members of H Shares (“**non-PRC resident individual holders**”) are subject to PRC individual income tax on dividends received from us. The tax on dividends must be withheld at source. Pursuant to the Circular on Questions Concerning the Collection of Individual Income Tax following the Repeal of Guo Shui Fa [1993] No. 045 (關於國稅發 [1993] 045號文件廢止後有關個人所得稅徵管問題的通知) (Guo Shui Han [2011] No. 348) issued by the State Administration of Taxation (“**SAT**”) on June 28, 2011, the tax rate applicable to dividends paid to non-PRC resident individual holders of H Shares varies from 5% to 20% (usually 10%), depending on the provisions of the applicable tax treaty between the PRC and the jurisdiction in which the non-PRC resident individual holder of H Shares resides. Non-PRC resident individual holders who reside in jurisdictions that have not entered into tax treaties with the PRC are subject to a 20% withholding tax on dividends received from us. See “Appendix III—Taxation and Foreign Exchange” of this prospectus. In addition, under the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) and its implementation regulations, non-PRC resident individual holders of H Shares are subject to individual income tax at a rate of 20% on gains realized upon the sale or other disposition of H Shares. However, pursuant to the Circular Declaring That Individual Income Tax Continues to Be Exempted over Income of Individuals from Transfer of Shares (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) issued by the Ministry of Finance (“**MOF**”) and the SAT on March 20, 1998, gains of individuals derived from the transfer of listed shares in enterprises may be exempt from individual income tax. To our knowledge, as of the Latest Practicable Date, the PRC tax authorities in practice had not sought to collect individual income tax on such gains. If such tax is collected in the future, the value of such individual holders’ investments in H Shares may be materially and adversely affected.

Under the Enterprise Income Tax Law of the PRC (“**EIT Law**”) and its implementation regulations, a non-PRC resident enterprise is generally subject to enterprise income tax at a rate of 10% with respect to its PRC-sourced income, including dividends received from a PRC company and gains derived from the disposition of equity interests in a PRC company, subject to reductions under any special arrangement or applicable treaty between China and the jurisdiction in which the non-PRC resident enterprise resides. Pursuant to a notice promulgated by the SAT on November 6, 2008, we intend to withhold tax at 10% from dividends payable to non-PRC resident enterprise holders of H Shares (including HKSCC Nominees). Non-PRC enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate and the payment of such refund will be subject to the PRC tax authorities’ approval. There are uncertainties as to the interpretation and implementation of the EIT Law and its implementation rules by the PRC tax authorities, including whether and how enterprise income tax on gains derived upon sale or other disposition of H Shares will be collected from non-PRC resident enterprise holders of H Shares. If such tax is collected in the future, the value of such non-PRC enterprise holders’ investments in H Shares may be materially and adversely affected.

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## RISK FACTORS

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### **Payment of dividends is subject to restrictions under PRC laws.**

Under PRC law, dividends may be paid only out of distributable profit. Distributable profit is our profit as determined under PRC GAAP or HKFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profit available to make dividend distributions to our shareholders, even when we are profitable. Any distributable profit not distributed in a given year is retained and made available for distribution in subsequent years.

In addition, pursuant to the Administrative Measures for Provision of Reserves by Financial Enterprises issued by Ministry of Finance (Caijin [2012] No. 20 Circular) (《金融企業準備金計提管理辦法》財金[2012]20號, the “Measures”) effective from July 1, 2012, financial institutions, within a five-year transition period up to 2017, are required to establish and maintain a general reserve to address potential unidentified impairment losses. As defined in the Measures, the balance of general reserve in principal shall not be less than 1.5% of the outstanding balance of assets at risk. Upon the effectiveness of the Measures, depending on the level of our profitability and retained earnings at that time, a significant portion of our retained earnings may become subject to the general reserve requirement and may not be distributable to our shareholders. See “Financial Information—Dividend Policy.”

### **We may be subject to fines or other administrative penalties for failing to register leased properties.**

As of the Latest Practicable Date, we operated our businesses primarily through two leased properties with an aggregate gross floor area of approximately 2,913.85 square meters in Shanghai, and failed to register one lease agreement with a gross floor area of 2,029.4 square meters. For more details, please refer to the section headed “Business — Properties” in this prospectus.

Pursuant to the Administrative Measures for Commodity Housing Leasing (商品房屋租賃管理辦法), parties to a lease agreement are required to file the lease agreements for registration and obtain property leasing filing certificates for their leases. As advised by our PRC Legal Advisors, the failure to register the lease agreements does not affect the validity of our leases. However, the relevant government authorities may require us to register the lease agreement within a certain period of time and impose a fine of up to RMB10,000 for the unregistered lease agreement if we fail to register the lease during the prescribed period. Our Directors confirmed that, as of the Latest Practicable Date, they were not aware of any fine imposed or any administrative action taken by the relevant PRC authorities or any third party claim against us regarding the non-registration of the lease agreement. However, there is no assurance that the relevant authority will not take any actions or impose fine on us in the future.

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## RISK FACTORS

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**Holders of H Shares may experience difficulties in effecting service of legal process and enforcing judgments against us, our Directors, Supervisors or senior management and taking action to any violation of the Listing Rules.**

We are a company incorporated under the laws of the PRC and all of our assets are located in the PRC. Substantially all of our Directors, Supervisors and senior management reside within the PRC and substantially all the respective assets of these Directors, Supervisors and senior management are also located within the PRC. As a result, it may not be possible to effect service of process upon most of our Directors, Supervisors and senior management outside the PRC. Moreover, the PRC does not have treaties providing for reciprocal recognition and enforcement of court judgments in the United States, the United Kingdom, Japan or most other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, in the PRC or Hong Kong, the recognition and enforcement of court judgments from the jurisdictions mentioned above may be difficult or impossible in relation to any matter that is not subject to a binding arbitration provision. On July 14, 2006, the Supreme People's Court of the PRC and the government of the Hong Kong Special Administrative Region signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排). Under this arrangement, where any designated People's Court of the PRC or Hong Kong court made an enforceable final judgment requiring payment of money in a civil or commercial case pursuant to a choice of court agreement, any party concerned may petition to the relevant People's Court of the PRC or Hong Kong court for the recognition and enforcement of the judgment. Although this arrangement became effective on August 1, 2008, its application remains uncertain.

### RISKS RELATING TO THE GLOBAL OFFERING

**There has been no prior public market for our H Shares and their liquidity and market price may be volatile.**

Prior to the Global Offering, there was no public market for our H Shares. The initial offer price range for our H Shares was the result of negotiations among us and the Joint Global Coordinators (on behalf of the Underwriters), and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. We have applied for the listing of, and the permission to deal in our H Shares on the Stock Exchange. A listing on the Stock Exchange, however, does not guarantee that an active trading market for our H Shares will develop or, if it does develop, will be sustained following the Global Offering, or that the market price of our H Shares will not decline following the completion of the Global Offering. In addition, there can be no assurance that the Global Offering will result in the development of an active and liquid public trading market for our H Shares. Furthermore, the price and trading volume of our H Shares may be volatile. Factors such as variations in our interest earnings and cash flows may affect the volume and price at which our H Shares will be traded.

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## RISK FACTORS

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**Since there will be a gap of several days between the pricing and trading of our H Shares, holders of our H Shares are subject to the risk that the price of our H Shares could fall during the period before the trading of our H Shares begins.**

The Offer Price of our H Shares is expected to be determined on the Price Determination Date. However, our H Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be five Hong Kong business days after the pricing date. As a result, investors may not be able to sell or deal in our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

**Because the Offer Price is higher than our net tangible book value per Share, you will incur immediate dilution.**

The Offer Price of our H Shares is higher than the net tangible book value per Share issued to existing holders of the Shares. Therefore, all investors and purchasers of our H Shares in the Global Offering will experience an immediate dilution in pro forma net tangible book value and existing holders of the Shares will receive an increase in net tangible book value per Share of their Shares. If we issue additional equity securities or equity-linked securities in the future, investors and purchasers of Shares may experience further dilution in their ownership percentage.

**Future sales or perceived sales of substantial amounts of our securities in the public market, including any future public offering in the PRC or the re-registration of Shares held on our register of Domestic Shares and Unlisted Foreign Shares into H Shares, could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise capital in the future, and may result in dilution of your shareholdings.**

The market price of our H Shares could decline as a result of future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the public market or the issuance of new H Shares or other securities, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our securities, including any future offerings, could also materially and adversely affect our ability to raise capital in the future at a time and at a price which we deem appropriate. In addition, our shareholders may experience dilution in their holdings to the extent we issue additional securities in future offerings. A certain amount of our Shares currently outstanding will be subject to contractual and/or legal restrictions on resale for a period of time after the completion of the Global Offering. See “Underwriting—Underwriting Arrangements and Expenses—Hong Kong Public Offering—Undertakings to the Stock Exchange Pursuant to the Listing Rules.” After these restrictions lapse or if they are waived or breached, future sales or perceived sales of substantial amounts of our Shares, or the possibility of such sales, by us could negatively impact the market price of our H Shares and our ability to raise equity capital in the future.

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## RISK FACTORS

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In addition, subject to the approval of the CSRC and other relevant regulatory authorities, our Domestic Shares and Unlisted Foreign Shares may be converted into H Shares, and such converted Shares may be listed or traded on an overseas stock exchange. Any listing or trading of the converted Shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such stock exchange. No class shareholder voting is required for the listing and trading of the converted Shares on an overseas stock exchange. However, the PRC Company Law provides that in relation to the public offering of a company, the shares of that company which are issued prior to the public offering shall not be transferred within one year from the date of the listing. Therefore, upon obtaining the requisite approval, shares currently held on our register of domestic share and unlisted foreign share may be traded, after the conversion, in the form of H Shares on the Stock Exchange after one year of the Global Offering, which could further increase the supply of our H Shares in the market and could negatively impact the market price of our H Shares.

**The price and trading volume of the H Shares may be volatile, which could result in substantial losses for investors purchasing the H Shares in the Global Offering.**

The price and trading volume of the H Shares may be volatile. The market price of the H Shares may fluctuate significantly and rapidly as a result of the following factors, amongst others, some of which are beyond our control:

- variations in our results of operations (including variations arising from foreign exchange rate fluctuations);
- loss of significant customers or material defaults by our customers;
- changes in securities analysts' estimates of our financial performance;
- announcements by us of significant acquisitions, strategic alliances or joint ventures;
- additions or departures of key personnel;
- fluctuations in stock market price and volume;
- involvement in litigation; and
- general economic and stock market conditions.

In addition, stock markets and the shares of other companies listed on the Stock Exchange with significant operations and assets in China have experienced increasing price and volume fluctuations in recent years, some of which have been unrelated or disproportionate to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the market price of the H Shares.



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## RISK FACTORS

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**We have significant discretion as to how we will use the net proceeds of the Global Offering, and you may not necessarily agree with how we use them.**

Our management may spend the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favorable return to the Shareholders. For details of our intended use of proceeds, see “Future Plans and Use of Proceeds.” However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net proceeds from this Global Offering.

**If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations regarding our H Shares, the market price for our H Shares and trading volume may decline.**

The trading market for our H Shares will be influenced by research or reports that industry or securities analysts publish about us or our business. If one or more analysts who cover us downgrade our H Shares or publish negative opinions about us, the market price for our H Shares would likely decline regardless of the accuracy of the information. If one or more of these analysts cease covering us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume of our H Shares to decline.

**We cannot assure you of the accuracy or comparability of facts, forecasts and statistics contained in this prospectus with respect to the PRC, the PRC economy and the industry in which we operate.**

We have derived certain facts, forecasts and other statistics in this prospectus, particularly those relating to the PRC, the PRC economy and the industry in which we operate, from the CIC Report, various publicly-available official governmental sources and other third-party sources. While we have taken reasonable care in the reproduction of the information, it has not been prepared or independently verified by us, the underwriters or any of our or their respective affiliates or advisors, and, therefore, we cannot assure you as to the accuracy and reliability of such facts, forecasts and statistics, which may not be consistent with other information compiled inside or outside the PRC. Such facts, forecasts and statistics include the facts, forecasts and statistics used in “Summary”, “Risk Factors”, “Industry Overview”, “Business” and “Financial Information.” Because of the possibly flawed or ineffective collection methods or discrepancies between published information and market practice or other issues, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and you should not place undue reliance on them. Furthermore, we cannot assure you that they are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such facts, forecasts and statistics.

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## RISK FACTORS

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**We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering.**

Prior to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering which may or may not include certain information, financial projections, valuations and other information about us and the Global Offering not included in this prospectus. We have not authorized the disclosure of any such information in the press or media and we do not accept any responsibility for the accuracy or completeness of any such press articles or media. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us, or of any assumptions underlying such projections, valuations or other forward-looking information included in or referred to by the press or other media. To the extent that any such information appearing in the press or other media but not in this prospectus is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors should not rely on any such information. In making the decision as to whether to purchase the H Shares, investors should rely only on the information contained in this prospectus and should not rely on any other information.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules and exemption from the Companies (Winding Up and Miscellaneous Provisions) Ordinance:

### WAIVER IN RESPECT OF MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 and Rule 19A.15 of the Listing Rules, except as otherwise permitted by the Stock Exchange in its discretion, an issuer must have sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

We do not have sufficient management presence in Hong Kong for the purposes of satisfying the requirements under Rule 8.12 and Rule 19A.15 of the Listing Rules. The Company's management, business operations and assets are primarily based outside Hong Kong. The principal management headquarters and senior management of the Company are primarily based in China. The Directors consider that the appointment of executive Directors who will be ordinarily resident in Hong Kong would not be beneficial to, or appropriate for, the Company and therefore would not be in the best interests of the Company and its Shareholders as a whole. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 and Rule 19A.15 of the Listing Rules. We will ensure that there is an effective channel of communication between us and the Stock Exchange by way of the following arrangements:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed and will continue to maintain two authorized representatives, namely Mr. Shao Yongjun and Ms. Yao Wen, to be the principal communication channel at all times between the Stock Exchange and the Company. Each of our authorized representatives will be readily contactable by the Stock Exchange by telephone, facsimile and/or e-mail to deal promptly with enquiries from the Stock Exchange. Both of our authorized representatives are authorized to communicate on our behalf with the Stock Exchange;
- (b) we will implement a policy to provide the contact details of each Director (including mobile phone numbers, office phone numbers, email addresses and fax numbers) to each of the authorized representatives and to the Stock Exchange. This will ensure that each of the authorized representatives and the Stock Exchange will have the means to contact all the Directors (including the independent non-executive Directors) promptly as and when required, including means to communicate with the Directors when they are travelling;
- (c) we will ensure that all Directors who are not ordinarily resident in Hong Kong have valid travel documents to visit Hong Kong and will be able to come to Hong Kong to meet with the Stock Exchange within a reasonable period of time when required;
- (d) we have retained the services of a compliance advisor, being Altus Capital Limited (the "**Compliance Advisor**"), in accordance with Rule 3A.19 of the Listing Rules. The Compliance Advisor will serve as a channel of communication with the Stock Exchange in addition to the authorized representatives of our Company. The Compliance Advisor will provide our Company with professional advice on ongoing compliance with the Listing

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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Rules. We will ensure that the Compliance Advisor has prompt access to our Company's authorized representatives and Directors who will provide to the Compliance Advisor such information and assistance as the Compliance Advisor may need or may reasonably request in connection with the performance of the Compliance Advisor's duties. The Compliance Advisor will also provide advice to our Company when consulted by our Company in compliance with Rule 3A.23 of the Listing Rules; and meetings between the Stock Exchange and the Directors could be arranged through the authorized representatives or the Compliance Advisor, or directly with the Directors within a reasonable time frame. Our Company will inform the Stock Exchange as soon as practicable in respect of any change in the authorized representatives and/or the Compliance Advisor in accordance with the Listing Rules.

### CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, certain transactions that will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon the Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers in relation to certain continuing connected transactions between us and certain connected persons under Chapter 14A of the Listing Rules. For further details in this respect, see "Connected Transactions" in this prospectus.

### WAIVER IN RESPECT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the company secretary must be an individual who, by virtue of their academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of a company secretary.

Pursuant to Note 1 to Rule 3.28 of the Listing Rules, the Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a Member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); and
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Pursuant to Note 2 to Rule 3.28 of the Listing Rules, in assessing "relevant experience", the Stock Exchange will consider the individual's:

- (a) length of employment with the issuer and other issuers and the roles they played;
- (b) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance, and the Takeovers Code;

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

The Company appointed Ms. Yao Wen (“**Ms. Yao**”) and Ms. Yu Wing Sze (“**Ms. Yu**”) of TMF Hong Kong Limited (“**TMF**”) as joint company secretaries of the Company. See “Directors, Supervisors and Senior Management” in this prospectus for further information regarding the qualifications of Ms. Yao and Ms. Yu.

Ms. Yu is a member of the Institute of Chartered Secretaries and Administrators in the United Kingdom and an associate of the Hong Kong Institute of Chartered Secretaries, and therefore meets the qualification requirements under Note 1 to Rule 3.28 of the Listing Rules and is in compliance with Rule 8.17 of the Listing Rules.

Ms. Yao is the company secretary, secretary to the Board and chief risk management officer of our Company and is primarily responsible for the overall risk management and the daily work of the Board. Our Company believes that it would be in the best interest of our Company and the corporate governance of us to have, as its joint company secretary, a person such as Ms. Yao who possesses the relevant experience of the Company’s company secretarial and risk management matters. Accordingly, whilst Ms. Yao does not possess the formal qualifications required of a company secretary under Rule 3.28 of the Listing Rules, based on the above reasons, we, on behalf of the Company, have applied for a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules such that Ms. Yao may be appointed as a joint company secretary of the Company on the basis of the proposed arrangements below.

The waiver was granted for a three-year period on the condition that Ms. Yu, as a joint company secretary of the Company, will work closely with, and provide assistance to, Ms. Yao in the discharge of her duties as a joint company secretary for an initial period of three years from the date of the Listing. Ms. Yu is a suitably qualified person to render assistance to Ms. Yao so as to enable her to acquire the “relevant experience” as is required of a company secretary under Rule 3.28 of the Listing Rules. In addition, Ms. Yao will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules and will enhance her knowledge of the Listing Rules during the three-year period from the Listing Date. The Company will further ensure that Ms. Yao has access to the relevant training and support that would enhance her understanding of the Listing Rules and the duties of a company secretary of an issuer listed on the Stock Exchange.

Before the end of the three-year period, the qualifications and experience of Ms. Yao and the need for on-going assistance from Ms. Yu will be evaluated by the Company. The Company will liaise with the Stock Exchange to enable it to assess whether, having benefited from the assistance of Ms. Yu for the preceding three years, Ms. Yao has acquired the skills necessary to carry out the duties of a company secretary and the relevant experience (within the meaning of Note 2 to Rule 3.28 of the Listing Rules) so that a further partial waiver will not be necessary.

### **WAIVER FROM STRICT COMPLIANCE WITH RULES 13.46(2) AND 13.49(1) OF THE LISTING RULES**

Rule 13.46(2) of the Listing Rules requires a PRC issuer to send a copy of its annual report and accounts or summary financial report to its shareholders within four months after its financial year end (the “**Annual Report Requirement**”).

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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Rule 13.49(1) of the Listing Rules requires an issuer to publish its preliminary results in respect of each financial year not later than three months after the end of the financial year (the “**Results Announcement Requirement**”).

The Company has adopted December 31 as its financial year end date. This prospectus contains the audited financial results of the Company for the three years ended December 31, 2016, 2017 and 2018. The Directors consider that this prospectus has provided sufficient particulars and information for the year ended December 31, 2018 to enable investors to form a valid and justifiable opinion of the Company’s H Shares and the financial condition and profitability of the Company at the time when the prospectus is issued, and strict compliance with the Annual Report Requirement and the Results Announcement Requirement will not provide further material information for the year ended December 31, 2018 to the investors.

Strict compliance with the Annual Report Requirement and the Results Announcement Requirement would be unduly burdensome given the short timeframe between the proposed date of publication of the prospectus and the required dates of publication of the preliminary financial results and annual report of the Company, and will incur unnecessary financial and administrative costs of the Company.

We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the Annual Report Requirement subject to the following conditions:

- (a) the Company will include in this prospectus the audited financial information in respect of the year ended December 31, 2018;
- (b) the Company will not be in breach of its Articles of Association or laws and regulations of the PRC or other regulatory requirements regarding its obligation to publish annual results announcements and distribute annual reports and accounts; and
- (c) the Company will include in this prospectus a short statement as to whether it intends to comply with the Corporate Governance Code and Corporate Governance Report (“**Corporate Governance Code**”) in Appendix 14 to the Listing Rules and if not, reasons for its proposed departure from the Corporate Governance Code. See “Directors, Supervisors and Senior Management — Corporate Governance” in this prospectus for details.

We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the Results Announcement Requirement, subject to the following conditions:

- (a) the Company will include in this prospectus the audited financial information in respect of the year ended December 31, 2018; and
- (b) the Company will not be in breach of its Articles of Association or laws and regulations of the PRC or other regulatory requirements regarding its obligation to publish annual results announcements and distribute annual reports and accounts.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purposes of giving information to the public with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or in this prospectus misleading.

### **CSRC APPROVAL AND CBIRC APPROVAL**

The CSRC and CBIRC have given us their approvals for the listing of our H Shares on the Stock Exchange and the Global Offering on February 20, 2019 and November 9, 2018, respectively.

As advised by our PRC Legal Advisors, our Company has obtained all necessary approvals and authorizations in the PRC in relation to the Global Offering and the Listing.

### **HONG KONG PUBLIC OFFERING, UNDERWRITING AND INFORMATION ON THE GLOBAL OFFERING**

The Global Offering comprises the Hong Kong Public Offering of initially 53,334,000 Offer Shares (subject to reallocation), and the International Offering of initially 480,002,000 Offer Shares (subject to reallocation and the Over-allotment Option and including the Preferential Offering). For applicants under the Hong Kong Public Offering and/or the Preferential Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering and the Preferential Offering.

The listing of our H Shares on the Stock Exchange is sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters on a conditional basis, with one of the conditions being that the Offer Price is agreed between the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and us. The International Offering is managed by the Joint Global Coordinators and is expected to be underwritten by the International Underwriters. The International Underwriting Agreement is expected to be entered into on or about Tuesday, March 19, 2019, subject to agreement on the Offer Price between the Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters).

If, for any reason, the Offer Price is not agreed between the Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before Monday, March 25, 2019, the Global Offering will not proceed. Further details of the Underwriters and the underwriting arrangements are set out in the section entitled "Underwriting."

The Hong Kong Offer Shares and the Reserved Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company or any of the Relevant Persons.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in this prospectus is correct as of any subsequent time. Details of the structure of the Global Offering, including its conditions, are set out in the section entitled “Structure of the Global Offering,” and the procedures for applying for the Hong Kong Offer Shares and the Reserved Shares are set out in the section entitled “How to Apply for Hong Kong Offer Shares and Reserved Shares” and in the relevant Application Forms.

### **RESTRICTIONS ON OFFER AND SALE OF H SHARES**

Each person acquiring the H Shares will be required to confirm, or by his/her acquisition of H Shares be deemed to confirm, that he/she is aware of the restrictions on offers and sales of the H Shares described in this prospectus.

No action has been taken to permit a public offering of the H Shares in any jurisdiction other than Hong Kong or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or the Application Forms may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and/or the Application Forms and the offering and sales of the H Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the H Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the U.S.

### **DETERMINATION OF THE OFFER PRICE**

The H Shares are being offered at the Offer Price which will be determined by the Joint Global Coordinators (on behalf of the Underwriters) and our Company on or around Tuesday, March 19, 2019, and in any event no later than Monday, March 25, 2019. If the Joint Global Coordinators (on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on such date, the Global Offering will not proceed.

### **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in our H Shares to be issued pursuant to the Global Offering (including the additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option). Our unlisted Shares may be converted to H Shares after obtaining the approval of the CSRC, details of which are set out in the section entitled “Shares Capital — Conversion of our Unlisted Shares into H Shares” in this prospectus.



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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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Dealings in the H Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Tuesday, March 26, 2019. Save as disclosed in this prospectus, none of our shares is listed or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

### **H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of listing of, and permission to deal in, our H Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the H Shares to be admitted into CCASS. Investors should seek the advice of their stockbrokers or other professional advisors for details of the settlement arrangements that may affect their rights and interests.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and/or dealing in the H Shares (or exercising rights attached thereto). Neither our Company nor any of the Relevant Persons accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, the H Shares.

### **H SHARE REGISTER AND STAMP DUTY**

All of the H Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on our H Share register of members to be maintained in Hong Kong. Our principal register of members will be maintained by us in the PRC.

Dealings in the H Shares registered in the H Share register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty.

### **OVER-ALLOTMENT AND STABILIZATION**

Details with respect to the Over-allotment Option and stabilization are set out in the sections entitled “Structure of the Global Offering — Stabilization” and “Structure of the Global Offering — The International Offering — Over-allotment Option” in this prospectus.

### **PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES AND RESERVED SHARES**

The application procedures for the Hong Kong Offer Shares and the Reserved Shares are set out in the section entitled “How to Apply for Hong Kong Offer Shares and Reserved Shares” in this prospectus and on the relevant Application Forms.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### DIVIDENDS PAYABLE TO HOLDERS OF H SHARES

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of H Shares will be paid to the Shareholders as recorded in our H Share register, and sent by ordinary post, at the Shareholders' own risk, to the registered address of each Shareholder.

### REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed our H Share Registrar, and our H Share Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until such holder delivers a signed form to our H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association;
- agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each of our Shareholders, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive. For further details, please refer to the sections entitled "Appendix IV — Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions" and "Appendix V — Summary of the Articles of Association of the Company" in this prospectus;
- agrees with us and each of our Shareholders that the H Shares are freely transferable by the holders thereof according to our Articles of Association; and
- authorizes us to enter into a contract on his behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **STRUCTURE OF THE GLOBAL OFFERING**

Details of the structure of the Global Offering, including its conditions, are set out in the section entitled “Structure of the Global Offering” in this prospectus.

### **ROUNDING**

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

### **EXCHANGE RATE CONVERSION**

Unless otherwise specified, this prospectus contains certain translations for the convenience of the reader at the following rates: Renminbi into HK dollars at the rate of HK\$1.00 to RMB0.8762 and HK dollars into US dollars at the rate of US\$1.00 to HK\$7.8305. The Renminbi to HK dollars exchange rate is quoted by the PBOC for foreign exchange transactions prevailing on December 28, 2018. The US dollars to HK dollars exchange rate is set forth in the H10 weekly statistical release of the Federal Reserve Board of the United States on December 31, 2018. These translations are provided for reference and convenience only, and no representation is made, and no representation should be construed as being made, that any amounts in Renminbi, HK dollars or US dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

### **TRANSLATION**

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities included in this prospectus for which no official English translation exists are unofficial translation and for reference only.

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**DIRECTORS**

<b>Name</b>	<b>Address</b>	<b>Nationality</b>
<i>Executive Directors</i>		
Mr. Lin Fan (林帆)	No. 528-1-12-6, Wuluo Road, Wuchang District, Wuhan, PRC	Chinese
Mr. Shao Yongjun (邵永駿)	Room 1801, Bishan Pavilion, Bizhong Garden, No. 10 1st Bibo Street, Luohu District, Shenzhen, PRC	Chinese
<i>Non-executive Directors</i>		
Mr. Koh Tee Choong (許智俊)	3 Ardmore Park #21-01, Singapore	Singaporean
Mr. Yin Yaoliang (殷耀亮)	Building 11, Yijing Garden, Dongfeng Sunshine Town, Wuhan Economic and Technological Development Zone, PRC	Chinese
<i>Independent non-executive Directors</i>		
Mr. Lau Wai Leung Anders (劉偉良)	Flat C, 30/F, Block 5 18 Wylie Road Parc Palais, Ho Man Tin Kowloon Hong Kong	Canadian
Mr. Lin Zheyang (林哲瑩)	Flat D 6/F King's Court, 269-271 Prince Edward Rd West Kowloon, Hong Kong	Chinese
Ms. Liang Yanjun (梁艷君)	1-b-1801, AD 1872 Housing Estates, Chaoyang District, Beijing, PRC	Chinese

**SUPERVISORS**

<b>Name</b>	<b>Address</b>	<b>Nationality</b>
Mr. Li Huihua (李輝華)	6/F Zhongqi Nanfang Building, North Ring Avenue, Futian District, Shenzhen, PRC	Chinese
Mr. Li Tao (李濤)	Flat 301, 4th Building, No. 202 Zisha Rd., Wuchang District, Wuhan, PRC	Chinese
Ms. Wang Qing (王清)	Flat 403, 1st Building, 18th Lane, Lianyuan Rd., Pudong New Area, Shanghai, PRC	Chinese

Further information is disclosed in “Directors, Supervisors and Senior Management” in this prospectus.

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## DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED IN THE GLOBAL OFFERING

#### Joint Sponsors in alphabetical order

#### **China International Capital Corporation Hong Kong Securities Limited**

29th Floor, One International Finance Centre  
1 Harbour View Street, Central  
Hong Kong

#### **Credit Suisse (Hong Kong) Limited**

Level 88 International Commerce Centre  
1 Austin Road West, Kowloon  
Hong Kong

#### Joint Bookrunners

#### **China International Capital Corporation Hong Kong Securities Limited**

29th Floor, One International Finance Centre  
1 Harbour View Street, Central  
Hong Kong

#### **Credit Suisse (Hong Kong) Limited**

Level 88 International Commerce Centre  
1 Austin Road West, Kowloon  
Hong Kong

#### **Morgan Stanley Asia Limited**

*(in relation to the Hong Kong Public Offering only)*  
46/F, International Commerce Centre  
1 Austin Road West, Kowloon  
Hong Kong

#### **Morgan Stanley & Co. International plc**

*(in relation to the International Offering only)*  
25 Cabot Square, Canary Wharf  
London E14 4QA  
United Kingdom

#### Joint Global Coordinators and Joint Lead Managers

#### **China International Capital Corporation Hong Kong Securities Limited**

29th Floor, One International Finance Centre  
1 Harbour View Street, Central  
Hong Kong

#### **Credit Suisse (Hong Kong) Limited**

Level 88 International Commerce Centre  
1 Austin Road West, Kowloon  
Hong Kong

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**Morgan Stanley Asia Limited**

46/F, International Commerce Centre  
1 Austin Road West, Kowloon  
Hong Kong

**Legal Advisors to the Company**

*As to Hong Kong law and United States law*

**Kirkland & Ellis**

26th Floor, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

*As to PRC law*

**Jingtian & Gongcheng**

34/F, Tower 3, China Central Place  
77 Jianguo Road  
Beijing  
China

**Legal Advisors to the  
Underwriters**

*As to Hong Kong law and United States law*

**Baker & McKenzie**

14th Floor, One Taikoo Place  
979 King's Road  
Quarry Bay  
Hong Kong

*As to PRC law*

**Haiwen & Partners**

2605 Jing An Kerry Center Tower 1  
1515 Nanjing West Road  
Shanghai  
China

**Reporting Accountants and  
Independent Auditor****KPMG**

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

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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**Industry Consultant****China Insights Consultancy Limited**

10/F Tomorrow Square  
399 West Nanjing Road  
Huangpu District  
Shanghai  
PRC

**Receiving Banks****DBS Bank (Hong Kong) Limited**

11/F The Center  
99 Queen's Road Central  
Hong Kong

**CMB Wing Lung Bank Limited**

CMB Wing Lung Bank Building  
45 Des Voeux Road, Central  
Hong Kong

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## CORPORATE INFORMATION

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<b>Registered Address and Address of Head Office in PRC</b>	Unit ABC, 30/F, Mirae Asset Tower No. 166, Lu Jia Zui Ring Road Shanghai PRC
<b>Principal Place of Business in Hong Kong</b>	31/F, Tower Two, Time Square 1 Matheson Street, Causeway Bay Hong Kong
<b>Company Website</b>	www.dongzhengafc.com <i>(the information contained on the website does not form part of this prospectus)</i>
<b>Joint Company Secretaries</b>	Ms. Yao Wen Unit ABC, 30/F, Mirae Asset Tower No.166, Lu Jia Zui Ring Road Shanghai PRC  Ms. Yu Wing Sze (ACIS, ACS) 31/F., Tower Two, Times Square 1 Matheson Street, Causeway Bay Hong Kong
<b>Authorized Representatives</b>	Mr. Shao Yongjun Unit ABC, 30/F, Mirae Asset Tower No.166, Lu Jia Zui Ring Road Shanghai PRC  Ms. Yao Wen Unit ABC, 30/F, Mirae Asset Tower No.166, Lu Jia Zui Ring Road Shanghai PRC
<b>Audit Committee</b>	Mr. Lau Wai Leung Anders ( <i>Chairman</i> ) Mr. Lin Zheyang Ms. Liang Yanjun
<b>Remuneration and Evaluation Committee</b>	Mr. Lin Zheyang ( <i>Chairman</i> ) Mr. Lau Wai Leung Anders Mr. Koh Tee Choong
<b>Nomination Committee</b>	Mr. Lin Zheyang ( <i>Chairman</i> ) Ms. Liang Yanjun Mr. Koh Tee Choong



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## CORPORATE INFORMATION

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<b>Risk Management Committee</b>	Mr. Lin Fan ( <i>Chairman</i> ) Mr. Shao Yongjun Mr. Lau Wai Leung Anders
<b>H Share Registrar</b>	<b>Computershare Hong Kong Investor Services Limited</b> Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
<b>Compliance Advisor</b>	<b>Altus Capital Limited</b> 21 Wing Wo Street Central, Hong Kong
<b>Principal Bankers</b>	<b>Bank of Shanghai Co., Ltd., Luwan Sub-Branch</b> 2/F, No. 369, Fu Xing Zhong Road, Shanghai PRC  <b>China Construction Bank Corp. Shanghai Pudong Branch</b> No. 900, Lu Jia Zui Ring Road Pudong District, Shanghai PRC

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## INDUSTRY OVERVIEW

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*The information presented in this and other sections of this prospectus, including certain facts, statistics, and data, is extracted from the CIC Report as issued by CIC, which was commissioned by us and based on various official government publications and other publicly available sources, unless otherwise indicated. We believe that the sources of such information are appropriate and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading. Accordingly, the information included herein should not be unduly relied upon.*

### SOURCE OF INFORMATION

We commissioned CIC, a consulting company founded in Hong Kong and engaged in the provision of professional consulting services across multiple industries, to conduct an analysis of and to report on the automobile finance market in China. The CIC Report was prepared by CIC independent of our influence. The fees paid for the preparation of the CIC Report was RMB580,000.

The information and data collected by CIC have been analyzed, assessed, and validated using CIC's in-house analytical models and techniques. Primary research was conducted through interviews with key industry experts and leading industry participants. Secondary research involved analyzing market data obtained from several publicly available data sources, such as the National Bureau of Statistics of China and China Association of Automobile Manufactures. The methodology used by CIC is based on the analysis of information gathered from multiple sources and ensuring such information is cross-referenced and corroborated for both reliability and accuracy.

The CIC Report contains a variety of market projections which were produced based on the following key assumptions: (i) economic and industrial development in China is likely to maintain a steady growth trend during the forecast period; (ii) related key industry drivers are likely to drive continued growth of China's automobile finance market in the forecast period, and these drivers include changing consumption patterns, improved legal and regulatory environment, diversification of funding channels, simplified loan application processes, and enhanced risk control systems; and, (iii) there is to be no extreme force majeure or unforeseen industry regulations in which the market may be affected dramatically or fundamentally. CIC believes that the assumptions used in preparing the CIC Report, including those used to make future projections, are factual, correct, and not misleading. The reliability of the CIC Report may be affected by the accuracy of the foregoing assumptions and factors as well as the choice of primary and secondary sources.

### OVERVIEW OF THE AUTOMOBILE INDUSTRY IN CHINA

#### *Market Size of the Passenger Automobile Market*

China is the largest passenger automobile market in the world, selling 24.7 million units in 2017. However, registered passenger vehicles per thousand people was 153.6 in 2017, still lower than that in the US, which was 834.0 in 2017, indicating room for further growth. Driven by the steady increase in the disposable incomes of consumers and the regulation to reduce the Vehicle Purchase Tax implemented by the government in order to further stimulate automobile sales in China, the sales volume of new passenger automobiles is expected to reach 28.4 million units by 2022. The registered passenger vehicles per thousand people is expected to continue increasing to 227.8 units by 2022,

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## INDUSTRY OVERVIEW

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representing a CAGR of 8.2% between 2017 and 2022. Vehicle Purchase Tax in China requires consumer to pay 10% tax for the price of vehicle. Favorable Vehicle Purchase Tax regulation refers to stimulus policy initiated by PRC government aiming to drive more automobiles sales, it typically beneficial to, among others, passenger vehicle with displacement of 1.6 liters and below, new energy vehicles, etc.

For used car market, with the emergence of a variety of Internet platforms, the changing consumption pattern, the improved credit system, and the lifting of cross regional used car sales in early 2016, the trading volume of used cars is forecasted to increase from 9.4 million units in 2017 to 16.6 million units in 2022, representing a CAGR of 12.1%.

### *Categorization of the Passenger Automobile Market*

Based on the brand positioning, the passenger automobile market can be categorized into the luxury automobile market and non-luxury automobile market.

The table below outlines the major characteristics of these two automobile market segments:

Market Segment	Description	Representative brands	Target customer
Luxury automobile market	<ul style="list-style-type: none"> <li>• Luxury automobiles provide luxurious and highly desirable features, such as refinements in engine features, a higher level of comfort, higher speeds, and greater quality. This segment includes premium, luxury, and ultra-luxury automobiles</li> <li>• Major vehicle types include sedans, SUVs, and MPVs.</li> <li>• Price: generally higher than RMB300,000</li> </ul>	<ul style="list-style-type: none"> <li>• Acura</li> <li>• Alfa Romeo</li> <li>• Aston Martin</li> <li>• Audi</li> <li>• Bentley</li> <li>• BMW</li> <li>• Bugatti</li> <li>• Cadillac</li> <li>• Chrysler</li> <li>• Ferrari</li> <li>• Hongqi</li> <li>• Imported Volkswagen</li> <li>• Infiniti</li> </ul>	<ul style="list-style-type: none"> <li>• Jaguar and Land Rover</li> <li>• Lamborghini</li> <li>• Lexus</li> <li>• Lincoln</li> <li>• Maserati</li> <li>• Mercedes-Benz</li> <li>• Porsche</li> <li>• Rolls-Royce</li> <li>• Tesla</li> <li>• Volvo</li> </ul> <ul style="list-style-type: none"> <li>• Target consumers of luxury automobiles are mainly mass affluent and high-net worth individuals.</li> <li>• These consumers normally have better credit profiles and more well established credit records.</li> </ul>
Non-Luxury automobile market	<ul style="list-style-type: none"> <li>• Non-luxury automobiles offer an acceptable mix of comfort features and performance for the mass market.</li> <li>• Major vehicle types include micro automobiles, sedans, SUVs, and MPVs.</li> <li>• Price: generally lower than RMB300,000</li> </ul>	<ul style="list-style-type: none"> <li>• Buick</li> <li>• BYD</li> <li>• Geely</li> <li>• Greatwall</li> <li>• Honda</li> <li>• Mazda</li> <li>• Locally manufactured Volkswagen</li> <li>• Renault</li> <li>• Toyota</li> <li>• etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Target consumers of non-luxury automobiles are not limited to middle class but also to individuals with relatively lower income.</li> <li>• These consumers generally have limited credit record.</li> </ul>

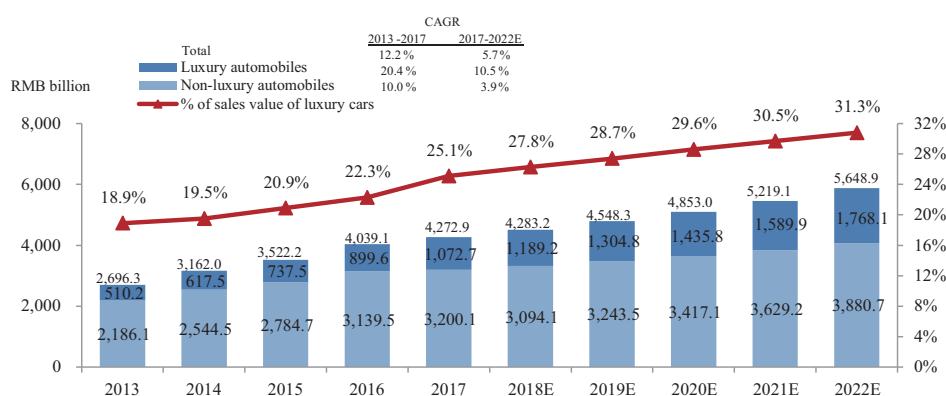
Source: CIC Report

The sales value of luxury automobiles increased significantly from RMB510.2 billion in 2013 to RMB1,072.7 billion in 2017, representing a CAGR of 20.4% from 2013 to 2017. During this period,

## INDUSTRY OVERVIEW

the share of luxury automobiles in the total passenger automobile market expanded from 18.9% to 25.1% in terms of sales value. In the following years, the sales value of luxury automobiles is expected to continue increasing to RMB1,768.1 billion by 2022 with a CAGR of 10.5%, accounting for approximately 31.3% of the total passenger automobile market in 2022.

**Total sales value of passenger automobiles, China, 2013-2022E**



											CAGR	
	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2013-17	2017-22E
Total registered passenger vehicles (car parc), million units	137.4	154.5	172.3	194.4	217.4	238.9	260.7	282.8	305.3	328.3	12.2%	8.6%

Source: China Association of Automobile Manufactures, CIC Report

### Market Dynamic of Retail Automobile Market in China

- On the one hand, as China's economic growth slows down, the overall new car sales is expected to maintain a moderate growth with a CAGR of 2.8% from 2017 to 2022. While the total registered passenger vehicles will still stay at a high growth rate with a CAGR of 8.6% from 2017 to 2022, increasing to more than 300 million vehicles by 2022, which indicates a large demand for new car replacements as well as first-car owners. On the other hand, the luxury-brand automobiles segment, which the Company focuses on, was not significantly affected by decelerating economic growth. The luxury car sales volume for the first 10 months of 2018 increased with a year-on-year growth rate of 10.3% and is projected to maintain a high growth rate in the coming 5 years with a CAGR of 9.0% from 2017 to 2022. Based on the relatively low luxury-brand automobiles penetration rate in China, increasing number of luxury-brand car models offered by the automakers and increasing awareness of auto financing with attractive interest rates, China's luxury-brand automobiles market has maintained a steady growth despite the decelerating economic growth in China.
- The new passenger auto sales of Tier 1 cities cover less than 10% of the total market for the past 5 years. The future growth of auto sales is mainly driven by lower tier, especially 3rd tier and below cities. Thus, the restriction imposed on the number of autos in top-tier cities will not generate significant impact on the auto sales and auto sales market.

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## INDUSTRY OVERVIEW

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### *Market Drivers of the Luxury Automobile Market in China*

- **Increasing disposable income and consumption upgrade**

Given the steady economic growth in China, annual per capita disposable incomes have continued to increase. Therefore, an increasing number of wealthy households are able to purchase luxury automobiles due to consumption upgrade.

- **Increasing popularity of auto finance services**

The development of auto finance services has enabled an increasing number of consumers to purchase automobiles in China. Auto financing services lower the entry barrier of purchasing automobiles by offering various financing products and stimulate people to purchase automobiles, especially for luxury automobiles. Driven by changing consumption patterns, it is expected that the trend will ultimately support future growth in the luxury automobile market in China.

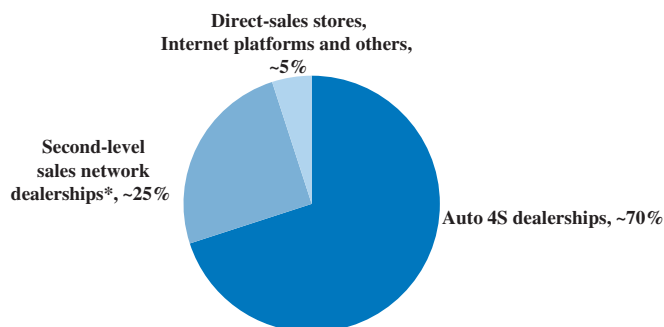
- **Reduction in tariffs on imported vehicles**

The Ministry of Finance of the PRC made an announcement that import duties on passenger automobiles were to be lowered to 15% and import duties on auto parts to be lowered to 6% starting from 1 July 2018. According to the CIC report, approximately 65% of the imported automobiles are luxury automobiles. The reduction in tariffs on imported vehicles makes luxury automobiles more affordable among households who may have previously planned to purchase non-luxury automobiles, which serve to propel the continued development of the luxury automobile market.

### *Overview of the Automobile Dealership Market in China*

Automobiles in China are typically sold through 4S dealerships, second-level dealers, and internet platforms. The auto 4S dealerships have the reputation for high quality services in sales, maintenance, and repair. The auto 4S dealerships are ideal for automakers to build up customer relationships and to serve consumers through their automobile ownership life-cycle, providing quality services and ultimately achieve higher cross- and up-selling potentials as well as higher retention rates. In China, 4S dealerships, qualified second-level dealers with quality services and stable supply are the major sales channels for luxury cars. The graph below presents the share of different sales channels in terms of sales volume by number of units in China's passenger automobile market.

**Passenger automobile sales volume by sales channel, 2017**



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## INDUSTRY OVERVIEW

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Source: CIC Report

Note: Sales volume of passenger automobiles includes luxury passenger automobiles and non-luxury passenger automobiles. Second-level dealers are auto dealers that are non-authorized by automakers and primarily procure automobiles from authorized 4S dealerships.

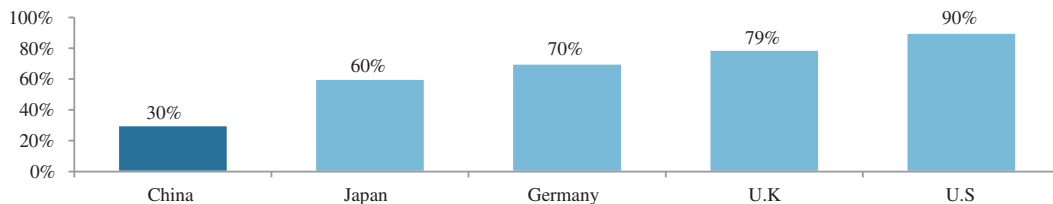
### OVERVIEW OF THE AUTO FINANCE MARKET IN CHINA

#### *Overview of the Auto Finance Market in China*

Auto finance refers to financing products and services that allow consumers to acquire an automobile by making appropriate arrangements other than making a full-cash payment upfront. Institutions that offer auto finance products are banks, auto finance companies (AFCs), financial leasing companies, internet finance companies and other auto finance service providers. Licensed auto finance service providers such as AFCs are capable of carrying out inter-bank borrowing and leveraging capital from inter-bank lending market.

Compared with mature markets where average penetration rates are above 60%, China's auto finance penetration rate is still low, indicating strong growth potential.

**Auto finance penetration rate in different countries, 2017**



Source: China Association of Automobile Manufactures, CIC Report

#### *Market Size of the Retail Auto Finance Market*

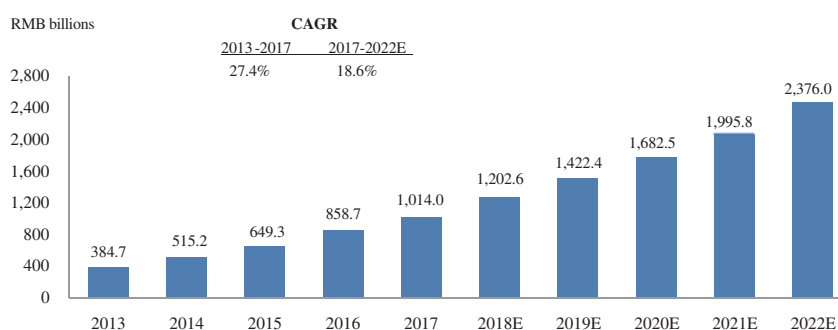
The retail auto finance market has undergone a period of healthy growth over the past five years. In terms of the number of newly disbursed loans, the market size (including new and used passenger automobiles) increased from 4.8 million units in 2013 to 10.4 million units in 2017, representing a CAGR of 21.5%. It is expected that the market will continue expanding to reach 19.7 million units by 2022, driven by a growing demand for automobiles, diversified financing products, and accommodating government policies, such as improving the development environment for asset-backed securities and increasing the loan-to-value ratio for automobile loans. For more details, see “Regulatory Overview — Automotive Financing Companies — Regulation of Major Business — Automotive Loan Business — Risk Management”.

The penetration rate of overall retail auto finance market was 30.4% in 2017, and is expected to reach 43.8% by 2022. For the new passenger automobile sector, the penetration rate was 37.3% in 2017, and is forecasted to reach 54.0% by 2022. While the penetration rate of auto finance services for used passenger automobiles was only 12.2% in 2017, and is expected to reach 26.4% by 2022.

## INDUSTRY OVERVIEW

China's retail auto finance market has grown rapidly, driven by support from the government, the cooperation between automobile dealer and automakers, and the development of new funding channels. As of the end of 2017, the size of the market in terms of the overall loan value had reached RMB1,014.0 billion, up from RMB384.7 billion in 2013, representing a CAGR of 27.4%. As a result of ongoing consumption upgrades, the diversity of funding sources, and an improved regulatory environment, the overall loan value in China's auto finance market is expected to maintain a strong growth rate over the next 5 years with a projected CAGR of 18.6%, and with the overall loan value expected to reach RMB2,376.0 billion by 2022.

**Retail auto finance market\* in terms of loan value, China, 2013-2022E**



											CAGR	
											2013-17	2017-22E
Sales volume of automobiles, million units	17.9	19.7	21.1	24.4	24.7	23.8	24.7	25.8	27.0	28.4	8.4%	2.8%
Auto finance penetration rate, by sales volume	22.3%	24.5%	25.7%	28.3%	30.4%	32.3%	34.7%	37.4%	40.4%	43.8%		
Auto finance penetration rate, by loan value	14.6%	16.8%	19.3%	22.8%	26.2%	30.9%	34.6%	38.6%	42.8%	47.3%		

Source: CIC Report

Note: Loan value refers to the principal amount of automobile loans disbursed by banks, AFCs and other auto finance service providers

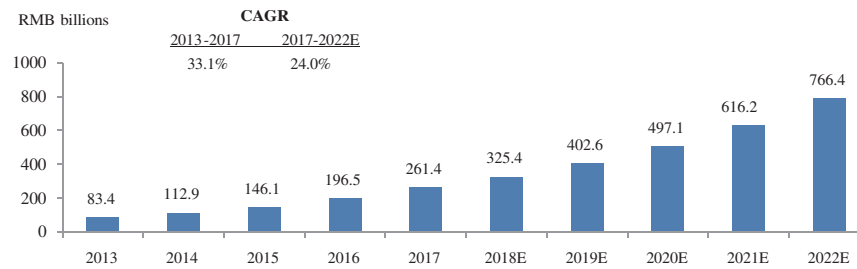
The auto financial leasing market has seen strong growth. As of the end of 2017, the market size in terms of the volume of auto leasing had reached approximately 1,334 thousand units, up from approximately 118 thousand units in 2013, and is expected to reach approximately 3,786 thousand units in 2022, representing a CAGR of 23.2% from 2017 to 2022. Meanwhile, used car auto finance is still at its early stage of development. Its market size, as measured by loan volume, reached approximately 1.1 million in 2017, accounting for approximately 11.7% of the total trading volume for used car. With increasing market promotion, the improvement of residual value, as well as the emergence of e-commerce, it is expected that the market will experience a rapid growth for the next five years, reaching approximately 4.4 million by 2022, accounting for a CAGR of 30.8% from 2017 to 2022.

The market share of retail auto finance market for luxury automobile sector (including new and used passenger automobiles) has continued to increase over the past decade. The total loan value of the luxury automobiles market increased from RMB83.4 billion in 2013 to RMB261.4 billion in 2017, representing a robust CAGR of 33.1%. It is expected that the size of the retail auto finance market for luxury automobiles will undergo a significant growth over the next several years to reach RMB766.4 billion by 2022, driven by an increase in the demand for luxury automobiles and a wider acceptance of diversified loan products.

## INDUSTRY OVERVIEW

Due to the popularity of auto finance products for consumers with better credit profiles, the penetration rate of luxury passenger automobiles is generally higher than that of non-luxury market. The penetration rate of auto finance for the luxury new passenger automobiles increased significantly from 28.8% in 2013 to 46.5% in 2017, which was 10.5% higher than non-luxury new passenger automobiles.

### Retail auto finance market for luxury automobiles, in terms of loan value, China, 2013-2022E



											CAGR	
											2013-17	2017-22E
Sales volume of luxury automobiles, million units	1.4	1.7	1.9	2.2	2.6	2.9	3.1	3.4	3.7	4.0	16.4%	9.0%
Luxury auto finance penetration rate, by sales volume	28.8%	32.4%	36.6%	41.2%	46.5%	49.7%	53.2%	56.9%	60.9%	65.2%		
Luxury auto finance penetration rate, by loan value	17.7%	19.9%	22.3%	24.9%	28.0%	31.6%	35.7%	40.2%	45.1%	50.6%		

Source: CIC Report

### Comparison of auto finance business in different sales channels

The sales channel of 4S dealerships, qualified second-level dealers generally have higher penetration rate for finance products compared to that of Internet platforms ranging from 35% to 40% and 25% to 30%, respectively. The high penetration rates from 4S dealerships, and second-level dealers are mainly driven by the direct communication channel with consumers, quality service offered across car purchasing lifecycles, flexible financing loan products, which ultimately contributed to cross selling for financing products. Generally, auto dealers offer different financing products for customers at their stores and recommend products that will meet the demands of the customers with different characteristics, and consumers typically exercise their own discretion when making financing decisions, including borrowing from general AFCs, auto dealer-affiliated AFCs, commercial banks directly or through facilitation services. It is an industry norm that financial service providers, including AFCs, provide loan facilitation services as a separate product to better address the financing needs for their customers. Whether such financial service providers offer commissions to dealers upon successful referral varies depending on the agreement and business relationship between these two parties. Specifically, some finance service providers provide commission, incentive or rebates to dealers for customer referral or establishing presence while some may not. Under such situation, luxury-brand dealers charge auto finance service providers a one-off fee that typically ranges from RMB500 to RMB1,000 for each successful loan application which they have referred.



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## INDUSTRY OVERVIEW

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### *Comparison of auto finance business in different automobile segments*

The auto finance market for luxury automobile superiors to non-luxury automobile in the following aspects.

	Luxury automobile	Non-luxury automobile
<b>3 Year Residual value</b>	• 50%-65%	• 40%-50%
<b>Retail channels</b>	• Almost all sales of luxury automobiles are through auto dealerships including 4S dealerships, second-level dealers, which have higher conversion rates for financing products because of the quality service provided.	• Retail channels of non-luxury automobiles include not only the auto 4S dealerships, but also second-level dealers and Internet platforms.
<b>Repayment capacity</b>	• Higher repayment capacity which leads to lower non-performing ratio	• Lower repayment capacity which in turn lowers the revenue
<b>NPL rate*</b>	• 0.20%-0.30%	• 0.30%-0.70%

Source: CIC Report

Note: NPL refers to non-performing loan

### *Market Drivers of the Retail Auto Finance Market in China*

- **Increasing popularity of consumer credit services**

Credit consumption has become increasingly acceptable to Chinese consumers. With an increasing overall number of automobile consumers, and the introduction of flexible loan products, auto financing has seen an increase in its market penetration rate over the past few years.

- **Improved loan application process system**

The implementation of the Social Credit System and the development of big data analysis enable AFCs to access the qualifications of loan applicants more effectively, which simplifies and accelerates the loan application process. Therefore, consumers are more willing to apply for auto loans from auto financing companies instead of commercial banks.

- **Enhanced risk control systems**

Both third-party platforms' credit data and commercial banks' customer data are now accessible to AFCs, which provide an efficient and accurate client qualification verification system for the purposes of improved risk control. AFCs can effectively identify and predict consumption patterns in various aspects by implementing big data analysis throughout the entire auto finance process.

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## INDUSTRY OVERVIEW

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### *Market Size of the Dealer Loan Market in China*

Dealer loan is defined as the process of banks, automakers, or their affiliated AFCs providing funds to their downstream dealers. Apart from retail auto finance, the services of dealer loan include but are not limited to inventory financing, equipment financing and store financing. The total loan value in the dealer loan sector increased from RMB255.1 billion in 2013 to RMB496.8 billion in 2017, representing a CAGR of 18.1%. China's dealer loan market underwent a period of rapid expansion during the period from 2000 to 2014, and has maintained a sustainable growth rate since 2014 as a result of increasing demand from auto dealers seeking to expand their inventories and continued development of supply chain finance. The total loan value for dealer loan market is expected to reach RMB782.1 billion by 2022, representing a CAGR of 9.5% from 2017 to 2022.

Major suppliers in PRC's dealer loan market are commercial banks and AFCs, where business rationales differ from one to another, commercial banks recognize vehicle inventory financing as a generally corporate financing scheme, and they tend to provide a lump-sum line of credit for large-scale dealer groups. For AFC suppliers, dealer loan business allows them to gain a better understanding of needs for their customers and strengthen their business partnership with dealers. Dealer loan is an important component for AFCs. As of December 31, 2017, as measured by loan balance of inventory financing, dealer loans accounted for approximately 15.3% of the total loan balance for all AFCs in PRC.

### **COMPETITIVE LANDSCAPE OF RETAIL AUTO FINANCE INDUSTRY**

The auto finance market currently comprises four major groups of participants, which includes commercial banks, AFCs, financial leasing companies, and internet finance companies. Traditionally, the auto finance business was dominated by commercial banks. Currently, commercial banks do not have sufficient sales personnel deployed at the dealer stores, which has resulted in limited direct interactions with end customers and slower loan disbursement than AFCs. Thus, AFCs have gradually taken up more and more market share to become the largest player in the retail auto finance market. More automobile purchasers prefer to choose AFCs rather than commercial banks, finance lease companies and internet finance companies mainly because (i) compare to internet finance companies, AFCs have stronger offline presence and thus can reach automobile purchasers more directly and can have a deeper understanding of automobile buyers' financing demands, and (ii) compared to all other market players, AFCs have close business relations with automakers and auto dealers. Moreover, better product offering (e.g.: lower interest rate compared to financial leasing companies), and better service quality along the whole services process are also competitive strengths of the AFCs.

As of 2017, AFCs accounted for approximately 57% of the retail market in terms of loan value, while commercial banks accounted for approximately 38% of the retail market. Financial leasing companies and internet finance companies meanwhile accounted for a much smaller portion of the market at approximately 4% and 1%, respectively. It is expected that the market share of internet finance companies, with more business integrations through partnering with traditional financial institutions for funding, and establishing their own offline stores for customer acquisition, will further increase to approximately 5% by 2022, according to the CIC report. The market share of internet

## INDUSTRY OVERVIEW

finance companies is expected to expand in 3 times as rapidly as the expansion of overall automobile financing market. In terms of loan value, the amount of loan disbursed by internet finance companies is expected to grow from RMB12.1 billion in 2017 to RMB144.3 billion by 2022, with a robust CAGR of 64.1%, which is significantly higher than the overall market growth of 19.0%.

Meanwhile, in terms of the loan disbursed, AFCs and commercial banks are expected to continue serving as the major services providers for auto financing consumers and maintaining more than 90% of the market share by 2022, according to the CIC report. AFCs have significant advantages over other types of players brought by their offline presence and close business relations with automakers and auto dealers, while commercial banks can offer loan products of low interest rates because of their lower financing cost. The unrivaled advantages of the two types of players will help them maintain their majority in the market share in a longer term. The table below outlines comparisons between the different players in China's auto finance market:

	Banks	AFCs	Financial leasing companies	Internet finance companies
<b>Number of players</b>	• >140	• 25	• >40	• >40
<b>Primary Regulatory Authorities</b>	• CBIRC	• CBIRC	• CBIRC	• Financial Regulatory Department
<b>1-year to 3-year annual interest rate</b>	• 4%-6%	• 5%-10%	• 10%-15%	• 8%-20%
<b>Sales channel</b>	• Lack of sales network to reach potential consumers	• Easy to reach end consumers through auto dealers	• Primarily rely on offline channels such as partnership with dealers	• Lack of offline channels to reach end consumers, some are working on building offline channels
<b>Approval process</b>	• Prolonged approval process more than 2 days	• Efficient approval process less than half a day	• Efficient approval process less than half a day	• Efficient online approval process 1-2 hours
<b>Loan disbursement process</b>	• 7-15 days	• 1-2 days	• 1-2 days	• 2-10 days
<b>Consumer experience</b>	• Lack of professional experience in vehicles and low service level	• Professional services and deep understanding of consumer demands	• Deep understanding of consumer demands	• Limited understanding of consumer demands
<b>M3*</b>	• 0.5%-1.2%	• 0.5%-0.7%	• 2%-3%	• 3%-8%

Source: CIC Report

Note: M3 refers to 3 months delinquency rate.

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## INDUSTRY OVERVIEW

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### Categories of AFCs

As of December 31, 2018, there were 25 automotive financing companies licensed by the CBIRC to conduct operations in the PRC. Major participants can be divided into two categories — namely, 1) automaker affiliated automotive financing companies (24 players) and 2) auto dealer affiliated financing companies. As of December 31, 2018, the Company was the only automotive financing company affiliated with dealership background among all 25 of the licensed AFCs operating in the PRC, with all the other licensed AFCs comprised of either affiliations or joint ventures with particular automakers.

AFCs affiliated with dealers are able to offer loan products for diversified auto brands while those AFCs affiliated with individual automakers can only offer loan products limited to affiliated brands. In addition, AFCs affiliated with dealers have an added advantage of operating with more flexibility in terms of product offerings and loan options.

In comparison, AFCs affiliated with automakers have less autonomy in their operations, which results in relatively standardized products and services, and in turn limits its product offerings while providing relatively less tailored loan options for end consumers

### Ranking of AFCs for luxury auto finance market

The top two leading players in luxury auto finance market among all 25 AFCs accounted for a total market share of more than 70% in terms of amount of loans disbursed for luxury brands automobiles. They are automaker affiliated AFCs, with a feather of long period of business development history and only providing financial products to their own brands. Apart from this, the luxury auto finance market for other AFCs is highly scattered.

The Company, as a emerging and active market player with comprehensive industry expertise and significant growth potential, accounted for a market share of 2.0% in terms of amount of loans disbursed for luxury automobiles for all AFCs in 2017. In addition, the company's amount of loans disbursed for luxury automobiles increased from RMB1.2 billion in 2015 to RMB3.8 billion in 2017, representing a CAGR of 74.2%, which was significantly higher than industry average of approximately 40%. Moreover, the Company ranked second among all AFCs in China in terms of the growth rate of self-operated retail loan disbursement amount for luxury-brand automobiles from 2015 to 2017. The average loan principal amount that the Company's retail loan customers received in 2017 was RMB220,028, which ranked third among all the AFCs in China and is substantially higher than the industry average of RMB98,411.

The key success factors of AFCs are i) customer acquisition channels; ii) diversification and stability of funding channels; iii) risk management and personal credit rating system; and, iv) operation efficiency. The Company being the only AFC affiliated with an auto dealership group is pivotal in its flexible and customized products of auto financing products as compared to the other 24 AFCs and the banks which do not have deep knowledge of the PRC automobile industry as the Company does. As an AFC with the highest number of luxury brands and multi-channels, the Company is specialized in the provision of different automotive financing products and a diverse group of end consumers.

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## INDUSTRY OVERVIEW

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### Rankings and market shares of top ten AFCs for luxury automobile in terms of loan value<sup>1</sup> and loan volume, China, 2017

NAME	Company A	Company B	Company C	Company D	Company E	Company F	Company G	The Company	Company H	Company I
Market share in terms of loan value	37.2%	35.6%	8.0%	4.5%	3.9%	3.1%	2.5%	2.0%	1.5%	0.8%
Market share in terms of loan volume	31.7%	34.0%	10.0%	5.6%	5.7%	4.2%	3.1%	1.9%	2.0%	1.0%

*Source: CIC Report*

*Note 1:* The luxury brand covered is defined as the number of luxury brands that authorized by auto makers to provide auto loans or, among others, available for AFCs to offer auto loan services to specific luxury brands.

*Note 2:* Loan value refers to the amount of principal automobile loans disbursed by AFCs.

### *Entry Barriers of China's Retail Auto Finance Market*

- **Licensing requirements:** Auto finance business is a highly regulated and licensed sector in PRC. The establishment of an auto finance company is subject to the approval of the CBIRC. Without such prior approval, no individual or entity shall be permitted to establish an auto finance company, or engage in the auto finance business.
- **Financing capability:** Financing capability is a critical and fundamental factor of an auto finance company, as product innovation and customer experience is heavily reliant on sufficient funding capabilities. The lack of financing channels may lead to higher financing costs while customers are generally price sensitive to finance product offerings.
- **Risk management and credit evaluation system:** Companies entering the retail auto finance market must possess strong risk management capabilities and establish a systematic and effective risk management and credit evaluation system to develop their market presence, achieve long-term stable growth and maintain high profitability. AFCs with automatic credit assessment capability, strengthened and standardized training for front-end staff, and flexible staffing capacity along with the market demand tend to achieve greater efficiency in terms of loan approval and disbursement process.

### *Trends and Opportunities of China's Retail Auto Finance Market*

- **4S dealerships, qualified second-level dealers are expected to remain the key sales channel for auto purchasers**

4S dealerships, qualified second-level dealers are the major channels for luxury automobiles, accounting for more than 95% of total sales volume, and they are expected to build upon their deep understanding of the value chain and further expand their market by increasing the number of their outlets. Furthermore, consumers are more likely to enjoy improved purchasing experience at 4S dealerships, and second-level dealers, which means that retention rate and penetration rate for financing products are both projected to increase in the future.

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## INDUSTRY OVERVIEW

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- **The auto finance market for luxury automobiles is expected to benefit from substantial opportunities as a result of on-going consumption upgrades**

The continuous growth of personal incomes and the increasing popularity of credit consumption have helped transform the consumption behavior of Chinese consumers. Therefore, the sales of luxury vehicles and the penetration rate for financing products are both projected to surge in the next following years, which ultimately provide significant opportunities for the auto finance market for luxury automobiles.

- **Technical advancement is expected to become a major driving force**

Technological advancements, such as big data and artificial intelligence can help auto financing companies to control risks, allocate financial resources, and enhance the productivity by speeding up the application process.

- **The luxury auto leasing market indicates substantial growth potential**

China's auto leasing market is currently going through early stages of development that the penetration rate of auto leasing is still less than 4%. Auto leasing market does not only boost new car sales by offering competitive pricing and expediting consumers' car replacement cycle, it also becomes a source of quality luxury used cars from off-lease cars, enabling expansion into the used car business. In addition, financial leasing companies have more opportunities to engage with the consumers throughout the leasing process and subsequently boost retention rates.

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## REGULATORY OVERVIEW

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### AUTOMOTIVE FINANCING INDUSTRY REGULATORY ENVIRONMENT

#### Overview

The automotive financing industry is under strict regulations in China. The primary regulator is CBIRC. In addition, PBOC and their respective branches also have regulatory oversight of the automotive financing industry. In addition, the Company is also under the supervision of SASAC, as we are a state-owned non-controlling company. We are subject to the PRC Company Law and a variety of industry-specific laws and regulations applicable to the automotive financing industry. In addition, we shall also refer to certain corporate governance, business supervision and supervision requirements for commercial banks as required by relevant PRC laws and regulations.

#### Primary Regulatory Authorities

##### *Chinese Banking Regulatory Commission*

The China Banking Regulatory Commission was established in April 2003 to take over PBOC's role as the primary regulator of the financial industry in the PRC. The China Banking Regulatory Commission was given the mandate to implement reforms, minimize overall risks, promote stability and development and enhance the international competitiveness of the PRC banking industry.

On March 17, 2018, the first meeting of the 13th session of the National People's Congress ("NPC") reviewed and approved the Proposal Regarding the Organisational Reform of the State Council (《國務院機構改革方案》), which decided to consolidate the responsibilities of the China Banking Regulatory Commission and the China Insurance Regulatory Commission ("CIRC") and establish the CBIRC, which shall be responsible for the centralized regulation and management of the banking and insurance industries according to the laws and regulations, and the PBOC shall take over China Banking Regulatory Commission and CIRC's responsibilities of drafting proposals for major laws and regulations and maintaining prudent management of basic systems of the banking and insurance industries. On March 22, 2018, the State Council issued the Notice of the State Council regarding the Establishment of Organisations (《國務院關於機構設置的通知》), the CBIRC is established as a department directly under the State Council.

The Provisions of the Banking Supervision Law of the People's Republic of China (《中華人民共和國銀行業監督管理法》) and related provisions (collectively, the "**Banking Supervision Law**") provide the CBIRC with the supervisory regulatory authority over banking financial institutions, which include commercial banks, urban credit cooperatives, rural credit cooperatives and other deposit-taking financial institutions and policy-based banks, as well as their related business activities. In addition, the CBIRC has regulatory oversight over financial asset management companies, trust investment companies, financial leasing companies, AFCs and other financial institutions. These institutions supervised by CBIRC are also required to adhere to certain provisions for banking financial institutions in accordance with the Banking Supervision Law. In addition, the China Banking Regulatory Commission announced and implemented the Administrative Measures on Governing the Automotive Financing Company (《汽車金融公司管理辦法》) (the "**Automotive Financing Regulations**"), which has further clarified the CBIRC's authority of supervising automotive financing companies.

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## REGULATORY OVERVIEW

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According to the Banking Supervision Law, the main responsibilities of CBIRC include the following:

- formulate and issue rules and regulations on the supervision of banking financial institutions and their business activities;
- review and approve the establishment, change, termination and the business scope of banking financial institutions;
- review and regulate the eligibility of directors and senior management of banking financial institutions;
- formulate the requirements and rules of prudent operation on risk management, internal control, capital margin ratio, asset quality, loss reserves, risk concentration, affiliate transaction and asset liquidity of banking financial institutions;
- conduct on-site inspections and off-site regulation over the operation and risk exposure of banking financial institutions;
- take remedial action and punishment on activities that violate applicable provisions; and
- compile and publish statistics and reports on PRC banking financial institutions.

### *People's Bank of China*

As the central bank of China, PBOC is responsible for formulating and implementing monetary policies, preventing and mitigating macroeconomic and financial risks and maintaining the stability of China's financial markets. The main responsibilities of PBOC are regulated by the Law of the People's Republic of China on the People's Bank of China (《中華人民共和國中國人民銀行法》).

### *Joint Conference of Financial Regulation Coordination Department*

The Official Reply of the State Council on Approval of Establishing the Inter-Ministry Joint Conference Meeting System for Financial Regulation Coordination (《國務院關於同意建立金融監管協調部際聯席會議制度的批復》) provides for the establishment of the inter-ministry joint conference meeting system for financial regulation coordination. The joint conference is led by PBOC, and the member entities include the CBIRC, CSRC, CIRC and the SAFE.

### *State-owned Assets Supervision & Administration Commission*

According to the Enterprise State-owned Assets Law of the People's Republic of China (《中華人民共和國企業國有資產法》), and the Tentative Measures for the Supervision and Administration of State-Owned Assets of Enterprises (《企業國有資產監督管理暫行條例》), the SASAC is another regulator of our Company as we are a state-owned non-controlling Company.



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## REGULATORY OVERVIEW

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### AUTOMOTIVE FINANCING COMPANIES

#### Establishment of an AFC

According to the Circular of General Office of the China Banking Regulatory Commission on Issues concerning the Promotion of the Simplification of Administrative Procedures and Delegation of Powers to Lower Levels to Improve the Market Access-related Work (中國銀監會辦公廳關於推進簡政放權改進市場準入工作有關事項的通知), the following issues are subject to the reporting system, other than the approval system:

- approval for establishment delay and opening postponement of institutions;
- approval for institution degradation and temporary closure;
- approval for amendment to the articles of association of institution arising from the changes of name, ownership, registered capital, business scope and other pre-approval matters; and
- approval for changing the organizational form of non-banking financial institutions.

The Automotive Financing Regulations and Implementing Measures of the China Banking and Insurance Regulatory Commission for Administrative Licensing Matters relating to Non-banking Financial Institutions (Revised in 2018) (《中國銀保監會非銀行金融機構行政許可事項實施辦法(2018年修訂)》) (the “**CBIRC Licensing Measures**”) regulate the industry access, licensing procedures and other requirements of AFCs.

To establish an AFC, the following requirements must be met:

#### *Capital Contributions*

Capital contributors of an AFC must be legal-person enterprises that were established in or out of China in accordance with applicable laws. A principal capital contributor refers to the investor whose investment amount stands the largest part of the total and no less than 30 percents of the total capital base of the AFC to be established, and it must be an enterprise that is engaged in the manufacturing or distribution of finished automobiles or a non-banking financial institution.

At least one capital contributor of an AFC must have five years or more of experience in operations management and risk management of automotive financing business. If the investors of an AFC fail to satisfy the requirement mentioned above, they must introduce a competent professional management team for the AFC, including at least one senior manager with rich experience in automotive financing business and one professional personnel in risk management.

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## REGULATORY OVERVIEW

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To be a capital contributor of an AFC, a non-financial institution must satisfy the following requirements:

- the total assets shall be not less than RMB8 billion or equivalent value in the previous accounting year, and its annual operating income must not be less than RMB5 billion or equivalent value (on the basis of consolidated financial statements);
- the end-of-year net assets value in the recent accounting year shall not be less than 30% of the total assets value (on the basis of consolidated financial statements);
- has good business performance and generated profits for the recent two consecutive accounting years;
- the source of its funds to be invested is self-derived, and it is prohibited from buying shares of an AFC with loans or funds of others;
- is compliant with applicable laws of its jurisdiction of registration; and has no record of any major illegal or improper act within the latest two years;
- it undertakes not to transfer its equity interests in the AFC within five years (unless required by CBIRC in accordance with applicable laws), and such undertaking is stated in the articles of association of the AFC to be established; and
- other conditions of prudence as specified by the CBIRC.

In addition to the third to the sixth terms above, to be a capital contributor of an AFC, a non-banking financial institution must satisfy the following requirements:

- the registered capital shall not be less than RMB300 million or equivalent value in a freely-convertible currency;
- has good corporate governance structure, well-established internal control mechanism and sound risk management system; and
- meets the prudential supervision requirements of the authorities of local country or region.

### *Minimum Registered Capital of an AFC*

The minimum registered capital of an AFC must be RMB500 million or equivalent, and must be paid in full on a one-off basis. the CBIRC may, subject to the development situation of automotive financing business and the needs for prudent supervision and administration, raise the minimum amount of registered capital.

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## REGULATORY OVERVIEW

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### Business Qualifications

The Administrative Measures on Financial Licenses (《金融許可證管理辦法》) stipulates that a financial license is a legal document that must be issued by the CBIRC in accordance with the law, which permits financial institutions to operate finance-related businesses. Such legal document will apply to financial institutions approved or supervised by the CBIRC.

### Business Scope

According to the Automotive Financing Regulations, the CBIRC may approve an AFC to operate any of the following RMB currency businesses:

- Taking deposits with maturity of no less than three months from its PRC shareholders and from the PRC subsidiaries that are wholly owned by its foreign shareholders or by groups that a foreign shareholder belongs to;
- Accepting premium from auto dealers for loans which are used to purchase automobiles, and accepting auto lease security deposit from leasees;
- Issuing financial bonds upon approval;
- Engaging in inter-bank loan transactions;
- Borrowing from financial institutions;
- Providing loans for automobile purchase;
- Providing loans which are used to purchase automobiles or facilities including the show-room construction, spare parts and equipment maintenance to auto dealers;
- Engaging in auto financial leasing business (except for the sale-and-leaseback business);
- Selling to or repurchasing auto loan receivables and auto financial leasing receivables from financial institutions;
- Selling off or disposing residues of leased automobiles;
- Engaging in consultancy and agency business related to automobile purchase financing;
- Engaging in equity investments on financial institutions whose business scopes are relevant to auto financing business with an approval by the CBIRC;
- Engaging in other business approved by the CBIRC.

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## REGULATORY OVERVIEW

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PRC AFCs must specify their business scopes in their articles of association, which must be submitted to the CBIRC for approval. In addition, any business operations related to foreign exchange control must be operated in accordance with relevant regulations and laws.

### **Ownership and Shareholder Restrictions of AFCs**

#### *Regulations of Equity Investment*

Capital contributors of AFCs must adhere to the Automotive Financing Regulations and CBIRC Licensing Measures. The qualification of the capital contributors and any change or the adjustment of the equity structure must be approved by the relevant authorities except for changes in shareholdings of those who, together with their related parties, hold the floatable shares in a listed non-banking financial institution which are less than 5% of the total equity interests. The requirements of capital contributors refer to *Capital Contributions*.

In addition, we are also required to refer to the relevant regulatory requirements in respect of the investment in the commercial bank as provided in the Interim Measures on the Equity Management of Commercial Banks (商業銀行股權管理暫行辦法) (the “**Equity Management Measures**”). According to the Equity Management Measures, (i) in the event that an investor along with its related parties and persons acting in concert, whether separately or jointly, intends to initially or accumulatively hold 5% or more of the total capitalization/shares of an AFC, an application shall be filed with CBIRC for approval in advance; (ii) in the event that an investor along with its related parties and persons acting in concert, holds, whether separately or jointly, more than 1% but less than 5% of the total capitalization/ shares of an AFC, a report shall be filed with the CBIRC within ten business days upon acquiring holdings; and (iii) in the event that any investor holds 5% or more of the total capitalization or shares of an AFC without approval, the CBIRC may order such investor to rectify, and confiscate its illegal gains (if any), and impose on it a fine of one time up to five times the illegal gains if the illegal gains exceed RMB 50,000, and if there are no illegal gains or the illegal gains are less than RMB 50,000, a fine of RMB 50,000 up to RMB 500,000 may be imposed.

#### *Restriction of Shareholders*

AFCs shall refer to the Guidelines for the Corporate Governance of Commercial Banks (《商業銀行公司治理指引》) (the “**Commercial Bank Guidelines**”). Shareholders, especially the major shareholders of an AFC, shall procure the board of directors of the AFCs to articulate reasonable capital planning measures, which should enable the AFC to meet capital adequacy and general regulatory requirements. If an AFC fails to meet capital adequacy and regulatory requirements, it must formulate a capital replenishment plan to enable its capital adequacy ratio to meet the relevant regulatory requirements within a specified time limit. An AFC must replenish the capital through increasing core capital and other relevant means. An AFC’s major shareholders are not permitted to prevent other shareholders from replenishing the capital of the AFC or restrict the entry of new qualified shareholders.

### **Regulation of Major Business**

The major business of an AFC generally includes business operations related to (i) granting automotive loans, (ii) engaging in inter-bank borrowing services, (iii) issuing financial bonds and (iv) conducting automotive financing leases (excluding leaseback business).

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## REGULATORY OVERVIEW

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### *Automotive Loan Business*

Automotive loans refer to a lender's granting of loans to the borrower for the purchase of automobiles, which may include used automobiles. It could include automotive loans granted to individuals, dealers and institutions.

The automotive loan business of AFCs must comply with the General Principles on loans (《貸款通則》), Administrative Measures for Auto Loans (Revised in 2017) (《汽車貸款管理辦法》) (the “**Automotive Loan Measures**”) and other applicable regulations and legislation. The Automotive Loan Measures standardize the management of automotive loan business, lower the risk relating to automotive loan businesses and promote the healthy development of automotive loan business. In addition, the Automotive Loan Measures set forth the application requirements and risk management measures with respect to automotive loans granted to individuals, dealers and institutions.

### *General Provisions*

Interest rates on automotive loans must comply with the provisions in relation to loan interest rates as promulgated by PBOC, and the methods for the calculation and settlement of interests shall be determined by the borrowers and AFCs through negotiations while abiding by the provisions in relation to loan interest rates promulgated by PBOC. The terms of automotive loans (including any extension periods) shall not be longer than five years, while the terms of loans for previously-owned automobiles (including the extension periods) shall not be longer than three years; and the terms of loans to distributors shall not be longer than one year.

### *Automotive Loans to Individuals*

Automotive loans to individuals refer to loans granted by an AFC to an individual borrower for the latter's purchase of an automobile. Any individual who applies for an automobile loan must meet the requirements of the Automotive Loan Measures. When granting an automobile loan to an individual, the AFC must decide the relevant amount, term, interest rates and methods of repayment of the principal and interest of the loan, based on:

- PBOC's relevant provisions on interest rates;
- credit rating of the borrower assigned by the lender;
- loan guarantee;
- condition and use of the purchased automobile; and
- development of the automobile industry and the supply and demand of the automobile market.

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## REGULATORY OVERVIEW

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### *Automotive Loans to Auto Dealers*

Automotive loans to auto dealers refer to loans granted by an AFC to auto dealers for the latter's purchase of automobiles and/or automobile accessories and spare parts. Any auto dealers who applies for an automotive loan must meet the requirements of the Automotive Loan Measures.

The amount of a loan granted by an AFC to an automotive distributor for the latter's purchase of automobiles and/or automotive parts and components shall be determined based on the average inventory of the distributor during a certain period, which shall be determined in light of the distributor's inventory turnover.

The AFC shall regularly inspect the distributor's credit through various measures, including regularly checking the distributor's inventory of automobiles and automotive parts and components.

### *Automotive Loans to Institutions*

Automotive loans to Institutions refer to loans granted by an AFC to an institutional borrower, who is not an automobile distributor, for the institution's purchase of automobiles. Any institution that applies for an automobile loan must meet the requirements of the Automotive Loan Measures. If a loan is granted to an institution engaged in automobile leasing, the AFC must supervise the residual value assessment made by the borrower and prevent risks that may be caused by over-valuation of the residual value.

### *Risk Management*

To reinforce risk management in granting automotive loans, AFCs must establish strict and effective credit risk management systems. According to the Automotive Loan Measures, an AFC engaging in automotive loan business must comply with following risk management measures:

- the granting of automobile loans shall be subject to a system of maximum percentage requirements, and the percentage of an auto loan amount granted by a lender to a borrower in the total price of the automobile purchased by the borrower shall not exceed such applicable maximum percentage requirement; such maximum percentage requirements shall be set separately by the PBOC and the CBIRC in light of the development of the macro-economy and the industry and other actual conditions. According to the Circular of the People's Bank of China and the China Banking Regulatory Commission on Adjusting Policies on Automobile Loans (中國人民銀行、中國銀行業監督管理委員會關於調整汽車貸款有關政策的通知), which was issued on October 16, 2017 and took effect on January 1, 2018, as to an automobile with a traditional engine purchased for self-use, the maximum percentage that a loan may be granted shall be at 80% of the automobile's price; as to an automobile with a traditional engine to be used for business purposes, the maximum percentage shall be at 70%; as to a new-energy automobile for self-use, the maximum percentage shall be at 85% (as opposed to the maximum percentage of 80% required by the former Administrative Measures for Auto Loans (汽車貸款管理辦法) issued on August 16, 2004); as to a new-energy automobile to be used for business purpose, the maximum percentage shall be at 75% (as opposed to the maximum percentage of 70% required by the

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## REGULATORY OVERVIEW

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former Administrative Measures for Auto Loans (汽車貸款管理辦法) issued on August 16, 2004); and as to used cars, the maximum percentage shall be at 70% (as opposed to the maximum percentage of 50% required by the former Administrative Measures for Auto Loans (汽車貸款管理辦法) issued on August 16, 2004).

- establish a credit rating system and carefully determine each borrower's credit grade;
- must require a borrower to provide a lien on the automobile purchased or provide another effective guarantee. The borrower may not be required to provide a security when it is confirmed upon examination and assessment by AFC that the borrower has a good credit standing and is able to repay the loan;
- must either accept applications for automotive loans directly or designate a distributor to accept the applications. Also, AFCs must perfect a system for the separation of credit examination and issuance of loans, as well as establish a system to investigate prior to loan grants and to track repayments after loan grants;
- must establish the market information database for used automobiles and the residual value assessment system for used automobiles;
- must establish an automobile loan classification monitoring system, based on loan amounts, areas of the borrowers, borrowers' financial positions, automobile brands, liens and guarantees, and conduct regular inspections and assessments, in terms of risks of different types of automotive loans, and, based on the results of such inspections and assessments, promptly adjust the risk grades of different types of automotive loans;
- must establish an automobile loan warning and monitoring system, formulate warning standards and adopt appropriate measures to respond to such incidents, which may include reviewing its credit examination and approval system;
- must establish an impaired or bad loan classification-disposal system and a prudent loan loss-provision system, and must make corresponding impairment provisions;
- must assess the value of the lien with great caution, pay full attention to possible depreciation of the vehicle, and fix the upper limit for the lien rate; and
- must promptly incorporate information concerning automobile loans in the financial credit information basic database.

In addition, AFCs also shall refer to the relevant provisions of the Interim Administrative Measures on Personal Loan (《個人貸款管理暫行辦法》), Interim Administrative Rules on Working Capital Loans (《流動資金貸款管理暫行辦法》), Interim Administrative Measures for Fixed Asset Loans (《固定資產貸款管理暫行辦法》) and the Guidelines of Risk Management Regarding Commercial Banks Conducting Credit Business with Group Clients (《商業銀行集團客戶授信業務風險管理指引》) when conducting credit risk management for individual and corporate clients.

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## REGULATORY OVERVIEW

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### **Inter-bank Borrowing Business**

An AFC engaging in the inter-bank borrowing business shall meet the requirements set by the Administrative Measures on Inter-bank Borrowing Business (《同業拆借管理辦法》) and the Rules of Insurance Company and Other Six Categories of Non-banking Financial Institutions Entering the National Inter-bank Market issued by the Shanghai headquarters of the PBOC (《中國人民銀行上海總部關於制定保險公司等六類非銀行金融機構進入全國銀行間同業拆借市場審核規則》). AFCs that enter the inter-bank borrowing market must be approved by the Shanghai headquarters of PBOC, Shanghai Headquarters.

### ***Transaction Provisions***

AFCs entering into the national inter-bank lending market must be supervised and inspected by PBOC for engaging in inter-bank loan transactions, and must comply with the following provisions:

- conduct inter-bank loan transactions through an electronic transaction system of the National Inter-bank Funding Centre in the capacity of legal persons;
- conduct price enquiries, which are settled on a deal-by-deal basis through arms-length negotiations; and
- conclude transaction contracts for each loan, with the contents of the transaction contracts to be specific and containing detailed agreements of the rights and obligations of the inter-bank loan parties.

### ***Risk Control***

AFCs must incorporate certain risk management measures for inter-bank loans into their overall risk management control system, and establish a sound inter-bank loan risk management system. In addition, AFCs must establish a designated inter-bank loan risk management institution and formulate their internal working guidelines and risk management measures of inter-bank loans. These include:

- keeping and retaining all records of inter-bank loan transactions and the documents, accounts, original vouchers, statements and audio recordings of such transaction records;
- ensuring that the maximum time limit of borrowed funds does not exceed three months;
- no extending inter-bank loans after they mature; and
- adhering to a quota administration system for inter-bank loans, and observe the maximum borrowing and lending quotas, which may not exceed 100% of the actual paid-up capital.



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## REGULATORY OVERVIEW

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### *Financial Bond Business*

The issuance of financial bonds by an AFC must be in accordance with the Administrative Measures on the Issuance of Financial Bonds in the National Inter-bank Market (PBOC Order 2005 No. 1) (《全國銀行間債券市場金融債券發行管理辦法》) (中國人民銀行令2005第1號), as well as general rules related to the issuance of financial bonds by financial institutions.

Announcement on Matters Concerning the Issuance of Financial Bonds by Financial Leasing Company, Automotive Financing Company and Consumer Finance Company (PBOC、China Banking Regulatory Commission Announcement 2014 No.8) (《關於金融租賃公司、汽車金融公司和消費金融公司發行金融債券有關事宜的公告》) (中國人民銀行、中國銀監會公告2014第8號) stipulates that PBOC and CBIRC will supervise the issuance of financial bonds by AFCs, with PBOC overseeing the issuance and trade of financial bonds in the inter-bank bond market, and CBIRC verifying the qualifications of AFCs issuing financial bonds. An AFC issuing financial bonds must satisfy the following conditions and have:

- sound corporate governance mechanisms;
- capital adequacy ratio no less than the minimum requirement of the regulatory departments;
- a positive balance sheet for three consecutive years;
- adequate reserves for loan losses;
- risk control indicators in accordance with the relevant provisions of the regulatory institution;
- no record of serious violation of any laws and regulations during the recent three years; and
- met other conditions as prescribed by PBOC and the CBIRC.

The purpose of the bond funds raised by an AFC shall comply with the provision of state industrial policies and other relevant policies; no such funds shall be used for risky investment irrelevant to the main business of any such company.

### *Automobile Financial Leasing Business*

An AFC's operations must be in accordance with the Contract Law of the People's Republic of China (《中華人民共和國合同法》) and other general rules relating to finance leases.

### *Pricing of Products and Services*

According to the relevant provisions of PBOC, AFCs must set the deposit and loan rate within the scope of PBOC benchmark interest rates. In recent years, PBOC has relaxed its regulations on interest rates and granted greater autonomy to financial institutions. Generally, with effect from October 29, 2004, PRC commercial banks were allowed to set their own interest rates of

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## REGULATORY OVERVIEW

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RMB-denominated deposits so long as much interest rates were not higher than the relevant the PBOC benchmark rates. Since then, the upper cap of RMB deposit rate of PRC commercial banks continued to lift. Effective on October 24, 2015, the PBOC removed the cap on interest rates on deposits. In July 2013, PBOC canceled the lower limits on the loan rate, permitting financial institutions to set loan rates on the basis of market rates.

### Securitization of Credit Assets

The Announcement of the People's Bank of China [2015] No.7 (《中國人民銀行公告[2015]第7號》) aims, among others, to simplify the procedure for issuance of credit asset-backed securities and increase the efficiency and transparency of such issuance and regulates that the trustees and promoters that have been approved to engage in relevant business, issued credit asset-backed securities and been able to disclose information as required may apply for registration with the PBOC and issue credit asset-backed securities in installments at their own discretion within the valid period as registered.

According to The Notice on the Workflow of Filings and Registration for the Securitization of Credit Assets (《關於信貸資產證券化備案登記工作流程的通知》), the system of filings will be implemented for the securitization of credit assets, replacing the system of examination and approval; the CBIRC will no longer conduct the examination and approval work for individual issuance of securitized products; banking financial institutions shall complete the filings and registration prior to the issuance of securitized products.

### Regulations of Capital Adequacy

#### *Capital Adequacy Ratio Regulatory Requirements*

According to the provisions in the Automotive Financing Measures, the capital adequacy ratio of an AFC must be not less than 8%, while the core capital adequacy ratio must not be less than 4%.

The Provisional Regulatory Administrative Measures on the Capital of Commercial Banks (《商業銀行資本管理辦法(試行)》) (the “**Bank Capital Measures**”) requires an AFC to refer to the regulatory requirements of capital adequacy ratios therein, as well as the Arrangement in the Interim Period of the Provisional Regulatory Administrative Measures on Commercial Bank Capital of China Banking Regulatory Commission (《中國銀監會關於實施〈商業銀行資本管理辦法〉(試行)過渡期安排相關事項的通知》) (the “**Interim Bank Capital Measures**”).

The provisions in the Bank Capital Measures set forth regulatory requirements on capital, including, among others:

- core tier-one capital adequacy ratio of no less than 5%;
- first tier-one capital adequacy ratio of no less than 6%;
- capital adequacy ratio of no less than 8%; and

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## REGULATORY OVERVIEW

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- calculation and extraction of reserve capital should be based on the aforementioned minimum capital adequacy ratio requirements, which should be at least 2.5% of risk weighted assets satisfied by the core tier-one capital.

Under certain circumstances, the counter-cyclical capital requirement should be calculated based on minimum capital requirements and reserve capital requirements. Counter-cyclical capital requirements must be 0% to 2.5% of risk weighted assets, and must be satisfied by core tier-one capital. In addition, the CBIRC is entitled to propose stricter capital requirements towards the framework of second pillar capital for the purpose of ensuring that capital can sufficiently cover risks.

### *Calculation Formula for Capital Adequacy Ratio*

Pursuant to the Bank Capital Measures, AFCs shall calculate their capital adequacy ratios with reference to the following formula:

$$\text{Capital adequacy ratio} = \frac{\text{Total capital} - \text{Corresponding capital deduction}}{\text{Risk weighted assets}} \times 100\%$$

$$\text{Tier-one capital adequacy ratio} = \frac{\text{Tier-one capital} - \text{Corresponding capital deduction}}{\text{Risk weighted assets}} \times 100\%$$

$$\text{Core tier-one capital adequacy ratio} = \frac{\text{Core tier-one capital} - \text{Corresponding capital deduction}}{\text{Risk weighted assets}} \times 100\%$$

### *Capital Composition*

Total capital includes core tier-one capital, additional tier-one capital and tier-two capital. Core tier-one capital includes: (i) paid-in capital or common shares; (ii) capital reserve; (iii) surplus reserve; (iv) general reserve; (v) retained earnings; and (vi) applicable portions of capital from minority shareholders. Additional tier-one capital includes: (i) additional tier-one capital instruments and their premiums; and (ii) applicable portions of capital from minority shareholders. Tier-two capital includes: (i) tier-two capital instruments and their premiums; (ii) over-provision for impaired loans; and (iii) applicable portions of capital from minority shareholders.

For purposes of calculating its capital adequacy ratio, an AFC shall deduct the following items in full from the core tier-one capital with reference to the Bank Capital Measures: (i) goodwill; (ii) other intangible assets (other than land use rights); (iii) net deferred-tax assets arising from operating losses; (iv) inadequate provision for impaired loans; (v) profit from sales of assets securitization; (vi) defined beneficial pension assets, net; (vii) direct or indirect holding of its own shares; (viii) for cash flow reserves arising from hedging with items not measured at fair value on the balance sheet, they should be deducted if they are positive or added if they are negative; and (ix) unrealized profit or loss arising from changes in the fair value of the liabilities of the AFCs due to the changes in its credit.

Capital instruments of all levels held under agreement between AFCs and banking financial institutions, or the capital investment of all levels considered as “watered down capital” by the CBIRC should be deducted from the corresponding levels of regulatory capital.

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## REGULATORY OVERVIEW

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With respect to a small amount of minority capital investments held by the AFCs in their unconsolidated entities, if the amount of the investment exceeds 10% of the AFCs' net core tier-one capital, it should be deducted from the regulatory capital at all levels. With respect to the large amount minority capital investment by an AFC in their unconsolidated entities, the amount of the investment that exceeds 10% of its net core tier-one capital should be deducted from its core tier-one capital. For a small number of capital investment with large amount made by non-consolidated AFCs, additional tier-one capital investment and tier-two capital investment should be deducted in full from the capital of the corresponding tier.

Except for the net deferred tax assets arising from the operating loss, other net deferred tax assets relying on their future operating profit which exceeds 10% of the AFC's net core tier capital should be deducted from its core tier-one capital. The sum of a large amount of minority capital investment by an AFC in financial institutions and the corresponding net deferred tax assets that have not been deducted from the core tier-one capital of the AFC should not exceed 15% of its net core tier-one capital.

### ***Risk-weighted Assets***

Risk-weighted assets of AFCs include credit risk-weighted assets, market risk-weighted assets and operating risk-weighted assets.

AFCs shall refer to either the weighted method or internal rating method to measure their credit risk-weighted assets. AFCs shall refer to the Bank Capital Measures when using the internal rating method and seek the approval from CBIRC. The risks which are not calculated by the internal rating method shall be measured by the weighted method. AFCs are not allowed to change the method to measure credit risk-weighted assets without the approval of the CBIRC.

AFCs may measure market risk capital requirements by adopting the standard method or internal model method. Without the approval from the CBIRC, they shall not alter the method for measuring market risk capital.

AFCs may use the index method, the standard method or the advanced measurement method to measure capital requirement for operating risks. Operating risk-weighted assets must be 12.5 times of the capital requirements for operating risks and is calculated at: (operating risk-weighted assets = capital requirement for operating risks\*12.5). Without the approval of the CBIRC, commercial banks shall not alter the method for measuring operational risk capital.

### ***Compliance Timing***

The Bank Capital Measures require commercial banks to meet regulatory requirements on capital adequacy ratio by the end of 2018. Commercial banks that are well-capitalized are encouraged to meet this requirement ahead of schedule. The Bank Capital Measures and Interim Bank Capital Measures, stipulate that during the transitional period, the reserve capital requirement will be gradually introduced so that commercial banks will be able to meet the annual capital adequacy ratio requirement. AFCs shall refer to the provisions of such Bank Capital Measures.

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## REGULATORY OVERVIEW

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### *Leverage Ratio Regulatory Requirement*

The Administrative Measures on Leverage Ratio of Commercial Bank (《商業銀行槓桿率管理辦法》) (the “**Bank Leverage Regulations**”) set forth the calculation methods for leverage, as well as the supervision and management of leverage ratios. AFCs shall refer to the Bank Leverage Regulations, and maintain consolidated and unconsolidated leverage ratios of not less than 4%.

### *Loan Classification Regulations*

According to the Guidelines for Risk-based Loan Classification (《貸款風險分類指引》) (the “**Classification Guidelines**”), AFCs may refer to the Classification Guidelines to develop a risk-based loan classification system. AFCs may classify loans under a five-category loan classification system, which include “normal,” “special mention,” “substandard,” “doubtful” and “loss”. A loan that is classified as substandard, doubtful or loss is considered to be non-performing loans (the “**NPLs**”). The Classification Guidelines specify classification principles, reference indexes and other related aspects. CBIRC will supervise and administer the quality of loan classification through spot-inspection, supervision and administration. AFCs shall provide the basis of their loan classification system, timely calculate and collect loan loss provision in full and verify loan losses.

### **Loan Loss Provisions**

The Administrative Measures for Loan Loss Provisions of Commercial Banks (《商業銀行貸款損失準備管理辦法》), promulgated by the CBIRC, sets forth certain loan provision ratios and provision coverage ratio, targets to assess adequacy ratios for loan loss provisions established by commercial banks. The benchmark loan provision ratio is 2.5%, while the benchmark provision coverage ratio is 150%. The supervisory standard for loan loss provisions of a commercial bank is the higher one of the two ratios. Commercial banks shall reach the standard by the end of 2016. If any of them fails to reach the standard by the end of 2016, it shall work out a plan for reaching the standard, report the same to the banking regulatory authorities afterwards and reach the standard at no later than the end of 2018. Pursuant to the Administrative Measures for Loan Loss Provisions of Commercial Banks (《商業銀行貸款損失準備管理辦法》), banking financial institutions shall refer to the foregoing Measures, AFCs shall refer to such measures.

### **Depreciation and General Reserves**

The Administrative Measures for the Withdrawal of Reserves by Financial Enterprises (《金融企業準備金計提管理辦法》), effective from July 1, 2012, stipulates that financial enterprises shall, according to their own actual conditions, select the internal model approach or the standard approach to make a quantitative analysis of risks faced by risk assets and to estimate the potential risks. General reserve shall be withdrawn if the estimated potential risks are more than the depreciation reserve. The balance of general reserve in principle must not be lower than 1.5% of the closing balance of all risk assets. Financial enterprises who apply for the standard approach must use the following standard risk ratios to calculate the estimated potential risks: (i) 1.5% for pass credit assets, (ii) 3% for

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## REGULATORY OVERVIEW

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special-mentioned credit assets, (iii) 30% for substandard credit assets, (iv) 60% for doubtful credit assets and (v) 100% for loss credit assets. If the ratio of the balance of general reserves of a financial enterprise against the closing balance of its risk assets cannot be met, a financial enterprise will generally have a grace period of not more than five years to achieve the threshold.

### Regulation on Disposal of Bad Assets

According to the Due Diligence Guidelines on Disposal of Bad Financial Assets (《不良金融資產處置盡職指引》), AFCs that dispose bad financial assets may refer to the relevant business regulation guidelines to grade such bad financial assets, improve its related decision-making mechanisms and operating procedures and meet certain due diligence requirements. The guidelines specify certain requirements for (i) divestiture (transfer) or acquisition bad financial assets, (ii) management of bad financial assets, and (iii) disposal of bad financial assets. As such, AFCs may refer to Due Diligence Guidelines on Disposal of Bad Financial Assets and ensure that their due diligence inspection is properly carried out.

### Bad Debts Cancellation Supervision

The Administrative Measures for Write-offs of Bad Debts of Financial Enterprises《金融企業呆賬核銷管理辦法》 stipulates the determination of bad debts and the materials and procedures of the application for the write-off of bad debts. Financial institutions shall establish a liability determination and investigation system for bad debts, a liability investigation work reporting system for the write-off of bad debts, a confidentiality system for the write-off of bad debts and systems of asset preservation and recovery after the write-off of bad debts.

## CORPORATE GOVERNANCE AND INTERNAL CONTROLS

### Corporate Governance

The corporate governance structure of a limited company established in China is based on the PRC Company Law, which affects the appointment, authority and composition of a company's the board of directors and board of supervisors and other relevant committees.

AFCs shall abide by the CBIRC Licensing Measures and the Administrative Measures on Qualification for Directors (Council Members) and Senior Management in Financial Institutions in the Banking Industry (《銀行業金融機構董事(理事)和高級管理人員任職資格管理辦法》) of the regulation of the qualifications of director and senior management in an AFC and the approval procedures for candidates who are to be appointed to act as director and executives of an AFC. AFCs shall also abide by Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》) on a reference basis which regulates the actions of shareholders of financial institutions, since the regulation of the shareholders under the penetrative supervision, timely disclosure equity information and strengthen management of equity are of common application.

According to the Evaluation Measures on Performance of Directors in Commercial Banks (for Trial Implementation) (《商業銀行董事履職評價辦法》(試行)), the specification and evaluation of the

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## REGULATORY OVERVIEW

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behavior of directors of automotive financing companies shall refer to this measure, establish and optimize an evaluation system for its directors, with the board of supervisors having ultimate responsibility for evaluating the performance of directors. CBIRC will supervise the evaluation activity of supervising directors.

The Commercial Bank Guidelines require AFCs to refer to the requirements in relation to the organizational structure of corporate governance, board of directors, board of supervisors, executive management, risk management and internal control, incentive and restraint mechanism, information disclosure and related matters. According to the Guideline on Supervision of Steady Payment in Commercial Bank (《商業銀行穩健薪酬監管指引》) (the “**Payment Guidelines**”), an AFC shall refer to the payment mechanism in commercial banking to formulate its own strategy and mechanism which is conducive to the development of the company, and endeavor to enhance competitiveness and increase personnel training, risk management and compensation mechanism. The Payment Guidelines also provide the composition of payment, payment method and payment management.

### Internal Controls

AFCs shall refer to Guidelines for the Internal Control of Commercial Banks (revised in 2014) (《商業銀行內部控制指引》(2014年修訂)) to promote the establishment and improvement of internal control mechanisms by commercial banks, effectively prevent financial risks, and guarantee the safe and steady operation of the banking system. In addition, the Guidelines for the Internal Audit of Commercial Banks (《商業銀行內部審計指引》) regulate the establishment of an internal audit department and set forth the duties of different institutions and personnel, which include the powers and duties of the internal audit committee, certain quality control and reporting systems and general assessment and accountability matters. Pursuant to the guidelines, AFCs may refer to the foregoing Guidelines. Moreover, the Automotive Financing Regulations require that an automotive financing company must act in accordance with CBIRC requirements to establish a sound corporate governance and internal controls system. The main requirements of internal control and risk control of an AFC include:

- **Supervisory requirements:** an AFC must maintain: (i) capital adequacy ratio of not less than 8%; (ii) core capital adequacy ratio of not less than 4%; (iii) balance of the credit extended to a single borrower does not exceed 15% of its net capital; (iv) balance of the credit extended to a single group client does not exceed 50% of its net capital; (v) balance of the credit extended to a single shareholder and the related parties thereof does not exceed the amount of the shareholder’s investment in the AFC; and (vi) self-use fixed assets do not exceed 40% of the net capital. CBIRC may adjust these indicators to the necessary extent.
- **Risk classification:** an AFC must adopt a system of classifying credit risk assets into five levels in accordance with the relevant regulations and establish a prudent assets devaluation reserve system, which must be provided in full amount in a timely manner. After-tax profits shall not be distributed in principle until such reserves are considered adequate.
- **Documentation:** an AFC is required to prepare balance sheet, income statement and other financial information as required by CBIRC, which will be submitted to CBIRC in accordance with the relevant regulations.

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## REGULATORY OVERVIEW

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- **Regular external auditing system:** within four months of the end of an accounting year, an AFC must submit its annual auditor’s report, signed by its legal representative, to the local branch of the CBIRC where the AFC is registered.
- **Outsourcing policies:** if an AFC is required to outsource its business, it must formulate a corresponding policy and management system, which will include: (i) decision-making process for outsourcing, (ii) system for evaluating and managing outsourcing party, and (iii) confidentiality measures and security plans for confidential or private business information. Before concluding an outsourcing agreement, an AFC must report the major risks with respect to the business outsourcing agreement and corresponding risk management measures to the local branch of the CBIRC where the AFC is registered.

### PRIMARY RISK MANAGEMENT

#### Credit Risk Management

AFCs shall apply to the provisions of the Measures for the Administration of Auto Loans and other regulations. The specific details are in “Regulatory Environment — Regulation of Major Business — Automotive Loan Business — Risk Management”.

#### Operational Risk Management

The Guideline on Management of Operational Risks of Commercial Bank (《商業銀行操作風險管理指引》) (the “**Operational Risk Guidelines**”) stipulates that an AFC shall refer to implementing this guidelines and manage operational risks with reference to the guidelines. Operational Risk Guidelines a commercial bank shall establish an operational risk management system. The operational risk management system shall include at least the following principal elements: (i) control and supervision of the board of directors, (ii) responsibilities of the senior management, (iii) appropriate corporate structure, (iv) operation risk management policies, methods and procedures, and (v) policies on operational risk reserve accrual.

Operational risk management policies and procedures of an AFC must be in accordance with the Operational Risk Guidelines, which are required to be submitted to the CBIRC for filing. If some significant operational risk occurs and is not sufficiently corrected by effective measures within a reasonable time period, the CBIRC must act in accordance with the Operational Risk Guidelines to enact certain regulatory measures to address such risks.

The Bank Capital Measures provide further guidance on the requirements for the calculation of the operation of risk weighted assets. In addition, the Guideline on Managing the Outsourcing Risks of Banking Financial Institutions (《銀行業金融機構外包風險管理指引》) specifies the duty of directors and executors in the outsourcing activities, as well as provides details for the risk management framework and related regime in an AFC. It also specifies that the strategic management, core management and internal audit functions of an AFC must not be outsourced. In addition, an automotive financing institution must regularly submit its outsourcing evaluation report to the local branch of the CBIRC.



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## REGULATORY OVERVIEW

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### IT Risk Management

The Guideline on Managing Information Technology Risk of Commercial Bank (《商業銀行信息科技風險管理指引》) (“IT Risk Guidelines”) requires that AFCs refer to these guidelines to improve and enhance their IT risk management. The IT Risk Guidelines provide standards for corporate governance and risk management of information technology issues of commercial banks, as well as information safety, information systems development, testing and maintenance, IT operation, business continuity management and IT risks that might be encountered during outsourcing activities. The IT Risk Guidelines also set forth relevant requirements of internal and external audit of information technology. The CBIRC will supervise and inspect an IT company’s risk management processes in accordance with the IT Risk Guidelines.

The Regulatory Guidelines on Data Centre of Commercial Bank (《商業銀行數據中心監管指引》) provide that AFCs are required to refer to the guidelines with respect to conducting data center risk management, operations and maintenance, disaster recovery, and other matters relating to outsourcing management.

The Guidelines on Information Technology Outsourcing Risks of Banking Financial Institutions (《銀行業金融機構信息科技外包風險監管指引》) provide that an AFC, which is required to refer to this guidelines must integrate IT outsourcing management into its risk management systems, as well as establish corresponding outsourcing management systems that form part of its technology development strategy, which should enable it to control or mitigate outsourcing risks.

### Compliance Risk Management

The Guidelines on Compliance Risk Management of Commercial Banks (《商業銀行合規風險管理指引》) clarify the responsibilities of the board of directors, board of supervisors and senior management of PRC commercial banks with respect to compliance risk management, as well as standardize the organizational structure for compliance risk management. In addition, these guidelines set forth the regulatory framework for commercial banks’ risk management. According to the above guidelines, AFCs shall refer to the Guidelines.

### Market Risk Management

AFCs must refer to the Guidelines on the Market Risk Management of Commercial Banks (《商業銀行市場風險管理指引》) which set forth, among other things, (i) responsibilities of the board of directors and senior management in supervising market risk management, (ii) policies and procedures for market risk management, (iii) detection, quantification, monitoring and control of market risk, and (iv) responsibilities for internal control and external audits. In addition, the Banking Capital Measures set forth certain basic standards for the development of internal models to measure market risk, as well as the examination and approval procedures and other requirements. According to the above guidelines, AFCs shall refer to relevant provisions.

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## REGULATORY OVERVIEW

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### Reputation Risk Management

AFCs shall refer to the requirements of the Guideline on Managing Reputation Risks of Commercial Bank (《商業銀行聲譽風險管理指引》) to take into account reputation risk management issues into their corporate governance and comprehensive risk management systems. AFCs shall establish and develop a reputation risk management mechanism to actively and effectively mitigate and manage reputation risks, with the goal of avoiding negative publicity or damage to their brand name.

### FINANCIAL INNOVATION

The Guideline on Financial Innovation of Commercial Bank (《商業銀行金融創新指引》) aims to encourage AFCs to refer to commercial bank innovation guidelines, which are intended to facilitate financial innovation activities and regulation. The CBIRC has established the financial stability and financial innovation as the standard of conducting sufficient supervision, supervise and manage financial innovation activity in accordance with the law. In accordance with such guideline, AFCs are required to conduct financial innovation activities in the spirit of legal compliance, fair competition, respect of intellectual property rights, risk mitigation and full information disclosure.

### OTHER PROVISIONS RELATED TO THE AUTOMOTIVE FINANCING COMPANIES

#### Anti-Money Laundering Laws

According to the Anti-Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》), the relevant financial regulatory authority under the State Council requires that financial institutions under its supervision and administration must establish and improve their internal control systems for anti-money laundering. Financial institutions must incorporate and undertake anti-money laundering measures, which may include:

- establish a proper and comprehensive internal system of anti-money laundering controls;
- establish and maintain a client identification and know-your-client system;
- ensure that the third party has adopted measures for determining customer identity, if determining the identity of a customer through a third party;
- maintaining client identification data, business records and trading records; and
- utilizing a reporting system for large sum and high-risk transactions.

The Provisions on Financial Institutions Anti-Money Laundering (《金融機構反洗錢規定》) stipulate that PBOC will be responsible for supervising and administering anti-money laundering measures of financial institutions. The CBIRC, CSRC and CIRC were required to supervise and manage anti-money laundering measures within the scope of their respective duties and responsibilities. The AFCs and their branches are required to establish and enhance their internal anti-money laundering measures, as well as establish a committee or designate an internal department

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## REGULATORY OVERVIEW

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to specialize in anti-money laundering efforts. In addition, AFCs are required to formulate internal operational procedures and control measures for anti-money laundering, and provide anti-money laundering trainings to employees and enhance the anti-money laundering awareness of the institutions.

According to the Administrative Measures of Client Identification and Identity Materials and Transaction Recording of Financial Institutions (《金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法》), AFCs must establish, implement and enhance their client identification system, as well as a client identity information and transaction records archiving system. In addition, the Administrative Measures on Reporting Large and Doubtful Transactions in Financial Institutions (Revised in 2018) (《金融機構大額交易和可疑交易報告管理辦法(2018年修訂)》) require AFCs to establish a special position or assign a designated person to oversee anti-money laundering measures, which include reporting large sum and/or high-risk transactions, formulating an internal management system and operating procedures for large and doubtful transactions according to such measures, and file such measures with PBOC for recording purposes. According to Administrative Measures on Reporting of Large Amount Transactions and Suspicious Transactions by Financial Institutions (《金融機構大額交易和可疑交易報告管理辦法(2018修訂)》), the account-opening financial institution or the card-issuing bank shall report the large amount transaction where a large amount transaction is made by a customer through an account opened with a domestic financial institution or through a bank card.

### Foreign Exchange Administration

The Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration on Automotive Financing Companies (《國家外匯管理局關於汽車金融公司有關外匯管理問題的通知》) regulates the opening foreign exchange capital account of the AFCs. In addition, this notice sets forth certain income matters and scope of capital accounts, as well as the settlement of the capital and other related matters. The capital verification procedure of foreign shareholders must comply with the provisions of the Circular of the Ministry of Finance and the State Administration of Foreign Exchange on Further Strengthening the Legal Capital Verification of Foreign-Invested Enterprises and the System for Foreign Exchange Registration (《財政部、國家外匯管理局關於進一步加強外商投資企業驗資工作及健全外資外匯登記制度的通知》), which requires AFCs to follow certain rules and procedures when conducting international payment transactions.

### Labor and Personnel

Pursuant to the Social Insurance Law of the PRC (中華人民共和國社會保險法), which was promulgated by the Standing Committee on October 28, 2010 and became effective on July 1, 2011 and as amended on December 29, 2018, the PRC established social insurance systems such as basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance so as to protect the right of citizens in receiving material assistance from the nation and the society in accordance with the law when getting old, sick, injured at work, unemployed and giving birth. Employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, work-related injury insurance and maternity insurance. If an employer does not pay the full amount of social insurance premiums as scheduled, the social insurance premium collection

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## REGULATORY OVERVIEW

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institution shall order it to make the payment or make up the difference within the stipulated period and impose a daily surcharge equivalent to 0.05% of the overdue payment from the date on which the payment is overdue. If payment is not made within the stipulated period, the relevant administration department shall impose a fine from one to three times the amount of overdue payment.

According to the Several Provisions on Implementing the Social Insurance Law of the PRC (實施《中華人民共和國社會保險法》若干規定) (the “**Provisions**”), which was promulgated by the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) on June 29, 2011 and became effective on July 1, 2011, insurance premium which should be paid by the employees shall be withheld and paid by the employers. Where an employer fails to withhold and pay the premiums in accordance with the Provisions, the social insurance premium collection institution shall order the employer to remit within time limit and impose a daily surcharge equivalent to 0.05% of the overdue payment from the date of default as late payment penalty. The employers shall not require employees to pay for the late payment penalty.

Pursuant to the Regulations on the Administration of Housing Provident Funds (住房公積金管理條例) which was promulgated by the State Council on April 3, 1999 and became effective on April 3, 1999 and as amended on March 24, 2002, the employers shall go through housing provident funds registration with the local housing fund administration center and open housing fund accounts for its employees in the bank. The contribution rate of housing provident funds of an employee and employer shall not be less than 5% of the monthly average salary in the previous year, and cities with good conditions may properly raise the contribution rate. Failure to complete the abovementioned registration and accounts opening, an employer may be subject to order to rectify within a time limit. If an employer fails to rectify within prescribed time limit, it shall be imposed the penalty ranging from RMB10,000 to RMB50,000. Where an employer fails to pay up housing provident funds within the time limit, the housing fund administration center shall order it to make payment in certain period of time, if the employer still fails to do so, the housing fund administration center may apply to the court for enforcement of the unpaid amount.

### **Anti-corruption**

The Anti-Unfair Competition Law of the People’s Republic of China (revised in 2017) (《中華人民共和國反不正當競爭法》(2017年修訂)) (the “**the Anti-Unfair Competition Law**”), which issued by Standing Committee, and came into effect on January 1, 2018, requires that business operators to be prohibited from using properties or other means for bribing any employees of the counterparty of the transaction, or any entity or individual entrusted by the counterparty in a transaction to handle relevant affairs, or any entity or individual who will affect the traction by taking advantage of its power or influence, in order to seek an opportunity of transaction or competitive advantage. Furthermore, according to the Anti-Unfair Competition Law, the business operators shall give discounts to the counterparty or pay commissions to the intermediaries explicitly, and such discounts or commissions shall be accurately recorded. Correspondingly, the involved counterparty or intermediaries shall also consolidate such treatments in their financial statements or accounts accurately. Any offender will be subject to certain penalties, e.g. a fine up to ranging from RMB0.1 million to 3 million, and confiscation of illegal incomes; where the case constitutes a criminal offence, criminal liability might also be imposed. SAMR also recommended AFCs expressly provide in their contracts not to charge customers unreasonable handling fees or loan service fees.

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## REGULATORY OVERVIEW

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The Interim Provisions on the Prohibition of Commercial Bribery Behavior issued by the State Administration for Industry and Commerce (國家工商管理行政管理局關於禁止商業賄賂行為的暫行規定), which came into effect on November 15, 1996, further stipulated the constitution and legal liabilities of commercial bribery. The United Nations Convention against Corruption (聯合國反腐敗公約) was adopted by the General Assembly of the United Nations on October 31, 2003. The convention aims to promote and enhance various measures for preventing and combating corruption in a more effective and powerful way, and to promote, facilitate and support international cooperation and technical assistance in preventing and combating corruption, including asset recovery, encouraging integrity, accountability and proper management of public affairs and properties. The PRC Government ratified this convention in 2005 with reservations.

### Vehicle Purchase Tax

Pursuant to the Interim Regulations of the People's Republic of China on Vehicle Purchase Tax (車輛購置稅暫行條例), which became effective from January 1, 2001, the Vehicle Purchase Tax rate is 10%.

Pursuant to the Notice on the Reduction of Purchase Tax on Passenger Vehicles with Displacement of 1.6 Liters and Less (關於減徵1.6升及以下排量乘用車車輛購置稅的通知), which was promulgated on December 13, 2016, from January 1, 2017 to December 31, 2017, the vehicle purchase tax rate on passenger vehicles with displacement of 1.6 liters and less shall be 7.5%; from January 1, 2018 on, the vehicle purchase tax rate of 10% on passenger vehicles will be resumed.

According to the Announcement on the Exemption of Vehicle Purchase Tax on New Energy Automobiles (《關於免徵新能源汽車車輛購置稅的公告》), which was promulgated on December 26, 2017, provides that the purchased new energy vehicles listed in the designated catalogue will be exempted from the vehicle purchase tax from January 1, 2018 to December 31, 2020.

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## HISTORY AND CORPORATE STRUCTURE

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### OVERVIEW

The Company was established in the PRC on March 11, 2015 with a registered capital of RMB0.5 billion and was held by ZhengTong and Dongfeng as to 95% and 5%, respectively. Pursuant to the AFC license granted by the CBIRC, the Company is authorized to conduct businesses including providing automobile retail loans and other financing services to our end customers for their car purchase (i.e. retail loans) and loans to dealers to facilitate their purchase of new cars to be sold to their end customers (i.e. dealer loans) nationwide. As at the Latest Practicable Date, the Company operated both the retail loan business and dealer loan business.

The ZhengTong Group has three major operating segments, namely (i) 4S dealership business, (ii) supply chain business, and (iii) financial services business. The Company was established to conduct the auto financing business under the financial services business segment of the ZhengTong Group. The establishment of the Company and our provision of auto financing services would enable ZhengTong Dealers to improve the overall customer experience, optimize customer services and promote car sales by pre-empting the financing needs of their end customers.

On May 27, 2017, the Company received the approval from the Shanghai branch of the CBIRC to increase its registered capital from RMB0.5 billion to RMB1.6 billion. Such capital increase was completed in September 2017.

The Company has been expanding our dealer network, and as of December 31, 2018, our dealer network consisted of 113 ZhengTong Dealers and 1,167 External Dealers. Our dealer network covered 24 provinces and 182 cities in China, comprising Beijing, Shanghai, Shenzhen, Guangzhou, as well as 36 second-tier cities and 142 third-tier and other lower-tier cities.

### BUSINESS MILESTONES

The following is a summary of our key business development milestones:

Date	Event
March 2015	The Company was established after obtaining the AFC license from the CBIRC.
December 2016	The Company was awarded the third prize of the Best Enterprise Annual Report of Pudong New Area of 2015 (2015年度浦東新區企業年報三等獎).
September 2017	The Company's registered capital was increased to RMB1.6 billion.
December 2017	The Company was awarded the second prize of the Best Enterprise Annual Report of Pudong New Area of 2016 (2016年度浦東新區企業年報二等獎).
April 2018	The Company was awarded the Outstanding Contributions to Economy of 2017 (2017年經濟突出貢獻獎) by Pudong New Area People's Government.

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## HISTORY AND CORPORATE STRUCTURE

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### OUR CORPORATE DEVELOPMENT

#### Establishment and Development of the Company

The Company was established as a limited liability company under the name of Shanghai Dongzheng Automotive Finance Co., Ltd.\* (上海東正汽車金融有限責任公司) in the PRC on March 11, 2015. Upon establishment, the Company had a registered capital of RMB0.5 billion, which was contributed in cash as to 95% by ZhengTong and 5% by Dongfeng. The above registered capital was fully paid by Dongfeng and ZhengTong on November 28, 2014 and December 4, 2014, respectively.

Pursuant to the resolution of the Board dated January 25, 2017, the registered capital of the Company was increased from RMB0.5 billion to RMB1.6 billion, which was contributed in cash by ZhengTong and Dongfeng in proportion to their respective equity interests in the Company. The registration of such capital increase with the SAMR was completed on June 13, 2017 and the capital increase was completed on September 5, 2017.

#### Conversion into a Joint Stock Limited Liability Company

On May 11, 2018, the Board resolved to convert our Company into a joint stock limited liability company (the “**Conversion**”). On May 26, 2018, ZhengTong and Dongfeng signed a promoters’ agreement to effect the Conversion. Each of ZhengTong and Dongfeng agreed to convert approximately 77.67% of the audited net asset value of our Company as at December 31, 2017 into 1,600,000,000 Shares (with a par value of RMB1.00 per Share), and the remainder as capital reserve. Meanwhile, the amount of the general risk reserve in our audited net asset value as of December 31, 2017 was converted into our general risk reserve. ZhengTong and Dongfeng also agreed to hold 1,520,000,000 Shares and 80,000,000 Shares, respectively, accounting for 95% and 5% of the total issued Shares, respectively.

On May 26, 2018, ZhengTong and Dongfeng, as the Promoters, approved the resolutions in relation to the Conversion and adopted the articles of association of the Company which were further approved by the Shanghai branch of the CBIRC on July 23, 2018. The Company was registered as a joint stock limited liability company on August 15, 2018. On September 4, 2018, the SASAC issued the reply, agreeing the state-owned equity management plan of the Company, and confirmed that the total equity capital of the Company being 1,600 million shares, of which Dongfeng held 80 million shares, accounting for 5% of our total equity.

### THE SPIN-OFF

ZhengTong submitted a proposal for the Spin-off to the Stock Exchange pursuant to Practice Note 15 to the Listing Rules and the Stock Exchange has confirmed that ZhengTong may proceed with the Spin-off. Our Company will comply with the requirements under Practice Note 15 to the Listing Rules and the applicable requirements of the Listing Rules regarding the Spin-off as and when necessary.

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## HISTORY AND CORPORATE STRUCTURE

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The board of directors of ZhengTong believes that the Spin-off and the Listing are beneficial to both ZhengTong and our Company for the following reasons, among others:

- (a) The Spin-off will promote the development of our Company while the Remaining Group can focus more of its resources on the remaining principal business of the Remaining Group (the “**Remaining Business**”), thereby realizing the maximum growth potential of both ZhengTong and the Company;
- (b) As a result of the Spin-off, the Remaining Group and the Company will have separate fundraising platforms in the equity and debt capital markets, which will increase financing flexibility and adaptability of both entities to support and accelerate their respective growth;
- (c) As a result of the differences in the business and operational focuses, each of the Remaining Business and our business requires a different set of management expertise and technical skills and has distinctive cost structure, business model and regulatory requirements. The Spin-off will lead to a clear separation of the operations and management between the Company and the Remaining Group, allowing for a more focused strategy and efficient resource allocation at both businesses;
- (d) The Company being a non-banking financial institution in the PRC providing financing services has a different risk profile as compared to that of the Remaining Group. The Spin-off will allow the investors to appreciate the risk profiles of the Company and the Remaining Group more distinctively and individually through more detailed disclosure of the business and management discussion and analysis of the Company in its prospectus and ongoing public announcements and financial reports; and
- (e) The Spin-off will provide investors with a clear indicator of the standalone market valuation of the Company, which will facilitate the assessment and enhancement of the overall value of the Company. The Company will be separately valued and investors will be provided with more details of the operating performance of each of the Remaining Business and our business. The Spin-off will also help create a new investor base for the Company as it will be able to attract new investors who are seeking investments specifically in the auto finance industry.

### BACKGROUND OF OUR EXISTING SHAREHOLDERS

#### **ZhengTong**

ZhengTong was incorporated on July 9, 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). It currently holds a 95% equity interest in our Company. For further details of ZhengTong, please refer to the section headed “Relationship with Controlling Shareholders” in this prospectus.



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## HISTORY AND CORPORATE STRUCTURE

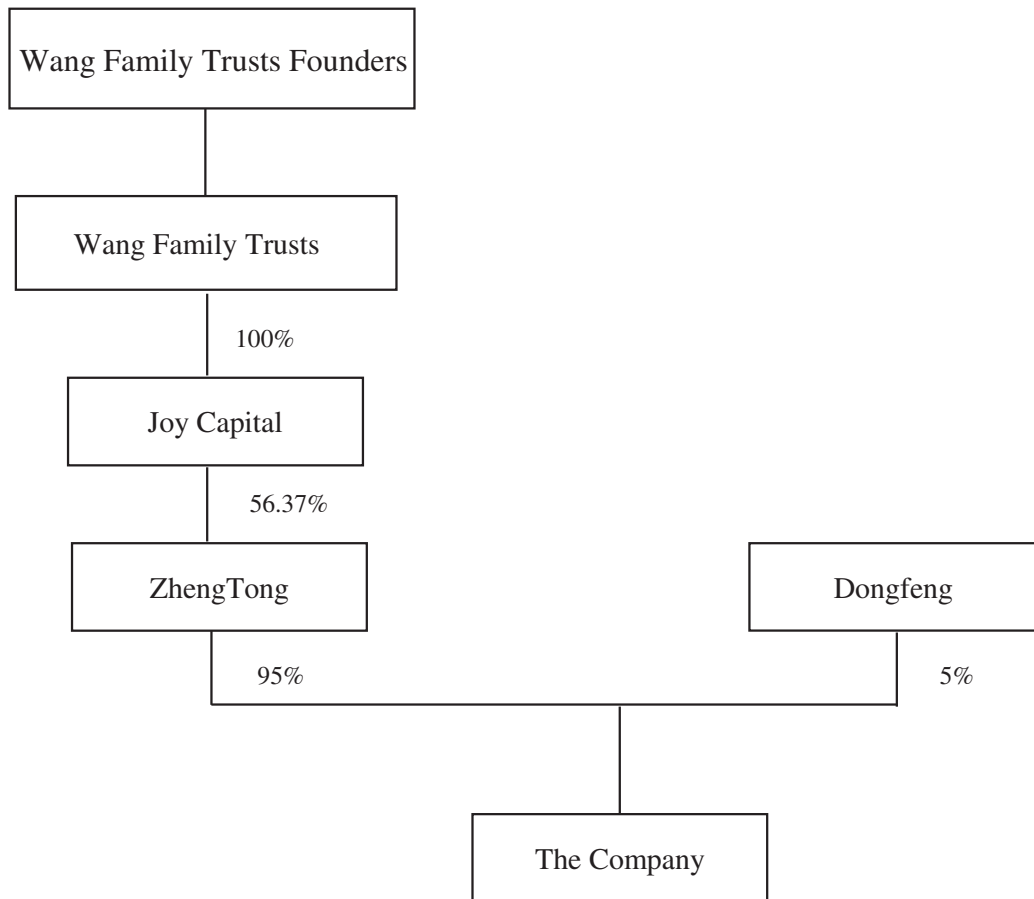
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### Dongfeng

Dongfeng was established on June 25, 1991 in the PRC, with a registered capital of RMB15.6 billion as of the Latest Practicable Date. It currently holds a 5% equity interest in our Company. The registered business scope of Dongfeng includes, among others, engaging in the manufacturing of cars and auto parts. Following the Global Offering, the Shares held by Dongfeng will be counted towards the public float.

### OUR STRUCTURE IMMEDIATELY PRIOR TO THE GLOBAL OFFERING

The following diagram illustrates the corporate and shareholding structure of our Company immediately prior to the completion of the Global Offering:



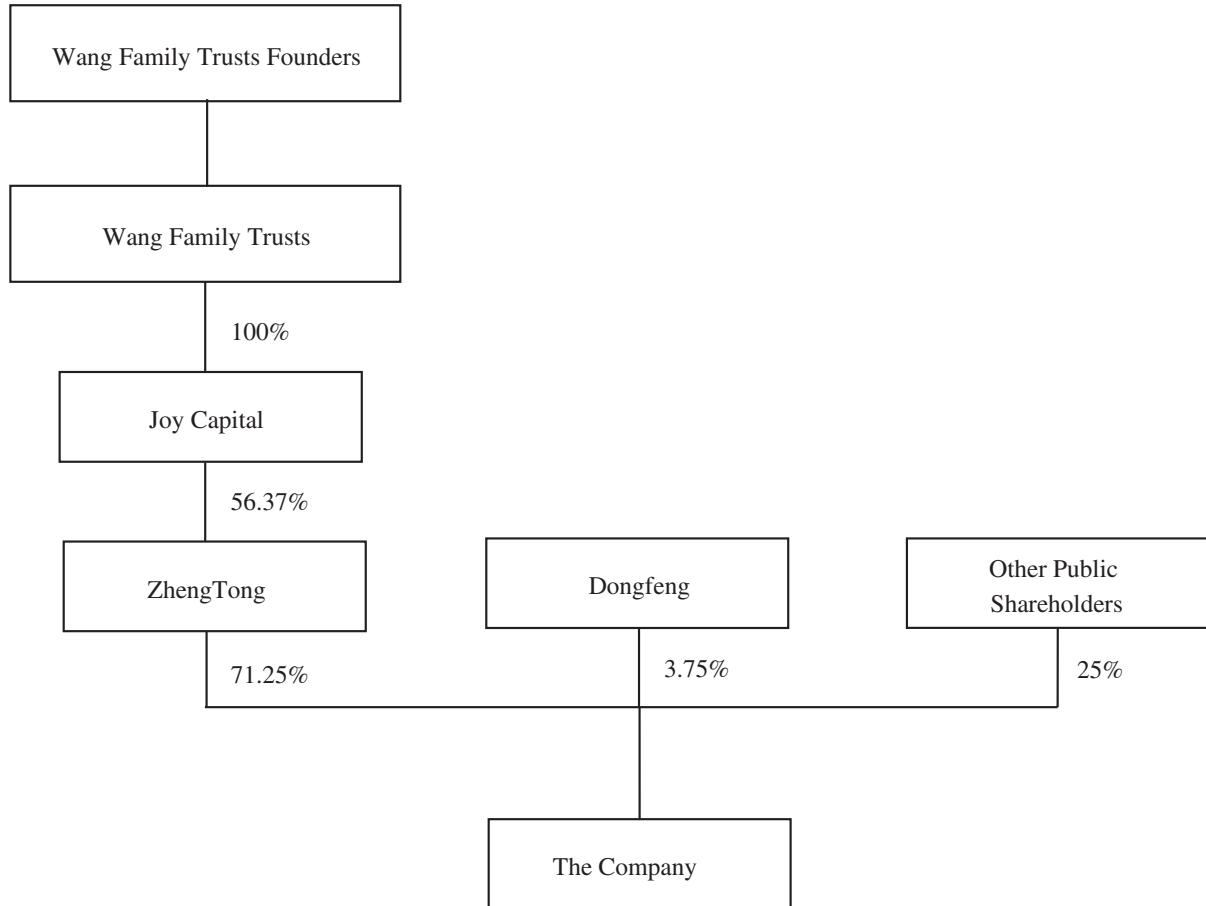
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## HISTORY AND CORPORATE STRUCTURE

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### OUR STRUCTURE IMMEDIATELY FOLLOWING THE GLOBAL OFFERING

The following diagram illustrates the corporate and shareholding structure of our Company immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised):



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## BUSINESS

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### OVERVIEW

We are the only AFC with a dealership background in China, licensed and regulated by the CBIRC. We specialize in providing auto finance products and services for the purchase of luxury-brand cars. In 2018, we disbursed 31,577 retail loans for the purchase of luxury-brand cars with an aggregate principal amount of RMB6,108.2 million, accounting for 75.7% of the total number of retail loans we disbursed and 86.3% of the aggregate principal amount of retail loans we disbursed during the same period. Given our focus on the financing of luxury-brand car purchases, the average loan principal amount that our retail loan customers received in 2017 was RMB220,028, which ranked third among all the AFCs in China in 2017 and was substantially higher than the industry average of RMB98,411 for the same period, according to the CIC Report.

Benefiting from our know-how, industry insights, and our parent company ZhengTong's nearly 20 years of operating experience in the dealership business, we offer tailored financing products and services primarily to luxury-brand car buyers.

We have established a dealer network with a broad geographical coverage in China. The number of dealers within our sales network grew from 226 as of December 31, 2016 to 1,280 as of December 31, 2018. The geographical coverage of our dealer network reached 182 cities in China as of December 31, 2018, comprising Beijing, Shanghai, Shenzhen, Guangzhou as well as 36 second-tier cities and 142 third-tier and other lower-tier cities. We aim to further strengthen our brand recognition through our Weixin official account and mini-programs. We have also established strategic cooperation with certain luxury-brand automakers to expand our customer base.

Since our inception, we have continued diversifying our funding sources to support our growth. As an AFC licensed and regulated by the CBIRC, we have access to a variety of funding sources otherwise unavailable to non-CBIRC licensed entities, including inter-bank borrowing and the national inter-bank lending market.

We strive to enhance our customer acquisition and management, operating efficiency as well as risk management capabilities through technologies. Our operating system streamlines the loan approval and disbursement process by seamlessly integrating various functions including data and performance indicator tracking, finance and client relationship management. We have also established a database comprised of PBOC credit data and other relevant user-authorized consumer credit data. We apply big data analytics, algorithm-based credit risk assessment model and an automated risk control decision-making engine to reduce the lead time for loan review and approval, allowing us to improve customer experience and monitor loan delinquencies. We also launched an automated retail loan review and approval system in March 2018. Since then and up till December 31, 2018, nearly 35% of the successful retail loan applications were approved by an automated process and the retail loans can be disbursed within hours after being approved. As of December 31, 2016, 2017 and 2018, our overall non-performing loan ratio was 0.37%, 0.28% and 0.27%, respectively.

Our business primarily consists of: (i) retail loan business, whereby we offer retail loan and other financing services to end customers for their purchase of cars; and (ii) dealer loan business, whereby we provide loans to dealers to facilitate their purchase of cars to be sold to their end customers.

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## BUSINESS

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### **Retail loan business**

Our retail loan business comprises self-operated retail loan business and retail loan facilitation business.

***Self-operated retail loan business.*** Our self-operated retail loan business consists of our standard retail loan business and joint retail loan business. Under our standard retail loan business, we disburse retail loans to customers using our own funds and charge interests on the loans. We also offer direct lease products whereby we purchase cars according to customers' requirement and then lease them to these customers in exchange for monthly lease payments. Under our joint retail loan business, we collaborate with commercial banks to disburse loans using both our own capital and funding from commercial banks. We charge customers interests for the portion of the loan funded by us and charge the commercial banks a service fee.

Our self-operated retail loan business experienced significant growth during the Track Record Period. For the years ended December 31, 2016, 2017 and 2018, we disbursed 15,548, 18,654 and 41,730 self-operated retail loans, and generated revenue of RMB248.3 million, RMB387.6 million and RMB769.5 million, respectively. The gross outstanding balance of our self-operated retail loan business as of December 31, 2016, 2017 and 2018 was RMB3,418.2 million, RMB5,032.2 million and RMB7,786.1 million, respectively.

***Retail loan facilitation business.*** To satisfy customers' financing needs beyond our funding, we also refer customers to commercial banks, provide other loan-related services such as loan consultation and preparation of loan applications to be submitted to the commercial banks and collect service fees from these customers upon the signing of the loan agreements with the commercial banks. During the loan application review process, these commercial banks will independently review the loan applications and conduct the loan approval process. The commercial banks assume full credit risks for such loans. We do not bear any credit risk or provide guarantees for such loans.

For the years ended December 31, 2016, 2017 and 2018, we facilitated 20,946, 26,655 and 47,165 retail loans, and generated fee and commission income of RMB168.2 million, RMB195.9 million and RMB281.8 million, respectively.

### **Dealer loan business**

We provide loans to dealers to facilitate their purchase of new cars to be sold to their end customers. The dealer loan business helps us gain a better understanding of dealers' needs and strengthens our relationships with them.

For the years ended December 31, 2016, 2017 and 2018, we generated interest income of RMB28.5 million, RMB40.9 million and RMB35.5 million from our dealer loan business, respectively. The gross outstanding balance of our dealer loan business as of December 31, 2016, 2017 and 2018 was RMB355.6 million, RMB916.0 million and RMB890.5 million, respectively.

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## BUSINESS

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### OUR STRENGTHS

We believe that the following strengths contribute to our success and differentiate us from our competitors:

#### *Strategic Focus on the Luxury-brand Auto Finance Market Since Our Inception*

We are the only AFC in China with a dealership background, licensed and regulated by the CBIRC. Leveraging ZhengTong's nearly 20 years of experiences in the luxury-brand car dealership industry, we have strategically focused on providing auto finance products and services for the purchase of luxury-brand cars since our inception.

Our business covers most of the luxury car brands, including Porsche, BMW, Mercedes-Benz, Audi, Jaguar and Land Rover, and Volvo. According to the CIC Report, we have the broadest luxury car brands coverage among all the AFCs in China. For the years ended December 31, 2016, 2017 and 2018, 81.9%, 88.2% and 75.7% of our self-operated retail loans were disbursed for the purchase of luxury-brand cars, respectively, in terms of the number of loans disbursed. Given such a strategic focus, the average loan principal amount that our retail loan customers received in 2017 was approximately RMB220,028, which ranked third among all the AFCs in China and was substantially higher than the industry average of RMB98,411 in the same period, according to the CIC Report.

In addition, we have benefited from the rapid growth of the luxury-brand auto finance market in China. In terms of loan principal amount, China's retail auto finance market grew at a CAGR of 27.4% from 2013 to 2017 while the luxury-brand auto finance market grew at a CAGR of 33.1% during the same period, according to the CIC Report. Taking advantage of our leadership position in the luxury-brand auto finance market and the market's rapid growth, we were one of the fastest growing AFCs in China based on self-operated retail loan disbursement amount provided for luxury-brand car purchases from 2016 to 2018. Our operating income, profits and total comprehensive income, and total assets that grew at a CAGR of 56.7%, 61.0% and 53.3% from 2016 to 2018, respectively, each of which was higher than the industry average, according to the CIC Report.

#### *Unique Dealership Background and Nationwide Coverage*

As the only AFC in China with a dealership background licensed and regulated by the CBIRC, we have a deep understanding of the dealership market and are able to provide products and services tailored to the changing needs of dealers and their end customers. We have built direct cooperative relationships with dealers within our sales network. Through directly working with the dealers, we are able to quickly understand and timely address dealers' and car buyers' needs, thereby strengthening our relationships with them.

As of December 31, 2018, we had a dealer network of 1,280 dealers across 182 cities in China, well-positioned to capture the growing consumer demand for auto finance products and services. We have also sought to expand our dealer network through collaboration with dealership groups.

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## BUSINESS

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The expansion of our dealer network has laid a solid foundation for our business growth and contributed significantly to our growing profitability. During the Track Record Period, the gross outstanding loan balance of our retail loan business increased from RMB3,418.2 million as of December 31, 2016 to RMB7,786.1 million as of December 31, 2018.

### *Stable and Diversified Funding Sources*

Since our inception, we have sought diversified funding sources to support our growth. As an AFC licensed by the CBIRC, we have access to a variety of funding sources otherwise unavailable to non-CBIRC regulated entities. To meet the needs of our business growth, we can utilize various financing channels, taking into account funding cost, efficiency and market conditions:

- As a licensed AFC, we are permitted to carry out inter-bank borrowing. We have established and maintained stable relationships with various commercial banks and obtained credit facilities from them. The number of commercial banks with which we had outstanding placements or unutilized credit facilities increased from eight as of December 31, 2015 to 30 as of December 31, 2018. As of December 31, 2016, 2017 and 2018, our outstanding balance of placements from banks and other financial institutions was RMB3,232.9 million, RMB4,020.0 million and RMB6,085.3 million, respectively.
- In March 2017, the China Foreign Exchange Trade System & National Interbank Funding Center granted us access to the national inter-bank lending market. The national inter-bank lending market is only accessible by select financial institutions and serves as a supplemental funding source for us to address our short-term funding needs.
- We are qualified and plan to issue ABS and financial bonds on the national inter-bank lending market, which would further diversify our funding sources.

We also received financing from a trust financing company in the amount of RMB287.5 million during the Track Record Period. Attributable to our stable and diversified funding sources, our business experienced significant growth during the Track Record Period. The gross outstanding balance of our loans increased from RMB3,773.8 million as of December 31, 2016 to RMB8,676.6 million as of December 31, 2018.

### *Superior Customer Experience Enabled by Innovation and Technology*

We aim to meet our customers' diverse financing needs and provide them with superior customer experience through product innovations. We have developed a diverse product portfolio tailored to different types of customers and cars such as different repayment options and retail loans for the purchases of new and used cars. We have also sought to explore different business models. For example, we were one of the earliest AFCs in China to collaborate with commercial banks to provide joint retail loans. Utilizing both our own funding and funding from commercial banks, we disbursed an aggregate amount of RMB23.6 million, RMB39.6 million and RMB553.1 million of joint retail loans in 2016, 2017 and 2018, respectively. Furthermore, we are the first among the 25 AFCs in China to offer direct lease services, according to the CIC Report.

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## BUSINESS

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In addition, we also provide retail loan facilitation service, which helps us to serve our end customers beyond our funding. It allows us to maintain and deepen our collaboration with dealers while generating fee income for assisting our end customers in applying for loans from commercial banks we collaborate with.

Our technology-enabled operating system, risk management and customer services have significantly enhanced our customers' experience. We have built an advanced core business operation system, which integrates the loan approval and disbursement process. We have established a big data-enhanced risk control model, which effectively lowers our credit risk, optimizes our loan approval process and enhances our customers' experience. We launched an automated retail loan review and approval system in March 2018. Since then and up till December 31, 2018, nearly 35% of the successful retail loan applications were approved by an automated process and the disbursement process can be completed within hours. Our Weixin official account and mini-programs were launched in July 2018. Our retail loan customers can check repayment schedules and submit early repayment applications online while dealers within our sales network can submit the retail loan applications of their end customers and check the loan approval status online. These services allow us to effectively enhance our customer experience and further strengthen our collaborative relationships with dealers.

### ***Prudent and Multi-dimensional Risk Management System under Extensive Supervision of the CBIRC***

As an AFC regulated by the CBIRC, we are required to report our results of operation to applicable PRC regulatory authorities periodically, which focus on our risk control measures and indicators. Under the supervision of the CBIRC, we have built a prudent, multi-dimensional risk management system covering various aspects of our operations.

We have established an intelligent risk control system that aims to continuously optimize our credit review and approval process. Our credit risk decision-making model driven by big data analytics collects data using eight external databases such as those provided by the PBOC credit rating system and the public security system, identifies useful risk assessment variables, performs in-depth analysis of actual transactions and completes the modeling and decision-making process efficiently. We update this credit risk decision-making model on a regular basis by expanding our data sources, identifying additional risk indicators and optimizing the model's decision-making algorithm. Our anti-fraud system will utilize credit blacklist information, credit rating and indebtedness information of the applicants to automatically identify fraudulent loan applications. Following loan disbursement, our system will closely monitor the customer's risk profile during the term of the loan and promptly alert us when the customer's creditworthiness deteriorates.

In the event of loan delinquency, our dealership background allows us to better assess the residual value of repossessed cars. We have adopted effective car recovery approaches to repossess and dispose of the cars purchased by customers who have defaulted.

As of December 31, 2016, 2017 and 2018, our non-performing loan ratio was 0.37%, 0.28% and 0.27%. By contrast, according to the CIC Report, the average non-performing loan ratio for licensed AFCs was 0.61% and 0.49% as of December 31, 2016 and 2017, respectively.

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## BUSINESS

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### *Experienced Management Team*

Our insightful management team on average has over 20 years of operational and management experience in finance, dealership and technology. Our Chairman, Mr. Lin Fan, has nearly 30 years' experience in the finance industry. Mr. Li Yi, our President, has over 14 years of dealership and auto finance experience. Mr. Xu Shuo, our chief technology officer, has over 15 years' experience in the technology field and was the supervisor of the application & software digitalization segment of Oracle Greater China. Each of Ms. Yao Wen, our Chief Risk Management Officer, and Mr. Wang Ping, our Vice President, has nearly 26 years and 29 years of experience in the finance industry, respectively. In addition, our non-executive director Mr. Koh Tee Choong currently serves as the CEO of ZhengTong and has extensive operational and management experience in the luxury-brand car dealership market. Our parent company ZhengTong is a leading 4S dealer group in China with nearly 20 years of operating experience in the dealership business. ZhengTong's diverse luxury-brand car portfolio, extensive dealership network and rich customer service experience have provided us with a deeper understanding of our end customers and dealers. Coupled with such understanding, the extensive experience and expertise of our management team in the finance, automobile and technology fields has and will continue to lead our Company to seize market opportunities, achieve sustained business growth and promote product innovation.

### **OUR STRATEGIES**

We intend to pursue the following strategies to further grow our business.

#### *Expand and Optimize Our Dealer Network*

As offline dealership stores are expected to remain as the prevailing car sales channel in the foreseeable future, we plan to continue to tap on our knowledge of the dealership market to further expand our dealer network. We plan to expand our dealer network by continuing to work directly with dealers, recruiting additional qualified sales personnel, expanding our geographic coverage in lower-tier cities while maintaining our focus on first and second-tier cities, and diversifying our dealer network. Specifically, we plan to expand our External Dealer network of (i) luxury-brand car dealers, given that we expect that the luxury-brand car market will experience continuous growth and more customers will be interested in purchasing luxury-brand cars using financing and this group of customers typically have higher credit rating; (ii) second-level dealers, which are key distribution channels for luxury-brand cars outside 4S dealers authorized by automakers and (iii) dealers specializing in the sale of used cars, so as to increase our market share in the used car financing market. We maintain a database containing the number of stores and sales information of authorized 4S dealers of major luxury car brands located in various regions and cities. By analyzing these information and the historical sales trends, we will generate an estimate of the sales potential of these dealers as well as identify the regions and cities that we plan to expand into and the specific brands we plan to focus on. In particular, we intend to strengthen our efforts to expand our External Dealer network in first-tier and second-tier cities and further deepen our collaboration with luxury-brand car dealers by offering auto finance products tailored to these brands. To support such expansion efforts, we plan to recruit additional sales personnel based in different regions with a focus on specific luxury car brands.



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## BUSINESS

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### *Optimize Our Product and Service Portfolio*

Leveraging our experience in the auto finance industry, we plan to further diversify our product and service portfolio and launch innovative and customized products to meet the demands of our increasingly large customer base. Given that the auto finance market for used cars has experienced rapid growth in recent years and is expected to continue to grow in the near future, we plan to actively design new loan products customized for the purchase of used cars, such as loans with shorter terms, while limiting our risk exposure. We also plan to launch more innovative direct lease products and more customized retail loan and dealer loan products and services based on loan applicants' specific needs. In addition, we plan to continue to develop retail loan products with more flexible repayment schedules. For example, we plan to launch a retail loan product named Freewill Loan (“随心贷”) in 2019, allowing our end customers to choose freely within a certain time period the repayment amount to be made in each installment and the number of installment of payments that they need to make, after making a down payment of 20% of the loan principal amount. See “— Self-operated Retail Loan Business — Self-operated Loan Products” for more details on our current product offerings.

### *Enhance Our Operational and Management Capabilities*

We will continue to adapt our management mechanism for dealers and employees to changing market conditions in a timely fashion.

In terms of managing dealers, we will continue to evaluate them based on their sales potential and the level of our collaboration with them. As our dealer network expands, we will seek to develop a more sophisticated evaluation system to grade our dealers and timely adjust our management strategies for dealers of different grades. The factors that we will use to evaluate dealers include the financial conditions of the dealers, their collaboration history with us, the number of retail loan customers they recommended to us and the credit performance of such customers, among others. We will also expand our network of dealers specializing in the sale of used cars and increase our market share in the used car financing market. We are also currently developing a risk assessment model to be used for the selection and management of dealers. The evaluation results will also have a direct impact on our level of support to dealers with respect to loan approval, product offerings and loan disbursement. For more details, see “— Our Business — Retail Loan Business — Our Sales Network — Business Cooperation with Dealers.”

With respect to our employees, we will continue to manage our employees based on their functions and develop distinctive employee handbooks catering to different work functions. As our business continues to grow, we will keep optimizing our management structure.

### *Enhance Our Technological Capabilities*

The steady expansion of our sales network has led to significant increases in our business volume and the expansion of our customer base, allowing us to build a more comprehensive customer database. We plan to increase our investment in new technologies and continue to optimize our algorithms for the analysis of user-authorized credit data, thereby gaining a better understanding of our customers' consumption behavior. For example, we aim to work with a third party artificial intelligence company to further utilize the optical character recognition technology, which will

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## BUSINESS

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automatically capture printed text on documents and categorize scanned images, analyze the authenticity of such information under proper authorization and streamline our automated loan review and approval process. We also plan to recruit additional IT personnel with advanced degrees to strengthen our talent pool. We aim to provide more targeted and customized services to enhance customer experience and improve our sales and marketing efficiency. Our current IT projects primarily include the upgrade of our credit risk assessment model, anti-fraud system and dealer grading system, as well as the development of a risk assessment model for the selection and management of dealers. See “— Technology” for more details.

In addition, we plan to further strengthen our risk management system. Through upgrading our technology infrastructure and expanding its capacity as well as improving the speed and reliability of data transfer, we aim to establish an information technology system capable of accommodating changes in our operations and the expansion of our business. We also plan to continue to adjust and optimize our risk control model, pricing strategy and risk profile characterization mechanism based on the relevant data we accumulate in our daily operations so as to more accurately and timely evaluate the credit risks of loan applicants and manage the risks more efficiently.

Apart from improving our own technological capabilities, we also plan to collaborate with Shenzhen Zhengyuan Automobile Technology Co., Ltd., a subsidiary of ZhengTong which specializes in financial technology and big-data enabled risk control in the area of online traffic conversion, and strengthen our automated screening capability for qualified loan applicants. Specifically, we intend to diversify our online customer acquisition channels by increasing our online presence on third-party auto finance platforms that Shenzhen Zhengyuan Automobile Technology Co., Ltd. cooperates with, increase the sources of our credit information database and enhance the applicability and accuracy of our credit risk assessment model. See “— Technology.” We expect that the research and development capabilities of Shenzhen Zhengyuan Automobile Technology Co., Ltd. in the fields of artificial intelligence and big data analytics will further strengthen our risk management capabilities. We will then ensure our compliance with the Listing Rules with respect to the connected transactions under such collaboration, which include entering into a written agreement with Shenzhen Zhengyuan Automobile Technology Co., Ltd., making announcements and seeking independent shareholders’ approval as necessary.

### ***Further Diversify Our Funding Sources***

Maintaining diversified funding sources is of fundamental importance to the rapid expansion of our business. We plan to make better use of our auto finance license from the CBIRC to further tap into cost-effective funding sources. In addition to placements from banks and other financial institutions, we are qualified to issue ABS and financial bonds on the national inter-bank market. Subject to regulatory approval, market conditions and our financing needs, we currently plan to issue ABS and financial bonds in 2019 to further expand our funding sources and reduce our financing costs. In 2016, 2017 and 2018, the average interest rates of our placements from banks ranged from 4.0% to 6.3%, 5.0% to 8.0%, and 5.2% to 8.5%, respectively, the higher end of which was in general higher than the market interests rates of the ABSs or financial bonds issued by auto finance companies, according to CIC. At the same time, we will continue to strengthen our cooperation with commercial

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## BUSINESS

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banks to ensure our access to timely funding at reasonable costs. In addition, we will strive to use our funding in the most efficient way and optimize the balance between our interest-bearing assets and interest-bearing liabilities to reduce the likelihood of maturity mismatch and lower our financing costs and liquidity risks.

### OUR BUSINESS

We commenced our loan business in March 2015. Our business primarily consists of: (i) retail loan business, whereby we offer retail loan products and services to end customers for car purchases; and (ii) dealer loan business, whereby we provide loans to dealers to facilitate their purchase of cars to be sold to end customers.

The following table sets forth certain key financial information of our retail loan business for or as the end of the periods indicated:

	For the year ended or as of December 31,		
	2016	2017	2018
	(RMB'000)		
<b>Retail Loan Business</b>			
Net interest income.....	137,698	225,056	414,272
Net fee and commission income.....	169,314	204,418	330,129
Operating income.....	307,012	429,474	744,401
Gross outstanding balance of loans as of period end.....	3,418,216	5,032,182	7,786,093
Profit before taxation .....	211,033	323,567	534,942
<b>Dealer Loan Business</b>			
Net interest income.....	15,941	24,365	20,402
Operating income.....	15,941	24,365	20,402
Gross outstanding balance of loans as of period end.....	355,567	915,967	890,506
Profit before taxation .....	12,246	16,970	17,428

### RETAIL LOAN BUSINESS

Our retail loan business comprises (i) self-operated retail loan business and (ii) retail loan facilitation business. For the years ended December 31, 2016, 2017 and 2018, our self-operated retail loan business contributed to 59.6%, 66.4% and 73.2% of the total revenue from our retail loan business, respectively, and our retail loan facilitation business contributed to 40.4%, 33.6% and 26.8% of the total revenue from our retail loan business, respectively. During the same periods, the operating income from our self-operated retail loan business amounted to RMB139.3 million, RMB234.1 million and RMB463.4 million respectively, representing 45.4%, 54.5% and 62.3% of the operating income from our retail loan business, and the operating income from our retail loan facilitation business amounted to RMB167.7 million, RMB195.4 million and 281.0 million respectively, representing 54.6%, 45.5% and 37.7% of the operating income from our retail loan business. For more details, see “— Self-operated Retail loan Business” and “— Retail Loan Facilitation Business.” During the Track Record Period, our retail loan facilitation business was more profitable than our self-operated retail loan business because the retail loan facilitation business did not involve any cost of capital.

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## BUSINESS

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***Self-operated retail loan business.*** Our self-operated retail loan business consists of standard retail loan business and joint retail loan business. For standard retail loan business, we disburse retail loans to customers with our own funding and charge interests on the loans. We also offer direct lease products whereby we purchase cars according to customers' requirement and then lease the car to the end customer for use in exchange for the customer's monthly lease payments. For joint retail loan business, we cooperate with commercial banks to disburse loans using both our own funding and funding from commercial banks. We charge customers interests for the portion of the loan funded by us and charge the commercial banks a service fee for certain loan-related services we provide. Our self-operated retail loan business experienced continuing growth during the Track Record Period.

During the Track Record Period, we provided various self-operated loan products of different payment structures and down payment ratios to end customers. Our retail loan products are typically displayed at the stores of ZhengTong Dealers and External Dealers along with those from various commercial banks, other AFCs and financial leasing companies. Should the end customers of these dealers express an interest in choosing our retail loan products, the relevant staff of the dealers or the staff we dispatched to the dealers will recommend loan products to such customers that suit their specific financing needs and meet their selection criteria with respect to interest rate, down payment ratio, monthly repayment amount and loan tenor. The loan products we offer to ZhengTong Customers and External Customers are the same with respect to loan application procedures and key terms. We do not offer any preferential benefits, including special discounts or rebates to ZhengTong Customers.

Our customers' decision to borrow from us is purely market-driven. Compared with competitors that display products in the same dealer store, our sales personnel dispatched to the dealer stores are able to communicate with customers to better understand their financing needs, offer them loan products suited to their specific needs (such as loan products with customized repayment schedules) and decide whether to grant their loan applications within a short turnaround time. By contrast, most of our competitors do not have sales personnel dispatched to the dealer stores. AFCs affiliated with a particular automaker often can only offer loan products for car brands with which they are affiliated, which results in more limited product offerings and fewer tailored loan options for end customers, while commercial banks tend to take longer to review loans and offer customers with fewer repayment options.

***Retail loan facilitation business.*** Leveraging our extensive sales network and close relationships with commercial banks, we refer customers in need of auto finance services to commercial banks, provide various loan-related services such as loan consultation and preparation of loan applications and collect service fees from these customers upon the signing of the loan agreements with the commercial banks. During the loan application review process, these commercial banks will independently review the loan applications and conduct their loan approval process. The commercial banks assume full credit risks for such loans. We do not provide any guarantee or assume any credit risk for such loans.

## BUSINESS

The following table sets forth certain key operating information of our retail loan business as of the dates or for the periods indicated:

	For the year ended or as of December 31,								
	2016			2017			2018		
	Self-operated Retail Loan	Retail Loan Facilitation	Total	Self-operated Retail Loan	Retail Loan Facilitation	Total	Self-operated Retail Loan	Retail Loan Facilitation	Total
Revenue <sup>(1)</sup> (RMB in millions) ...	248.3	168.2	416.5	387.6	195.9	583.5	769.5	281.8	1,051.3
Interest income (RMB in millions) .....	246.3	—	246.3	378.2	—	378.2	719.7	—	719.7
Fee and commission income (RMB in millions) .....	2.0	168.2	170.2	9.4	195.9	205.3	49.8	281.8	331.6
Average interest rate <sup>(2)</sup> .....	10.2%	—	10.2%	10.3%	—	10.3%	9.9%	—	9.9%
Gross outstanding balances of retail loans as of period end (RMB in millions).....	3,418.2	— <sup>(3)</sup>	3,418.2	5,032.2	— <sup>(3)</sup>	5,032.2	7,786.1	— <sup>(3)</sup>	7,786.1
Number of retail loans disbursed/facilitated during the period .....	15,548	20,946	36,494	18,654	26,655	45,309	41,730	47,165	88,895
Amount of retail loans disbursed during the period (RMB in millions) .....	3,311.1	— <sup>(3)</sup>	3,311.1	3,950.4	— <sup>(3)</sup>	3,950.4	7,080.2	— <sup>(3)</sup>	7,080.2
Average amount of loan disbursed (RMB) <sup>(4)</sup> .....	212,959.9	—	212,959.9	211,772.3	—	211,772.3	169,202.2	—	169,202.2

*Notes:*

- (1) Includes interest income and fee and commission income. We are unable to disclose the respective net income contribution of each of self-operated retail loan and retail loan facilitation business to the Retail Loan Business due to the significant overlap between the operating expenses of these two businesses.
- (2) Represents interest income during the period divided by the average amount of gross outstanding balances of retail loans, which is calculated by totaling the gross outstanding balance as of the end of each day and dividing the sum by the days in that period. We are unable to present the average service fee rate for our joint retail loan business for each year of the Track Record Period in a meaningful manner given that fee and commission income from our joint retail loan business is recognized during the loan tenor, which typically ranges from 1 to 5 years for new cars.
- (3) For retail loan facilitation, we only provide loan facilitation services and do not disburse any loan, therefore we did not have any outstanding balances of retail loan as of the end of the respective period, nor did we disburse any retail loan amount during each year of the Track Record Period.
- (4) Represents the amount of retail loans disbursed during the period divided by the number of retail loans disbursed during the period. The amounts shown above do not represent the average loan principal amount borrowed by our retail loan customers because only the amounts disbursed by us for joint retail loan business are counted in the amounts of retail loans disbursed during the periods.

### Our Sales Network

Leveraging our deep understanding of the dealership industry, we have established a dealer network which covers 182 cities in 24 provinces across China as of December 31, 2018 to source and acquire customers. The number of dealers within our sales network grew from 226 as of December 31, 2016 to 1,280 as of December 31, 2018.

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## BUSINESS

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In our early days of operation, we strategically allocated most of our resources and capital to serve the financing needs of ZhengTong Customers. This allowed us to quickly accumulate experience and build customer relationships. Faced with the opportunities offered by the fast-growing auto finance industry and utilizing our resources and capital, we have worked directly with External Dealers to quickly expand our sales network and take better advantage of such opportunities. We expanded our dealer network through working directly with dealers located in both first and second tier cities and lower-tier cities, building cooperation relationships with dealer groups as well as automakers that play an influential role in business decisions made by their affiliated dealers, establishing an effective sales team and engaging certain external local agents to help us expand our network of External Dealers.

With regard to the maintenance and expansion of our sales network, we face more intense competition from other AFCs in first and second tier cities, where AFCs have a higher penetration rate as compared with lower-tier cities. We also face increasing competition with respect to customer acquisition from the rapid expansion of internet finance companies, who have been collaborating with offline channels to broaden their reach to end customers. Although internet finance companies are expected to take up a greater market share of the auto finance market in the future, we believe that we do not face increasing competition from them in terms of the expansion of our sales network, as dealers often prefer to work with a wide range of auto finance service providers and internet finance companies tend to focus more on online customer acquisition channels and their own offline stores, according to the CIC Report.

The following table sets forth the number of ZhengTong Dealers and External Dealers within our sales network as of the beginning and the end of the periods indicated and the movement in the numbers between such dates.

	As of December 31,		
	2016	2017	2018
<b>ZhengTong Dealers</b>			
At the beginning of the period .....	84	91	100
Joined during the period .....	7	9	13
Terminated during the period .....	—	—	—
Net increase .....	7	9	13
At the end of the period.....	91	100	113
<b>External Dealers</b>			
At the beginning of the period .....	75	135	251
Joined during the period .....	80	116	997
Terminated during the period .....	20	—	81
Net increase .....	60	116	916
At the end of the period.....	135	251	1,167

Prior to November 2016, we had engaged certain external local agents to help us expand our network of External Dealers, paying them a commission when we acquired new end customers through the External Dealers handled by such local agents. As working directly with External Dealers allows us to respond to the needs of our end customers and dealers more promptly as well as strengthens our relationships with them, we ceased commissioning such local agents in November 2016.

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## BUSINESS

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We also launched online channels such as Weixin official account and mini-programs in July 2018. Retail loan customers can easily learn more about us and our products and services, check repayment schedules and submit early repayment applications through these mobile channels while dealers within our sales network can submit the retail loan applications of their customers and check the loan approval status.

### *Geographical Coverage*

Since our establishment, we have focused on expanding the geographical coverage of our dealer network. As of December 31, 2018, our dealer network covered 182 cities in 24 provinces across China, comprising four first-tier cities, i.e. Beijing, Shanghai, Shenzhen, Guangzhou as well as 36 second-tier cities and 142 third-tier and other lower-tier cities. The following map sets forth the geographical coverage of our dealer network in China as of December 31, 2018:



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## BUSINESS

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### *Business Cooperation with Dealers*

We have built direct cooperative relationships with dealers within our sales network. We typically enter into a one-year cooperation agreement with these dealers. Under our agreement with the dealers, the dealers undertake to recommend our products and services to their end customers who are in need of auto financing services and to provide certain administrative assistance to us, such as collecting and passing on to us loan application materials, conducting preliminary authentication of the identity of the loan applicant and basic information contained in their loan application materials, assisting with the signing of the loan agreement and assisting the loan applicant to complete the collateral registration process. Other than the aforementioned services, the dealers do not actively promote our products. Under the agreement, dealers shall compensate us for any loss that we may incur that is caused by the dealer's violation of the aforementioned contractual duties. The terms and conditions set forth in the cooperation agreements with the ZhengTong Dealers and the External Dealers were negotiated on an arm's length basis and are largely identical with each other.

In addition to the aforementioned services, some of these dealers also provide us with other forms of administrative assistance, such as displaying marketing materials about our products and services and handing out brochures and promotional gifts. We reimburse the dealers for these administrative tasks subsequently on an as-incurred basis to cover their costs. For the years ended December 31, 2016, 2017 and 2018, we incurred RMB15.3 million, RMB10.6 million and RMB18.9 million of such reimbursement expenses to the dealers, respectively.

According to CIC, it is the industry norm for dealers to display an array of products at their stores. Dealers who are affiliated with an automaker will also display loan products offered by finance service providers with which they are not affiliated and will recommend such products to their customers if the customers find such products to suit their needs. According to CIC, given the differences in the relevant parties' bargaining power and market conditions, some auto finance service providers may choose to provide commission, incentive or rebates to dealers for customer referral or establishing presence in the dealer stores. Dealers choose to work with us because the presence of our sales personnel and our products offering at their stores help promote their car sales. Our efficient loan review and approval process leads to quicker loan disbursement, which is preferred by the dealers and their end customers. However, as a result of the increasingly intense competition in the auto finance market, it has become more common for dealers to seek advertising or referral fees for finance service providers to have a presence at their stores. According to CIC, luxury-brand dealers charge finance service providers a one-off fee that typically ranges from RMB500 to RMB1,000 for each successful loan application referred. We do not provide any commission, incentive or rebates to dealers within our sales network. As we continue to expand and optimize our dealer network, dealers within our future sales network may have different needs than those of our existing dealers and some of the dealers may request for a fee from us for their referral of end customers or our presence at their stores in the near future. As a result, our operating costs may increase and our profit margin may suffer. For a more detailed description of such risks, see "Risk Factors — Risks Relating to Our Business — Our business, financial conditions and results of operations may be materially and adversely affected if dealers within our sales network were to charge a fee from us for having a presence at their stores."



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## BUSINESS

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We have also implemented various measures to maintain and manage our dealer network.

- We evaluate our dealers based on their sales capability and the closeness of our cooperation relationship and take corresponding measures to strengthen our cooperation with them. For dealers of higher grading levels, we either offer more favorable interest rates to their end customers compared with lower-graded dealers' customers with similar risk profiles or provide them with services that are more tailored to their specific needs. For dealers of lower grading levels, we would require a higher amount of security deposit from them and require the installation of GPS devices on cars purchased by their end customers with loans disbursed from us so as to mitigate loan default risks. If the grading level of a dealer stays low for an extended period of time, we may terminate our cooperation with the dealer. In 2018, we terminated our cooperation relationships with 81 such External Dealers who had limited cooperation with us due to their subpar performance, especially with regard to the relatively high non-performing loan ratio among the loan customers referred by them.
- We provide trainings related to our products and services for the dealers through tele-conferences and written materials and regularly conduct interviews with the general managers and sales personnel of the dealers to test their understanding of our loan products and services. Our sales personnels are designated to maintain the relationship with dealers in a certain area but are not stationed at a particular dealer store. As of December 31, 2018, we deployed 222 business specialists to visit the dealer stores regularly to promote our products and services and conduct trainings to these dealers.
- We have also put in place certain internal standards and criteria to better manage these dealers. Any material non-compliance with our internal standards by dealers may lead to the termination of our cooperation relationship with them. For a more detailed description, see "Risk Management."

Our business operations are affected by the operational performance of the dealers we work with. For a more detailed description of such risks, see "Risk Factors — Risks Relating to Our Business — Our business, financial conditions and results of operations may be materially and adversely affected if the operational performance of the dealers we work with deteriorate significantly" and "Risk Factors — Risks Relating to Our Business — If we fail to maintain stable relationships with dealers within our sales network, our business, results of operations and financial conditions could be materially and adversely affected."

### **Self-operated Retail Loan Business**

We launched our self-operated retail loan business in March 2015 to provide retail loans directly to end customers for the purchase of new and used cars. Our self-operated retail loan business consists of (i) standard retail loan business and (ii) joint retail loan business. For standard retail loan business, we disburse retail loans with our own funding and charge interests on the loans. For joint retail loan business, we cooperate with commercial banks to disburse loans using both our own and the commercial banks' funding, charge our end customers interests for the portion of the loan funded by us, and charge the commercial banks a service fee for certain loan-related services we provide. During the Track Record Period, we promoted our self-operated retail loan business primarily through our dealer network.

## BUSINESS

The following table sets forth certain key operating and financial information of our self-operated retail loan business as of the dates or for the periods indicated:

	For the year ended or as of December 31,														
	2016					2017					2018				
	Standard Retail Loans	Joint Retail Loans	Total (before adjustment)	Adjustment Amount	Total (before adjustment)	Standard Retail Loans	Joint Retail Loans	Total (before adjustment)	Adjustment Amount	Total (before adjustment)	Standard Retail Loans	Joint Retail Loans	Total (before adjustment)	Adjustment Amount	Total
Interest Income (RMB in millions) <sup>(1)(2)</sup> .....	254.7	0.3	255.0	(8.7)	246.3	385.6	3.9	389.5	(11.3)	378.2	701.3	31.8	733.1	(13.4)	719.7
Fee and Commission Income (RMB in millions) .....	—	0.6	0.6	N/A	0.6	—	8.2	8.2	N/A	8.2	—	47.0	47.0	N/A	47.0
Number of loans disbursed during the period .....	14,988	560	15,548	N/A	15,548	17,906	748	18,654	N/A	18,654	28,149	13,581	41,730	N/A	41,730
Amount of loans disbursed during the period (RMB in millions) <sup>(3)</sup> .....	3,287.5	23.6	3,311.1	N/A	3,311.1	3,910.8	39.6	3,950.4	N/A	3,950.4	6,527.1	553.1	7,080.2	N/A	7,080.2
Gross outstanding balance of loans as of period end (RMB in millions) <sup>(4)(5)</sup> .....	3,482.1	23.0	3,505.1	(86.9)	3,418.2	5,224.0	48.9	5,272.9	(240.7)	5,032.2	7,539.5	462.7	8,002.2	(216.1)	7,786.1
Non-performing loan ratio .....	0.40% <sup>(6)</sup>	— <sup>(6)</sup>	0.40% <sup>(6)</sup>	N/A	0.41% <sup>(7)</sup>	0.32% <sup>(6)</sup>	0.32% <sup>(6)</sup>	0.32% <sup>(6)</sup>	N/A	0.33% <sup>(7)</sup>	0.31% <sup>(6)</sup>	0.13% <sup>(6)</sup>	0.30% <sup>(6)</sup>	N/A	0.30% <sup>(7)</sup>

**Notes:**

- (1) Under our self-operated retail loan business, we reimburse dealers subsequently for their administrative assistance provided to us on an as-incurred basis. See “Our Sales Network — Business Cooperation with Dealers” for more details on such administrative assistance. In accordance with relevant accounting standards, such administrative costs are initially recognized in loans and advances to customers and then amortized with the effective interest method in aggregation with loans and advances to customers, and the interest income is measured by the effective interest method after the netting-off of such amortization of administrative costs. The interest income before adjustment is the amount before the netting-off of such amortization of administrative costs.
- (2) We are unable to present the average interest rate in a meaningful way since average interest rate is defined as interest income divided by the average balance for the period, which is calculated by totaling the outstanding balance as of the end of each day and dividing the sum by the days in that period and we cannot split the average balance of self-operated retail loan by standard retail loans and joint retail loan.
- (3) For joint retail loans, the amount equals to the portion of loan principal amount funded by our Company.
- (4) For joint retail loans, the amount equals to the outstanding loan balance in proportion to the loan principal amount funded by our Company.
- (5) Under the joint promotion arrangements, we receive interest subsidies from certain automakers and dealers. See “Self-operated Loan Products” for more details. In accordance with relevant accounting standards, such interest subsidies are initially recognized in loans and advances to customers and have a net-off effect on the outstanding balance of loans disbursed to customers. The gross outstanding balance before adjustment is the amount irrespective of the net-off effect of administrative costs and interest subsidies and includes the VAT of direct lease products.
- (6) Calculated by dividing the balance of non-performing loans by the gross outstanding balance of the loans. The balance used in the calculation is the amount irrespective of the net-off effect of administrative costs and interest subsidies mentioned in footnote (5) and does not include direct lease products.
- (7) Calculated by dividing the balance of non-performing loans by the gross balance of the loans and advances to customers.

## BUSINESS

During the Track Record Period, we provided self-operated retail loans for the purchase of over 20 luxury-brand cars, including Porsche, BMW, Mercedes-Benz, Audi, Jaguar and Land Rover, and Volvo. In 2016, 2017 and 2018, the number of self-operated retail loans we disbursed for the purchase of luxury-brand cars accounted for 81.9%, 88.2% and 75.7% of our self-operated retail loans in total. In 2016, 2017 and 2018, the average amount of loan disbursed for the purchase of luxury-brand cars was RMB241,161.7, RMB228,196.0 and RMB193,437.8, respectively, while the average amount of loan disbursed for the purchase of non-luxury brand cars was RMB85,563.4, RMB89,396.6 and RMB95,736.0, respectively. The decline in the average amount of loans disbursed for the purchase of luxury-brand cars in 2018 was caused by the significant increase in the number of joint retail loans we issued in 2018. For joint retail loans, the amount of loans disbursed only reflects loan principal amount funded by us. The following table sets forth a breakdown of the number, aggregate principal amount and the gross outstanding balance of our self-operated retail loans by car brand for the periods or as of dates indicated:

For the year ended or as of December 31,																					
Brand	2016					2017					2018										
	Number of loans disbursed	%	Amount of loans disbursed	%	Gross outstanding balance <sup>(1)</sup>	Average amount of loans disbursed	Number of loans disbursed	%	Amount of loans disbursed	%	Gross outstanding balance <sup>(1)</sup>	Average amount of loans disbursed	Number of loans disbursed	%	Amount of loans disbursed	%	Gross outstanding balance <sup>(1)</sup>	Average amount of loans disbursed			
	(RMB in millions)																				
Luxury brands	12,730	81.9	3,070.0	92.7	3,213.7	91.7	241,161.7	16,447	88.2	3,753.1	95.0	4,942.7	93.7	228,196.0	31,577	75.7	6,108.2	86.3	7,081.8	88.5	193,437.8
Non-luxury brands	2,818	18.1	241.1	7.3	291.4	8.3	85,563.4	2,207	11.8	197.3	5.0	330.2	6.3	89,396.6	10,153	24.3	972.0	13.7	920.4	11.5	95,736.0
<b>Total</b>	<b>15,548</b>	<b>100.0</b>	<b>3,311.1</b>	<b>100.0</b>	<b>3,505.1</b>	<b>100.0</b>	<b>18,654</b>	<b>100.0</b>	<b>3,950.4</b>	<b>100.0</b>	<b>5,272.9</b>	<b>100.0</b>	<b>41,730</b>	<b>100.0</b>	<b>7,080.2</b>	<b>100.0</b>	<b>8,002.2</b>	<b>100.0</b>			

*Note:*

- (1) Represents gross outstanding balance irrespective of the net-off effect of administrative costs and interest subsidies and includes the VAT of direct lease products.

During the Track Record Period, we provided self-operated retail loans to end customers sourced from both ZhengTong Dealers and External Dealers. In 2016, 2017 and 2018, the average amount of loan disbursed to ZhengTong Customers was RMB232,875.6, RMB221,470.2 and RMB158,403.2, respectively, while the average amount of loan disbursed to External Customers was RMB151,067.7, RMB168,646.9 and RMB202,791.5, respectively. The decline in the average amount of loans disbursed to ZhengTong Customers in 2018 was caused by the significant increase in the number of joint retail loans we issued in 2018. For joint retail loans, the amount of loans disbursed only reflects loan principal amount funded by us. The following table sets forth a breakdown of the number, aggregate principal amount, and the gross outstanding balance of our self-operated retail loans by the type of dealers for the periods or as of the dates indicated:

As of/For the year ended December 31,																					
Dealer Type	2016					2017					2018										
	Number of loans disbursed	%	Amount of loans disbursed	%	Gross outstanding balance <sup>(1)</sup>	Average amount of loans disbursed	Number of loans disbursed	%	Amount of loans disbursed	%	Gross outstanding balance <sup>(1)</sup>	Average amount of loans disbursed	Number of loans disbursed	%	Amount of loans disbursed	%	Gross outstanding balance <sup>(1)</sup>	Average amount of loans disbursed			
	(RMB in millions)																				
ZhengTong Customers	11,763	75.7	2,739.3	82.7	2,898.9	82.7	232,875.6	15,230	81.6	3,373.0	85.4	4,508.8	85.5	221,470.2	31,141	74.6	4,932.8	69.7	5,975.3	74.7	158,403.2
External Customers	3,785	24.3	571.8	17.3	606.2	17.3	151,067.7	3,424	18.4	577.4	14.6	764.1	14.5	168,646.9	10,589	25.4	2,147.4	30.3	2,026.9	25.3	202,791.5
<b>Total</b>	<b>15,548</b>	<b>100.0</b>	<b>3,311.1</b>	<b>100.0</b>	<b>3,505.1</b>	<b>100.0</b>	<b>18,654</b>	<b>100.0</b>	<b>3,950.4</b>	<b>100.0</b>	<b>5,272.9</b>	<b>100.0</b>	<b>41,730</b>	<b>100.0</b>	<b>7,080.2</b>	<b>100.0</b>	<b>8,002.2</b>	<b>100.0</b>			

*Note:*

- (1) Represents gross outstanding balance irrespective of the net-off effect of administrative costs and interest subsidies and includes the VAT of direct lease products.

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## BUSINESS

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### *Standard Retail Loan Business*

We offer a diverse range of standard retail loans to customers who seek to purchase cars from dealers within our sales network. In 2016, 2017 and 2018, we disbursed 14,988, 17,906 and 28,149 standard retail loans, with an aggregate principal amount of RMB3,287.5 million, RMB3,910.8 million and RMB6,527.1 million, respectively. During the same periods, the interest income generated from our standard retail loan business was RMB254.7 million, RMB385.6 million and RMB701.3 million, respectively. For a more detailed description of the key features of our standard retail loan products, see “— Self-operated Loan Products.”

During the Track Record Period, we provided standard retail loans not only for the purchase of new cars but also for the purchase of used cars. In 2016, 2017 and 2018, we disbursed 257, 513 and 3,176 standard retail loans for the purchase of used cars, with an aggregate principal amount of RMB44.1 million, RMB122.6 million and RMB593.3 million, respectively. During the same periods, the interest income generated from standard retail loans for the purchase of used cars was RMB4.2 million, RMB6.2 million and RMB28.2 million, respectively, accounting for approximately 1.7%, 1.6% and 3.8% of the total interest income from our self-operated retail loan business. As of December 31, 2016, 2017 and 2018, the gross outstanding balance of standard retail loans disbursed for the purchase of used cars was RMB45.2 million, RMB125.4 million and RMB545.1 million, respectively.

### Direct Lease Service

In order to diversify our product offerings and better meet our end customers’ different financing needs, we started to offer direct lease services to end customers in the fourth quarter of 2017. Under this business model, we purchase cars according to the customer’s requirement and then lease the car to the end customer for use in exchange for monthly lease payments. The lessee will have the use rights of the car during the lease period and obtain title to the car from us after all lease payments have been made. In the two months ended December 31, 2017 and the year ended December 31, 2018, we entered into 80 and 773 direct leases, with an aggregate principal amount of RMB23.4 million and RMB150.2 million, respectively. As of December 31, 2017 and 2018, the gross outstanding balance of our direct leases were RMB23.4 million and RMB133.1 million. Going forward, we plan to launch more innovative direct lease products and further diversify our direct lease service offerings to expand our direct lease business.

### *Joint Retail Loan Business*

We cooperate with commercial banks from time to time to disburse joint retail loans to purchasers of new cars using both our own funding and funding from commercial banks. As the risk profiles of the end customers of our standard retail loan business and joint retail loan business are essentially the same, key considerations for determining whether to make loan disbursement with our own funding or using both our own fund and fund from the commercial banks include our fund sufficiency, our liquidity and the terms of our cooperation with the commercial bank. We receive interest payments from our end customers for the portion of the loan we fund and bear credit risks for this portion and service fees from the bank for certain loan-related services we provide.

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## BUSINESS

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During the Track Record Period, we worked with two commercial banks to disburse joint retail loans. In 2016, 2017 and 2018, we disbursed 560, 748, and 13,581 joint retail loans and funded RMB23.6 million, RMB39.6 million and RMB553.1 million joint retail loans, respectively. During the same periods, the interest income generated from the joint retail loan business was RMB0.3 million, RMB3.9 million and RMB31.8 million, respectively, and the fee and commission income generated from the joint retail loan business was RMB0.6 million, RMB8.2 million and RMB47.0 million, respectively.

For the cooperation with the commercial bank that we primarily work with to disburse joint retail loans, we provide 20% of the loan principal amount, with the bank providing the remaining 80%, and earn service fees from the bank for certain loan-related services we provide. We entered into a cooperation agreement with this bank in June 2016, which provides that the agreement shall be renewed if neither party indicate otherwise within 90 days prior to the agreement expiration date. Set out below are certain key terms of our joint retail loan agreement with this bank.

- We and the bank are jointly responsible for determining the loan approval policy, post-disbursement monitoring process and loan repayment schedules;
- We are responsible for handling the first round of loan application review;
- Should one party decide not to approve the loan application, the other party may disburse the loan with its own funds;
- The bank is entitled to interest income for the portion of the loan it provides, while we will receive interest income for the portion of the loan funded by us and a service fee from the bank determined based on various factors including the creditworthiness of the borrower, the term of the loan and funding costs of the bank; and
- Both parties shall bear default losses in proportion to their funding. We are liable for losses incurred by the bank that are caused by inaccurate or fraudulent information in the loan application materials, except where we had performed all the applicable protocols and have fulfilled our due diligence obligations.

### *Self-operated Loan Products*

The table below sets forth the key features of our self-operated loan products:

Loan Term	<ul style="list-style-type: none"><li>• Purchase of new cars: 1-5 years</li><li>• Purchase of used cars: 1-3 years</li></ul>
Principal Amount	<ul style="list-style-type: none"><li>• Purchase of new cars: RMB30,000-RMB5.0 million</li><li>• Purchase of used cars: RMB30,000-RMB5.0 million</li></ul>

In addition, the loan principal amount shall not exceed a certain percentage of the cars' deemed value. Specifically, 70% for used cars and traditional cars for non-personal use, 75% for renewable energy cars for non-personal use, 80% for traditional cars for personal use and 85% for renewable energy cars for personal use.

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## BUSINESS

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Down Payment Ratio	20% to 30% at the minimum
Interest Rate (on the date of this prospectus)	<ul style="list-style-type: none"><li>• Purchase of new cars: Approximately 9.98% to 14.98%</li><li>• Purchase of used cars: Approximately 11.98% to 14.98%</li></ul>
Repayment	<ul style="list-style-type: none"><li>• Repayment Types:<ul style="list-style-type: none"><li>○ Fixed monthly installment (the predominant repayment method chosen by our end customers)</li><li>○ Fixed monthly principal</li><li>○ Customized repayment schedule (standard retail loan only)</li><li>○ Balloon repayment (standard retail loan only)</li></ul></li><li>• Early Repayment:<ul style="list-style-type: none"><li>○ Written notice at least seven days prior to the early repayment application date is required</li><li>○ Repayment within the first 24 months of the loan tenor: a fee of 5% of the outstanding loan principal amount is also required</li></ul></li><li>• Late repayment: an additional 50% interest on the overdue amount will be imposed</li></ul>
Security Interests	<ul style="list-style-type: none"><li>• Our end customers shall complete the collateral registration process for the car to be purchased within 30 days of loan disbursement or prior to loan disbursement</li><li>• We may also request third-party guarantee or additional collateralized assets depending on the circumstances</li></ul>
Termination	In case of breach of the loan agreement by end customers, we are authorized under the agreement to, among others, terminate the agreement, dispose of the car and any other collateralized assets, and seek damages from the end customers.

In line with industry practice, we have also entered into joint promotion arrangements with two luxury-brand automakers and several ZhengTong Dealers that seek to promote the sale of specific car models during the Track Record Period. Under these arrangements, our end customers get to enjoy interest rates that are lower than the market standard and are therefore more incentivized to borrow from us. Such arrangements have helped us to effectively expand our customer base, increase revenue, and strengthen our relationships with both auto makers and dealers.

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## BUSINESS

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***Joint promotion with automakers.*** We have built strategic cooperation with two luxury-brand automakers, with which we entered into joint promotion agreements that have been conducted solely through the ZhengTong Dealers. Under our joint promotion agreements with the automakers, the automakers bear a portion of the interest we charge to our end customers for purchasing certain of their car models. The interest rate borne by the automakers ranged from 0.41% to 9.98% during the Track Record Period. For cooperation with one of the automakers, we would withhold an amount equaling to the aggregate amount of the interest subsidies payable for the entire term of the retail loan (the “**Withheld Portion**”) when we provide the loan to our customers by remitting a fund in the amount of the loan amount without the Withheld Portion to the ZhengTong Dealers. Subsequently, ZhengTong Dealers will collect the interest subsidies from the automakers on a quarterly basis. When we remit the fund to the dealers on behalf of our end customers, an amount equal to the interest subsidies will be deducted directly from the loan amount and is recorded as deferred income, which is to be recorded and amortized in interest income with effective interest rate method during the loan tenor. ZhengTong Dealers will record the amount as cost of sales upon deduction and a corresponding receivable from automakers will be booked to reverse the aforementioned cost of sales.

The rights and responsibilities of both parties, the applicable interests rate, the car models, loan products and dealers covered are stated in the agreement. Under such agreement, the end customers will only have to pay the subsidized monthly payment. The interest subsidies offered by these automakers to our end customers were either directly settled between the automakers and us or through dealers covered by the agreements. One automaker also provides technical support and consulting services to us to further facilitate our cooperation for a fee of 0.3% of the monthly loan disbursement amount.

As of December 31, 2016, 2017 and 2018, the amount of loan balance from loans granted under our joint promotion arrangement with automakers was RMB1,148.0 million, RMB2,341.7 million and RMB2,165.6 million, respectively, and we recognized interest income (excluding interest subsidies) of RMB14.2 million, RMB33.9 million and RMB64.3 million during the same periods.

Starting from 2019, one of the automakers has also commenced such arrangements with External Dealers.

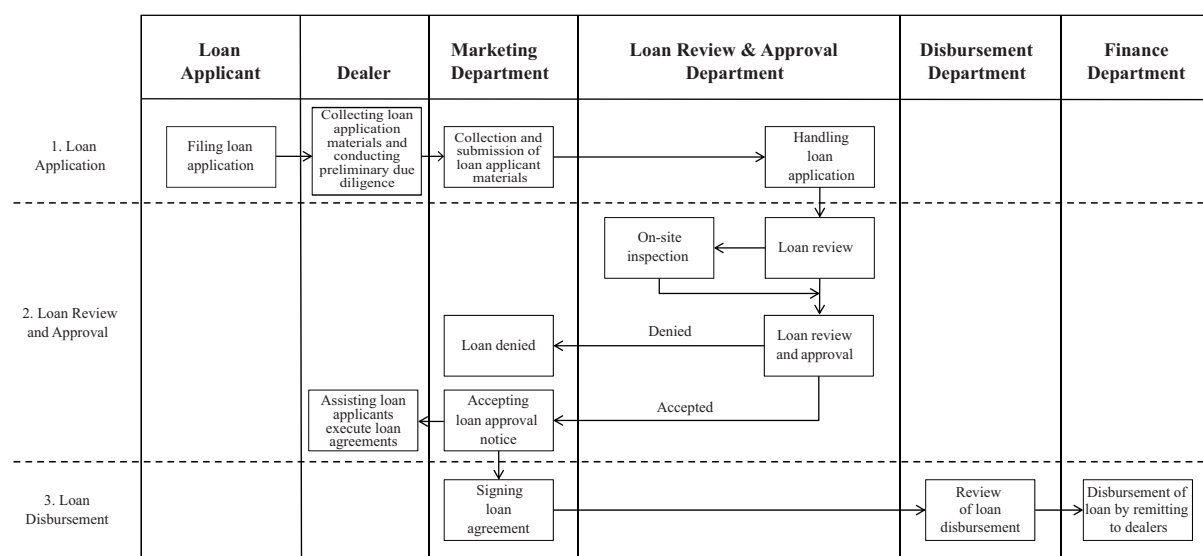
***Joint promotion with ZhengTong Dealers.*** Under our joint promotion arrangement with ZhengTong Dealers, the ZhengTong Dealers offer interest subsidies to their customers who get their financing from us for purchasing certain car models. The interest rate we charge under this arrangement is the same as our standard interest rate. The interest rate borne by ZhengTong Dealers ranged from 0.10% to 11.88% during the Track Record Period. When we remit the loan amount to the ZhengTong Dealers on behalf of our end customers, an amount that equals to the interest subsidies from the ZhengTong Dealers will be deducted directly from the loan amount and is recorded as deferred income, which is to be recorded and amortized in interest income with effective interest rate method during the loan tenor. To our knowledge, no Zhengtong Dealer entered into any similar joint promotion arrangements with other auto finance companies during the Track Record Period.

As of December 31, 2016, 2017 and 2018, the amount of loan balance from loans granted under our joint promotion arrangement was RMB3.8 million, RMB1,181.0 million and RMB2,131.5 million, respectively, and we recognized interest income (excluding interest subsidies) of RMB0.2 million, RMB10.9 million and RMB123.4 million during the same periods.

## BUSINESS

### Operational Process

We have established a standardized process for screening, reviewing and approving self-operated retail loan applications as shown below. Once approved, we will enter into a loan agreement with the customer and proceed with loan disbursement. We will actively monitor and manage the loans after disbursement and have developed a streamlined loan collection process. We regularly send business specialists to visit the dealer stores to promote our products and deploy our staff to provide trainings at the stores. We do not maintain any office inside the stores. See “Risk Management—Major Risk Management—Credit Risk Management—Retail Loan Credit Risk Management” for a more detailed description. Depending on the customers’ credit profile and the availability of supporting documentation, our loan approval process in general takes approximately less than two hours, which is much faster than the industry average for AFCs of approximately 12 hours in 2017, according to the CIC Report. The significant difference between our loan approval process and the industry average is mainly attributable to our automated retail loan review and approval system, thorough trainings we provide to our sales personnel and retail loan review and approval personnel, timely review of loan applications and the continuous upgrading of our risk control system. Following loan approval, the disbursement process generally can be completed within one day, while the industry average for loan disbursement by AFCs ranges from one to two days in 2017, according to the CIC Report.



### Retail Loan Facilitation Business

We launched our retail loan facilitation business in March 2015 as a separate product that is not bundled with our self-operated retail loan business, whereby we refer car purchasers with financing needs to commercial banks leveraging our sales network and close relationships with commercial banks, provide the car purchasers loan-related services such as loan consultation and preparation of loan applications to be submitted to the commercial banks and collect service fees from these customers upon the signing of the loan agreements with the commercial banks. Our retail loan facilitation service business allows us to act as an intermediary between end customers and commercial banks and serve a more extensive array of customers than what our own funding allows. The loan facilitation services we provide include introducing different auto finance products of the



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## BUSINESS

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commercial banks we cooperate with to end customers, analyzing which auto finance products best match their needs and credit profiles, guiding them through the loan application process as well as assisting them to prepare loan application materials and execute the loan agreement. Our loan facilitation services meet the underserved financing needs of certain car purchasers by connecting them with commercial banks to which they otherwise do not have ready access at the dealer stores, helping them find commercially attractive auto finance products suited to their specific needs and assisting them with various administrative tasks to make the loan application process easier and more convenient for them. Car purchasers do not always have ready access to the commercial banks at the dealer stores because the loan products of the commercial banks that we cooperate with under our retail loan facilitation business typically are not displayed at the dealer stores and, as for commercial banks that display their loan products at the dealer stores, they typically do not have sales personnel frequently present at the dealer stores who can explain their loan products to the customers, provide recommendation on the loan products suitable to them and assist them in the loan application and verifications. In practice, commercial banks typically require the loan applications be submitted at the dealer stores at the presence of their employee who can undertake the necessary verification of the veracity of the application. Some car purchasers, after comparing various automobile loan products available at the dealer store, find the loan products offered by the commercial banks that we cooperate with to be best suited to their financing needs and would therefore make use of our loan facilitation services. Some other car purchasers, especially purchasers of luxury-brand cars who do not have time to analyze loan products or prepare loan application materials on their own, will be willing to pay for our retail loan facilitation services because they trust our judgment in recommending the loan products that are both commercially attractive and most suitable to them and value the convenience offered by our retail loan facilitation services with respect to time-consuming tasks such as the preparation of loan application materials.

During the Track Record Period, we provided the following types of loan facilitation services:

- *Loan Consultation Service.* From the end customers' perspective, our consultation service typically begins with introducing them to various auto finance options, helping them identify suitable financing options and answering any questions they may have. We also help these end customers communicate with dealers and advise them on the car purchase process.
- *Loan Application Preparation.* After the end customer selects the financing option they want to pursue, we help the end customer prepare the requisite loan application materials, submit the loan application materials and may also conduct a preliminary review of their application materials at the commercial bank's request.
- *Loan Agreement Execution.* After the loan application is approved, we assist the end customer in executing the loan agreement with the commercial banks. If the car to be purchased is required to be registered as a collateral of the loan prior to loan disbursement, we may also assist the end customer with the collateral registration process.

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## BUSINESS

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During the Track Record Period, we worked with three commercial banks on a non-exclusive basis to provide retail loan facilitation services. We have not entered into any written agreement with the commercial banks for such services nor are we subject to any performance requirements by the commercial banks with respect to the number of customers we refer to them or the amount of the loans to be borrowed by such customers. Our sales personnel will only refer the customers of each dealer store to one bank for a certain period of time, which is typically around six months, to ensure the sales personnel's familiarity with the products of the bank. The decision on which bank should the sales personnel recommend to the customers of each dealer store to is made at our management level, based on factors such as the bank's specific promotional activities at that point of time, the loan disbursement turnaround time, the interest rates of its automobile loan products and its relationship with us.

The decision to directly disburse loans to the potential customers or to refer them to commercial banks we cooperate with is primarily based on our funding sufficiency, liquidity risk management and local customers' access to the commercial banks' loan products. When the requirements of our liquidity risk management do not allow for additional loan disbursement at that time, we would offer potential customers retail loan facilitation services but not self-operated retail loan services. When we have sufficient capital to meet our loan disbursement and liquidity risk management needs, we would offer both self-operated retail loan services and loan facilitation services to potential customers. Our treasury department, which is the key operational department responsible for liquidity risk management, conducts daily capital computation and monitors liquidity risk indicators on a daily basis. Our treasury department prepares cash outflow budget for the following week at the end of each week and sets the daily maximum amount of retail loans to be disbursed. Based on the actual amount of retail loans disbursed, the treasury department regularly informs our regional marketing managers the amount of retail loans that can be disbursed, who will then relay the information to the sales personnel dispatched to the dealer stores.

Before referring a potential customer to commercial banks, we conduct an initial assessment of the identity of the potential customer and the authenticity of basic information provided to screen out untrustworthy loan applicants. Since customers will only be offered retail loan facilitation services when self-operated retail loan services are not available given the requirements of our liquidity risk management, we have not had any customer who applied for our self-operated retail loan and accepted loan facilitation services after we assessed our liquidity risk. During the Track Record period, we also did not refer any rejected applicant for our self-operated retail loans to the commercial banks we work with under our retail loan facilitation business. We do not bear any credit risk or provide guarantees for such loans. Rather, the commercial banks independently review the loan applications, conduct their loan approval process and assume full credit risks for such loans. During the Track Record Period, we did not keep track of the rejection rate for retail loan facilitation requests.

We charge our retail loan facilitation customers a service fee, which typically ranges from 2% to 4% of the loan amount to be disbursed by the commercial banks. The service fee is collected from our retail loan facilitation customers primarily through debit or credit card as they enter into the loan agreements with the commercial bank, and the commercial banks will proceed with the loan disbursement to the dealer for the completion of the car purchase. We do not charge the commercial banks any fee for our retail loan facilitation services. Before we launch our retail loan facilitation business in a certain region, we will conduct market research on the prevailing loan facilitation service

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## BUSINESS

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fee rate in that region and then set a range of the service fee rates for this region, which is typically slightly lower than the prevailing market rate, to ensure the competitiveness of our loan facilitation services and products when we first entered into the market. Going forward, we will then review the range of our loan facilitation service fee rate based on the competitive landscape and market conditions of the region. When interacting with potential customers, our sales personnel will first ask the customers for certain basic information, such as their occupation, the car model they intend to purchase, the amount of loan they intend to borrow and whether they have asked for or received fee quotes from other financiers and then give the customer a fee quote within the service fee range based on these information. Our sales personnel and the customer often will negotiate about the exact service fee to be charged. Key factors affecting the outcome of the negotiation include the loan size, the customer's purchase power and familiarity with auto finance services, the amount of work needed and the intensity of the market competition in the region. Based on the reasons mentioned above, the service fee we charge is not dependent on the commercial bank we work with.

For the years ended December 31, 2016, 2017 and 2018, we facilitated 20,946, 26,655 and 47,165 retail loans, and generated fee and commission income of RMB168.2 million, RMB195.9 million and RMB281.7 million from our retail loan facilitation business, respectively. For the years ended December 31, 2016, 2017 and 2018, the average service fee we charged, which is calculated by dividing the fee and commission income during the period divided by the number of retail loans facilitated, was approximately RMB8,030.8, RMB7,350.2 and RMB5,973.5, respectively. The decline in the average service fee is attributable to (i) increases in the number of retail loans facilitated as a result of our efforts to expand our retail loan facilitation business and broaden our customer base, (ii) the increasing concentration of our customers located in lower-tier cities, which tend to have lower purchasing power and (iii) increased competition in the auto loan facilitation market, according to CIC. We plan to continue to grow our retail loan facilitation business by leveraging the expansion of our dealer network and our relationships with the commercial banks in cooperation with us.

According to CIC, retail loan facilitation service is an industry norm in the auto finance market. Some dealers also provide referral services to commercial banks. For a description of the risks we face from such competition, see "Risk Factors — Risks Relating to Our Business — We face significant competition, and some of our competitors may have more resources or stronger brand recognition than us" and "Risk Factors — Risks Relating to Our Business — If we fail to maintain stable relationships with the commercial banks we currently work with or establish new relationships with other commercial banks for our retail loan facilitation business, our business, results of operations and financial conditions could be materially and adversely affected."

### DEALER LOAN BUSINESS

We launched our dealer loan business in May 2015 to provide loans to dealers for purchase of new cars to be sold to end customers. Our dealer loan business is complementary to our retail loan business and contributed to a significantly smaller proportion of our operating income during the Track Record Period. We believe the provision of dealer loans helps us gain a better understanding of dealers' needs and build closer business relationships with our dealers, thereby strengthening our sales network for our retail loan business.

## BUSINESS

We have established a standardized process for screening, reviewing and approving dealer loan applications. Once approved, we will enter into a revolving credit line agreement with the dealers under which the dealers can make drawdowns each time they purchase cars. In accordance with applicable PRC laws, the term of our dealer loans shall not be more than 12 months. Interests on the loans are payable monthly and the outstanding principal and interest relating to the cars are due in a lump sum payment within two business days after the cars are sold. We manage our dealer loans closely after disbursement and promptly initiate the loan collection process if any loan becomes delinquent. We did not have any non-performing dealer loan during the Track Record Period.

For the years ended December 31, 2016, 2017 and 2018, we disbursed 5,460, 5,749, and 5,341 dealer loans and generated interest income of RMB28.5 million, RMB40.9 million and RMB35.5 million, respectively, during the same periods. The following table sets out certain operating information of our dealer loan business by the type of dealers for the periods or as of the dates indicated. During the Track Record Period, the average interest rates charged to ZhengTong Dealers were lower than that charged to External Dealers because ZhengTong Dealers have a higher level of creditworthiness with lower likelihood of incurring an impairment losses on the part of the Company as compared to the External Dealers. Our naturally closer relationship with ZhengTong Dealers gives us a greater ease to verify the accuracy of ZhengTong Dealers' loan applications and monitor their actual usage of the loan proceeds. Nonetheless, the interest rates we charged to ZhengTong Dealers during the Track Record Period were determined on an arm's length basis and are consistent with the market practice.

	For the year ended or as of December 31,								
	2016			2017			2018		
	ZhengTong Dealers	External Dealers	Total	ZhengTong Dealers	External Dealers	Total	ZhengTong Dealers	External Dealers	Total
Interest income (RMB in millions) .....	14.5	14.0	28.5	27.7	13.2	40.9	15.7	19.8	35.5
Average interest rate <sup>(1)</sup> .....	5.85%	7.23%	6.46%	6.27%	7.29%	6.57%	7.29%	7.97%	7.65%
Gross outstanding balances of dealer loans as of period end (RMB in millions) .....	213.4	142.2	355.6	716.4	199.6	916.0	683.1	207.4	890.5
Number of dealer loans disbursed during the period .....	1,306	4,154	5,460	4,310	1,439	5,749	2,931	2,410	5,341
Amount of dealer loans disbursed during the period (RMB in millions) .....	545.6	741.5	1,287.1	1,695.8	277.9	1,973.7	1,207.3	618.6	1,825.9
Average amount of loan disbursed (RMB) .....	417,764.2	178,502.7	235,732.6	393,457.1	193,120.2	343,311.9	411,901.4	256,686.1	341,864.2

*Note:*

- (1) Represents interest income during the period divided by the average amount of gross outstanding balances of dealer loans, which is calculated by totaling the gross outstanding balance as of the end of each day and dividing the sum by the days in that period.

### ***Key Terms of Dealer Loan Agreement***

Dealer loans we disbursed during the Track Record Period were exclusively revolving loans. Key terms of our standard revolving credit agreement with the dealers include:

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## BUSINESS

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- The loan proceeds shall only be used for the purchase of cars or auto parts and accessories;
- To make a drawdown, the dealer shall submit an application along with the car purchase agreement to us for approval. The application will be approved only when the dealer meets the requirements specified in the agreement;
- We are authorized under the agreement to request deposit, third-party guarantee and other forms of guarantee as preconditions for the drawdown;
- During the credit period, we may adjust the interest rate for the amount drawn by the dealer;
- We are authorized under the agreement to periodically check the sales of the cars;
- Late repayment may result in a 50% increase of the loan interests; and
- In case of breach, we may request additional guarantee, accelerate the loan repayment date, and terminate the agreement unilaterally.

### *Operational Process*

Our operational process with respect to dealer loans is largely similar to that of our retail loans. See “Risk Management — Major Risk Management — Credit Risk Management — Dealer Loan Credit Risk Management” for a more detailed description.

### **RISK MANAGEMENT**

We have established a risk management committee consisting of three Directors, namely, Mr. Shao Yongjun, Mr. Lau Wai Leung Anders and Mr. Lin Fan. Mr. Lin Fan currently serves as the chairman of the risk management committee.

We have implemented and maintained prudent risk management standards. Under our risk management system, we are able to (i) investigate applicants’ credit records through a pre-disbursement risk management process, (ii) further control the risk through review process, and (iii) improve our collection on delinquent loans and mitigate the loss through our comprehensive collection system. Along with the expansion of our customer base, our risk management system and IT system have continually undergone upgrades and enhancement. We also continue to monitor and review the operation and performance of our risk management system and make adjustment based on the changes in market conditions, our product and service offerings and the regulatory environment.

The following table shows our key risk management indicators and related regulatory requirements as of the dates indicated:

	As of December 31,			Requirement
	2016	2017	2018	
		(%)		
Core tier-one capital adequacy ratio <sup>(1)</sup> .....	19.98%	37.12%	30.18%	≥5%

## BUSINESS

	As of December 31,			Requirement
	2016	2017	2018	
			(%)	
Tier-one capital adequacy ratio <sup>(2)</sup> .....	19.98%	37.12%	30.18%	≥6%
Capital adequacy ratio <sup>(3)</sup> .....	20.66%	37.89%	31.26%	≥8%
Liquidity ratio <sup>(4)</sup> .....	105.62%	235.41%	1,180.0%	≥25%

	As of December 31,			Requirement
	2016	2017	2018	
			(%)	
Overall non-performing loan ratio <sup>(5)</sup> .....	0.37%	0.28%	0.27%	≤5%
Provision coverage ratio <sup>(6)</sup> .....	264.08%	354.69%	582.29%	N/A
Provision for impairment losses ratio <sup>(7)</sup> .....	0.99%	1.00%	1.59%	N/A

### Notes:

- (1) Calculated by dividing core tier-one capital, net of core tier-one capital deductions, by risk-weighted assets. For the components of core tier-one capital, core tier-one capital deduction and risk-weighted assets under the Measure, see “Regulatory Overview — Automotive Financing Companies — Regulations of Capital Adequacy.”
- (2) Calculated by dividing tier-one capital, net of tier-one capital deductions, by risk-weighted assets. For the components of tier-one capital, tier-one capital deductions and risk-weighted assets under the Measures, see “Regulatory Overview — Automotive Financing Companies — Regulations of Capital Adequacy.”
- (3) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets. For the components of our total capital, capital deductions and risk weighted assets under the Measures, please see “Regulatory Overview — Automotive Financing Companies — Regulations of Capital Adequacy.”
- (4) Calculated by dividing assets due in one month by liabilities due in one month. In 2018, CBIRC issued the Administrative Measures for the Liquidity Risk of Commercial Banks (商業銀行流動性風險管理辦法). In accordance with such regulation, CBIRC uses liquidity ratio (calculated by dividing current asset by current liability) to assess the liquidity risk of commercial banks. The local regulatory authority requires our Company to implement such measures.
- (5) Calculated by dividing the balance of non-performing loans by the gross balance of the loans and advances to customers.
- (6) Calculated by dividing allowance for impairment losses on loans and advances by the amount of non-performing loans.
- (7) Calculated by dividing the amount of allowance for impairment losses on loans and advances by the gross balance of the loans and advances to customers.

## PROVISION POLICY AND ASSET QUALITY

See “Financial Information — Critical Accounting Policies and Estimates” and “Assets and Liabilities — Assets — Loans and Advances to Customers — Allowance for Impairment Losses on Loans and Advances to Customers.”

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## BUSINESS

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### PRICING

For both retail loans and dealer loans, the interest rates we charge are generally based on the benchmark lending rate published by the PBOC and will be adjusted in line with changes to the benchmark lending rate published by the PBOC. The benchmark interest for RMB loan of one to three years has been 4.75% since late 2015, according to the PBOC. We determine interest rates on our loan products by taking into account the creditworthiness of the customers, our funding costs, potential impairment losses, target operating profits, interest rates of comparable products in the market and regulatory requirements of loan interest rates. For more details on how we assess the creditworthiness of our customers using a three-fold approach, see “Risk Management — Credit Risk Management — Retail Loan Credit Risk Management.” Our senior management reviews and adjusts the pricing policy of our loan products periodically after taking into account of the demand for our loan products, customer feedback, impact of seasonality and our estimated operating and funding costs. As an AFC licensed by the CBIRC, we have access to a variety of funding sources that are at a lower capital cost otherwise unavailable to non-CBIRC licensed entities, allowing us to price our loan products competitively. We also leverage our comprehensive risk management framework when competing with other AFCs licensed by the CBIRC in terms of pricing.

Our standard interest rate typically ranges from 9.98% to 14.98% for the purchase of new cars and 11.98% to 14.98% for the purchase of used cars. The interest rates that we charge for our retail loan products take into account the loan repayment history of existing customers with different credit profiles, the interest rates offered by competing auto finance products and the preferences of different groups of customers. Our sales personnel, when interacting with potential retail loan customers, will choose to recommend retail loan products with different interest rates to them based on a preliminary assessment of the customer’s creditworthiness and repayment capability, as indicated by factors such as disposable income and occupation. Specifically, among our loan products with an interest rate of 9.98%, 10.98%, 11.98%, 12.98%, 13.98% and 14.98%, our sales personnel may recommend a loan product with a higher interest rate to a potential customer whom they deem to have higher credit risk, and vice versa. As we continue to develop our creditworthiness assessment and risk management capabilities, we plan to adopt a pricing mechanism tailored to loan applicants’ specific credit profile in the future. For our retail loan facilitation business, the service fee we charge our customers typically ranges from 2% to 4% of the loan amount to be disbursed by the commercial banks. Based the competitive landscape and market conditions of a certain region, we will set a range of the service fee rates for the region. Our sales personnel will then provide a fee quote within the service fee range based on information obtained from interacting with potential customers, such as the customers’ occupation, the car model they intend to purchase, the amount of loan they intend to borrow and whether they have asked for or received fee quotes from other financiers. Our sales personnel and the customer often will negotiate back and forth about the service fee before agreeing on the exact price to be charged. Key factors affecting the outcome of the negotiation include the loan size, the customer’s purchase power and familiarity with auto finance services, the amount of work needed and the intensity of the market competition in the region.

As advised by our PRC Legal Advisors, we had complied in all material respects with applicable PRC laws, regulations and regulatory rules with respect to the above arrangements with customers or dealers under our self-operated retail products and dealer loan products during the Track Record Period.

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## BUSINESS

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### CUSTOMERS

Our customers primarily include retail loan customers and dealer loan customers. For the years ended December 31, 2016, 2017 and 2018, we disbursed and facilitated in aggregate 36,494, 45,309 and 88,895 retail loans, respectively, substantially all of which were to individual customers. During the same periods, we disbursed 5,460, 5,749 and 5,341 dealer loans.

In 2016, our five largest customers consisted solely of dealers. In 2017 and 2018, our five largest customers consisted of dealers and a commercial bank with which we worked to disburse joint retail loans. The following tables set forth the details of our five largest customers during the Track Record Period:

#### *Year ended December 31, 2016*

Customers	Business Nature	Revenue Contribution
ZhengTong	Internal Dealer	3.22%
Customer A	External Dealer	3.11%
Customer B	Individual Customer	0.69%
Customer C	Commercial bank	0.14%
Customer D	Individual Customer	0.06%
<b>Total</b>		<b>7.22%</b>

#### *Year ended December 31, 2017*

Customers	Business Nature	Revenue Contribution
ZhengTong	Internal Dealer & Customer	4.57%
Customer A	External Dealer	2.10%
Customer C	Commercial bank	1.31%
Customer B	Individual Customer	0.49%
Customer E	Individual Customer	0.03%
<b>Total</b>		<b>8.50%</b>

#### *Year ended December 31, 2018*

Customers	Business Nature	Revenue Contribution
Customer C	Commercial bank	4.30%
ZhengTong	Internal Dealer & Customer	1.54%
Customer A	External Dealer	1.43%
Customer F	External Dealer	0.37%
Customer G	Finance Lessee	0.14%
<b>Total</b>		<b>7.78%</b>



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## BUSINESS

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None of our Directors, nor any of their respective associates, nor any Shareholder who, to the knowledge of our Directors, held more than 5% of our issued Shares, had any interest in our five largest customers during the Track Record Period.

### SALES AND MARKETING

We developed our customer base primarily through cooperating with dealers and brand automakers. See “—Our Sales Network” for more details. We believe the growth of our customer base is driven by our effective sales team, strategic focus on the luxury-brand auto finance market, established ability to provide customers with diverse and customized auto finance options, and word-of-mouth reputation backed by satisfactory customer experience. At the same time, our direct cooperative relationships with dealers help boost their car sales and allow us to respond to their needs in a timely manner, which further enhances our relationship with these dealers for our retail loan business.

We have established a marketing department in Shanghai and also set up sales teams in over 111 cities as of December 31, 2018, responsible for the development of our business across China. As of December 31, 2018, we had a sales team of 265 employees, most of which have extensive industry experience and knowledge needed for developing and maintaining our sales network. Our sales team conducts mainly have the following responsibilities:

- develop our customer base and expand our market presence;
- visit dealers on a regular basis to maintain close relationships with them;
- organize trainings for dealers, improving their professional knowledge and familiarity with our products and services;
- collect feedback on market trend and our products and services; and
- perform other sales and marketing tasks to support our business development.

We also launched online channels such as Weixin official account and mini-programs in July 2018 to strengthen our brand recognition. Retail loan customers can easily learn more about us and our services, check repayment schedules and submit early repayment applications through these mobile channels while dealers within our sales network can submit the retail loan applications of their customers and check the loan approval status.

### SOURCES OF FUNDING

As an AFC licensed by the CBIRC, we have access to a variety of funding sources that are at a lower capital cost and otherwise unavailable to non-CBIRC licensed entities. As a licensed non-banking financial institution and according to the Administrative Measures on Governing the Automotive Financing Company (汽車金融公司管理辦法), we are permitted to take time deposits of three months or more from wholly-owned members of the ZhengTong Group onshore, carry out inter-bank borrowing and accept security deposits from dealers under the wholesale loan business. In

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## BUSINESS

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addition, in March 2017, the China Foreign Exchange Trade System & National Interbank Funding Center granted us access to the national inter-bank lending market, which is only available to a limited number of financial institutions. During the Track Record Period, we established and maintained stable relationships with various banks in China and obtained credit lines from them. As of the Latest Practicable Date, there were 37 banks in China with which we had outstanding placements or unutilized credit facilities. For the years ended December 31, 2016, 2017 and 2018, the average cost for our interest-bearing liabilities (calculated as the ratio of our interest expenses to the average balance of interest-bearing liabilities for the period) was 5.08%, 5.45% and 6.09%, respectively. For more details, see “Financial Information — Summary of Key Financial and Operating Indicators of Our Company.”

### COMPETITION

The auto finance market currently comprises four major groups of participants, which includes commercial banks, AFCs, financial leasing companies and internet finance companies. Traditionally, the auto finance business was dominated by commercial banks. However, AFCs have gradually become the largest player in the retail auto finance market. According to the CIC Report, as of 2017, AFCs accounted for approximately 57% of the retail market in terms of loan value, while commercial banks accounted for approximately 38% of the retail market.

As of December 31, 2018, there were 25 AFCs licensed by the CBIRC to conduct operations in the PRC, among which our Company was the only AFC with a dealership background. All the other licensed AFCs were either affiliated with or in joint ventures with particular automakers.

As an AFC with a dealership background, we have more flexibility in terms of offering loan products for diversified auto brands, while most of our competitors can only offer loan products for brands with which they are affiliated, resulting in more limited product offerings and less efficient loan options for end customers. We offer innovative and customized loan products to satisfy the needs of our end consumers, which in turn is conducive to establishing a long-term and stable cooperative relationship with the dealers. In addition, different from the business models of other AFCs in the PRC which expand business through an agency model, we have expanded our business through direct cooperation with dealers and direct access to end customers. Such direct cooperation and access on the one hand enhances our control over our sales network and on the other hand allows us to continually and efficiently keep abreast of and embrace the changes in market conditions and consumer demands as well as swiftly adjust our product offerings in view of such changes. Enabled by our unique market positioning with multi-brand and multi-channel access to different dealers and end customers, we have a full understanding of the interests of the auto dealers and demand of our end customers.

### INSURANCE

Consistent with industry practice in China, we do not maintain business interruption insurance, key-person insurance or insurance covering potential liabilities. In addition, we do not maintain loan

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## BUSINESS

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default insurance for our loan products. During the Track Record Period, we did not experience any business interruptions which had a material adverse effect on our business. We require our retail loan end customers to maintain relevant insurance for the cars financed and appoint us as the beneficiary with the first priority, which is also consistent with the industry practice.

We believe that our insurance coverage is sufficient for our present purposes and is consistent with the insurance coverage of other financial services companies in China. We periodically review our insurance coverage to ensure that it is adequate. As of the Latest Practicable Date, we had not made nor had been the subject of any material insurance claims. For more details on related risks, see “Risk Factors — Risks Relating to Our Business — Our insurance coverage may be insufficient.”

### EMPLOYEES

As of December 31, 2018, we had 433 full-time employees, all of whom had entered into employment contracts with us. As of December 31, 2018, 6.2% of our employees held Master’s degrees. The following tables shows a breakdown of our employees by function as of December 31, 2018:

<b>Business function</b>	<b>Number of employees</b>	<b>Percentage of total</b>
		(%)
Business operation .....	96	22.2
Finance and capital .....	15	3.5
Sales and marketing .....	265	61.2
Risk management .....	5	1.2
General and administrative .....	52	12.0
<b>Total</b> .....	<b>433</b>	<b>100.0</b>

We offer competitive compensation to our employees. We also provide benefits to our employees in accordance with PRC laws and regulations on pension insurance, health insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing fund. For the years ended December 31, 2016, 2017 and 2018, our total staff cost was approximately RMB28.0 million, RMB34.8 million and RMB76.3 million, respectively.

As required by applicable PRC laws and regulations, we are required to register with the respective local authorities regarding social security insurance. We did not make social security insurance and housing provident fund contributions for certain of our employees by ourselves as required under PRC laws and regulations during the Track Record Period. Please see “Business — Legal Proceedings and Compliance” for more details. Other than the matters as described in that sub-section of the prospectus, we made all other contributions during the Track Record Period in compliance with the applicable laws and regulations.

We recruit employees from a number of sources, including campus recruitment, internal reference, search firms, advertising and the internet. We offer training programs to our employees, designed to develop their skills necessary for meeting our requirements and our customers’ expectations.

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## BUSINESS

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We believe that we have maintained a good working relationship with our employees, and we have not experienced any material labor disputes as of the date of this prospectus.

### TECHNOLOGY

Our IT system is an essential component of our operations and supports our entire transaction process, including loan application processing and review, loan disbursement and repayment management, as well as risk management and internal controls. During the Track Record Period, we developed a robust and scalable technology infrastructure with sufficient flexibility to support our rapid growth. Our technology infrastructure mainly consists of our credit information database, our proprietary credit risk assessment model, our automated delinquency risk monitoring system, our client relationship management system, our loan review and management system, and our mobile platforms. Specifically:

- our credit information database primarily consists of credit records obtained from the National Citizen Identity Information Center, the Credit Reference Center and other third-party sources;
- our credit risk assessment model is able to label loan applicants with different creditworthiness levels based on their credit profile as generated from our comprehensive credit information database, and enables us to quickly decide which loan applications shall be approved or denied through our proprietary algorithm;
- our automated delinquency risk monitoring system keeps close track of our end customers' loan repayment status and changes in its financial conditions and operational performance after loan disbursement, allowing us to proactively manage loan default risks;
- our client relationship management system keeps track of information related to the loan application status, disbursement status and repayment records of our end customers, dealers within our sales network and other sales and marketing activities;
- our loan review and management system is a core operating system that is used to manually review retail loan applications that were not approved by an automated process and to manage loan agreements, disbursement and repayment; and
- our mobile platforms mainly consist of our Weixin official account and mini-programs, which allow our potential customers to learn more about our products and services, allow existing customers to check their repayment schedules and help the dealers within our sales network better promote our products and services.

We have also purchased from third parties certain IT systems and softwares, such as Netsol's contract management system and the SAP enterprise resource planning software.

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## BUSINESS

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In addition, we have adopted various IT security measures to enhance our information safety management, including firewalls, virtual private network, anti-virus software, encryption and intrusion detection. We have also established IT standards and procedures, regularly assess the effectiveness and efficiency of our IT security measures and provide trainings to our employees' to raise their awareness of the importance of IT risks. In addition, we have adopted measures to back up data for our systems and communication networks to reduce risks arising from system failure. We plan to continue to optimize and upgrade the functionality of our IT system in the future. Specifically, we plan to continue to optimize our core operating systems and further utilize advanced technologies, such as the optical character recognition technology, to improve our operational efficiency and risk management capability. Our current IT projects primarily include the upgrade of our credit risk assessment model, anti-fraud system and dealer grading system and the development of a risk assessment model for the selection and management of dealers.

Apart from improving our own technological capabilities, we also plan to collaborate with Shenzhen Zhengyuan Automobile Technology Co., Ltd., a subsidiary of ZhengTong which specializes in financial technology and big-data enabled risk control, to utilize its research and development capabilities in the fields of artificial intelligence and big data analytics to diversify the sources of our credit information database and enhance the applicability and accuracy of our credit risk assessment model, thereby strengthening our automated screening capability for qualified loan applicants.

As of December 31, 2018, our IT department had 23 employees, four of which hold a master's degree or above. Our IT employees have an average of approximately five years of experience. For the years ended December 31, 2016, 2017 and 2018, we had IT expenditure of approximately RMB3.0 million, RMB8.9 million and RMB3.5 million, respectively.

### LICENSES

Our Directors, as advised by our PRC Legal Advisors, confirm that, as of the Latest Practicable Date, we had obtained all material approvals, registration or permits from relevant PRC authorities for our operations in China.

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## BUSINESS

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The following table sets forth our approvals, registration or permits from relevant PRC authorities that are material to our business operations as of the Latest Practicable Date. The license certificates herein are the latest ones we have obtained upon/after our conversion into a joint stock limited liability company.

License	Issuance Date	Expiration Date	Scope of Licensed Activities
PRC Financial License Certificate	August 22, 2018	No expiration date	<ul style="list-style-type: none"> <li>• Taking deposits with a maturity of no less than three months from its PRC shareholders and from the PRC subsidiaries that are wholly owned by its foreign shareholders or by groups that a foreign shareholder belongs to;</li> <li>• Accepting premium from auto dealers for loans which are used to purchase cars, and accepting auto lease security deposit from leasees;</li> <li>• Issuing financial bonds upon approval;</li> <li>• Engaging in inter-bank loan transactions;</li> <li>• Borrowing from financial institutions;</li> <li>• Providing loans for car purchases;</li> <li>• Providing loans which are used to purchase cars or facilities including the show-room construction, spare parts and equipment maintenance to auto dealers;</li> <li>• Engaging in auto finance leasing business (except for the sale-and-leaseback business);</li> <li>• Selling to or repurchasing auto loan receivables and auto finance leasing receivables from financial institutions;</li> <li>• Selling off or disposing residues of leased cars;</li> <li>• Engaging in consultancy and agency business related to automobile purchase financing; and</li> <li>• Engaging in equity investments in financial institutions whose business scopes are relevant to auto financing business with an approval by the CBIRC.</li> </ul>

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## BUSINESS

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License	Issuance Date	Expiration Date	Scope of Licensed Activities
PRC Business License	August 15, 2018	No expiration date	<ul style="list-style-type: none"> <li>• Taking deposits with maturity of no less than three months from its PRC shareholders and from the PRC subsidiaries that are wholly owned by its foreign shareholders or by groups that a foreign shareholder belongs to;</li> <li>• Accepting premium from auto dealers for loans which are used to purchase cars, and accepting auto lease security deposit from leasees;</li> <li>• Issuing financial bonds upon approval;</li> <li>• Engaging in inter-bank loan transactions;</li> <li>• Borrowing from financial institutions;</li> <li>• Providing loans for car purchases;</li> <li>• Providing loans which are used to purchase cars or facilities including the show-room construction, spare parts and equipment maintenance to auto dealers;</li> <li>• Engaging in auto finance leasing business (except for the sale-and-leaseback business);</li> <li>• Selling to or repurchasing auto loan receivables and auto finance leasing receivables from financial institutions;</li> <li>• Selling off leased cars to realize their residual value;</li> <li>• Engaging in consultancy and agency business related to automobile purchase financing; and</li> <li>• Engaging in equity investments in financial institutions whose business scopes are relevant to auto financing business with an approval by the CBIRC.</li> </ul>

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## BUSINESS

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License	Issuance Date	Expiration Date	Scope of Licensed Activities
PRC Certificate of Approval for Establishment of Enterprises with Foreign Investment	August 15, 2018	No expiration date	<ul style="list-style-type: none"><li>• Taking deposits with maturity of no less than three months from its PRC shareholders and from the PRC subsidiaries that are wholly owned by its foreign shareholders or by groups that a foreign shareholder belongs to;</li><li>• Accepting premium from auto dealers for loans which are used to purchase cars, and accepting auto lease security deposit from leasees;</li><li>• Issuing financial bonds upon approval;</li><li>• Engaging in inter-bank loan transactions;</li><li>• Borrowing from financial institutions;</li><li>• Providing loans for car purchases;</li><li>• Providing loans which are used to purchase cars or facilities including the show-room construction, spare parts and equipment maintenance to auto dealers;</li><li>• Engaging in auto finance leasing business (except for the sale-and-leaseback business);</li><li>• Selling to or repurchasing auto loan receivables and auto finance leasing receivables from financial institutions;</li><li>• Selling off leased cars to realize their residual value;</li><li>• Engaging in consultancy and agency business related to automobile purchase financing; and</li><li>• Engaging in equity investments in financial institutions whose business scopes are relevant to auto financing business with an approval by the CBIRC.</li></ul>

## INTELLECTUAL PROPERTY

As of December 31, 2018, we had three registered trademarks and one registered domain name. We did not have any material disputes or any other material pending legal proceedings of intellectual property rights with third parties during the Track Record Period and up to the Latest Practicable Date. See “Appendix VI — Statutory and General Information — B. Further Information about Our Business — 2. Intellectual property rights of our Company” for details of our material intellectual property rights.



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## BUSINESS

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### PROPERTIES

As of the Latest Practicable Date, we operated our businesses primarily through two leased properties in Shanghai. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and are principally used as office premises for our business operations. We believe that there is a sufficient supply of properties in China, and thus we do not rely on existing leases for our business operations.

As of the Latest Practicable Date, our leased properties had a total gross floor area of over 2,913.85 square meters. The expiration dates of the relevant lease agreements range from September 30, 2019 to September 30, 2023, both of which have renewal options.

As of December 31, 2018, each of our property interests had a carrying amount less than 15% of our total assets. Therefore, according to Chapter 5 of the Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which require a valuation report with respect to all our Group's interests in land or buildings.

During the Track Record Period, we, as a tenant, did not register a lease agreement with a total gross floor area of 1,322.16 square meters, which expired on December 15, 2018 and was not renewed upon its expiration. In October 2018, we entered into a lease agreement with a total gross floor area of 2,029.40 square meters for office use. Our PRC Legal Advisors have advised us that the lack of registration will not affect the validity and enforceability of lease agreements. However, the relevant government authorities may require us to register these unregistered lease agreements within a certain period of time and, if we fail to so rectify during the prescribed period, the relevant government authorities may impose a fine of up to RMB10,000 for each unregistered lease agreement. See "Risk Factors — Risks Relating to Doing Business in the PRC — We may be subject to fines or other administrative penalties for failing to register leased properties."

### HEALTH, WORK SAFETY, SOCIAL AND ENVIRONMENTAL MATTERS

We have entered into employment contracts with our employees in accordance with the applicable PRC laws and regulations. We maintain social welfare insurance for our full-time employees in the PRC, including pension insurance, medical insurance, personal injury insurance, unemployment insurance and maternity insurance, in accordance with relevant PRC laws and regulations.

Our employee handbooks contain policies and procedures regarding work safety and occupational health issues. We provide our employees with annual medical checks and safety training. Our human resources department is responsible for recording and handling work accidents as well as maintaining health and work safety compliance records.

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## BUSINESS

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During the Track Record Period and up to the Latest Practicable Date, we have not been subject to any fines or other penalties due to non-compliance with health, work safety, social or environmental regulations. We were not required to and did not pay any compensation to employees in respect of claims for personal or property damages.

### LEGAL PROCEEDINGS AND COMPLIANCE

From time to time, we may be involved in legal proceedings that arise in the ordinary course of our business, which mainly include legal proceedings brought by us against our customers for the recovery of loans. During the Track Record Period and up to the Latest Practicable Date, we were not subject to any material litigation, arbitration or administrative proceedings as a defendant nor were we aware of any unsettled litigations, legal proceedings, or claims to which we are a party that could materially affect our business, operational or financial position.

During the Track Record Period and as of the Latest Practicable Date, none of our Directors, Supervisors or senior management was involved in any material litigation, arbitration or administrative proceedings.

We duly obtained all the material approvals, permits, consents and licenses relating to our incorporation that are necessary for our business operation and all of them were in force as of the Latest Practicable Date.

As advised by our PRC Legal Advisors, during the Track Record Period and up to the Latest Practicable Date, we have complied with all major PRC laws and regulations in all material respects, except for certain social security insurance and housing provident funds contributions requirements as detailed in the paragraph below. Pursuant to the Auto Finance Company Administrative Measures (《汽車金融公司管理辦法》), AFCs are not permitted to establish branches without the approval of the CBIRC. Subject to the above legal restrictions and regulatory requirements of the CBIRC, our Company cannot establish branches outside Shanghai to register with local governmental authority to make contributions to the relevant social security and housing provident funds. Therefore, we engaged relevant third party human resources agencies to pay social security and housing provident funds for certain employees who are based outside Shanghai.

Although we believe that the required amounts of social security insurance and housing provident funds contributions in respect of the affected employees have been made, as advised by our PRC Legal Advisors, such arrangement is not in strict compliance with relevant PRC laws and regulations since the obligation to make contributions to the social security insurance and housing provident funds is on our Company and cannot be delegated to third party agencies.

Our Directors believe, after consulting our PRC Legal Advisors, that the risk of the above administrative penalty that may be imposed by relevant governmental social insurance and housing provident authorities is remote for the following reasons: (1) our Company has made timely and full payments of social insurance and housing provident funds through the third party human resources agencies for employees who are based outside Shanghai; (2) we have obtained relevant written or verbal confirmation from the competent social insurance and public accumulation fund governmental authorities in Shanghai, based on which we understand that no outstanding payment is required to be

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## BUSINESS

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made; and (3) the arrangement was made with the consent of and at the request by the employees involved and our Company has not received any complaint, investigation or administrative penalty as a result of the arrangement nor has our Company been involved in any labor dispute, arbitration or lawsuit in relation to the arrangement. Under applicable PRC laws and regulations, the maximum potential fine or penalty is RMB4.9 million for the failure to meet our obligation to make contributions to the social security insurance during the Track Record Period and RMB1.3 million for the failure to meet our obligation to make contributions to the housing provident funds during the same period. We have been exploring various options to rectify such non-compliance and plan to rectify the issue. Following the termination of our employment relationships with these individuals, we plan to engage a qualified third-party company specialized in human resource management (“**HR Specialist**”), which will enter into employment relationships with them. After the establishment of the employment relationship between these individuals and the HR Specialist, the HR Specialist will designate these individuals to provide services to our Company. As a consideration for the services provided by the HR Specialist through these individual service providers, we will pay a service fee directly to the HR Specialist, which will then pay salaries to these individual service providers and arrange for the payment of the social insurance and housing provident funds.

Under this arrangement, we would require the individual service providers to be subject to our supervision and management when providing services to us, attend trainings designed to maintain their service quality and compliance awareness and report their work progress to us at least once a week through phone calls with our employees responsible for managing the service provider. During such weekly calls, we would also give instructions and assignments to these individual service providers. We also plan to designate certain employees to visit individual service providers on-site and assess their performance in person. We would also require the HR Specialist to address our feedback on the individuals’ service quality and make adjustments accordingly. The HR Specialist will be required to factor our feedbacks into consideration in determining the amount of salaries and bonuses for these individuals as well as their promotion or demotion.

As of the Latest Practicable Date, we approached a number of third-party HR Specialists to explore the feasibility of such arrangement and obtained a fee quote. We expect to complete the selection process and implement the solution by the end of 2019. For a more detailed description of the relevant risks, see “Risk Factors — Risks Related to Doing Business in the PRC — We may be subject to additional contributions of social insurance and housing provident funds and late payments and fines imposed by relevant governmental authorities.”

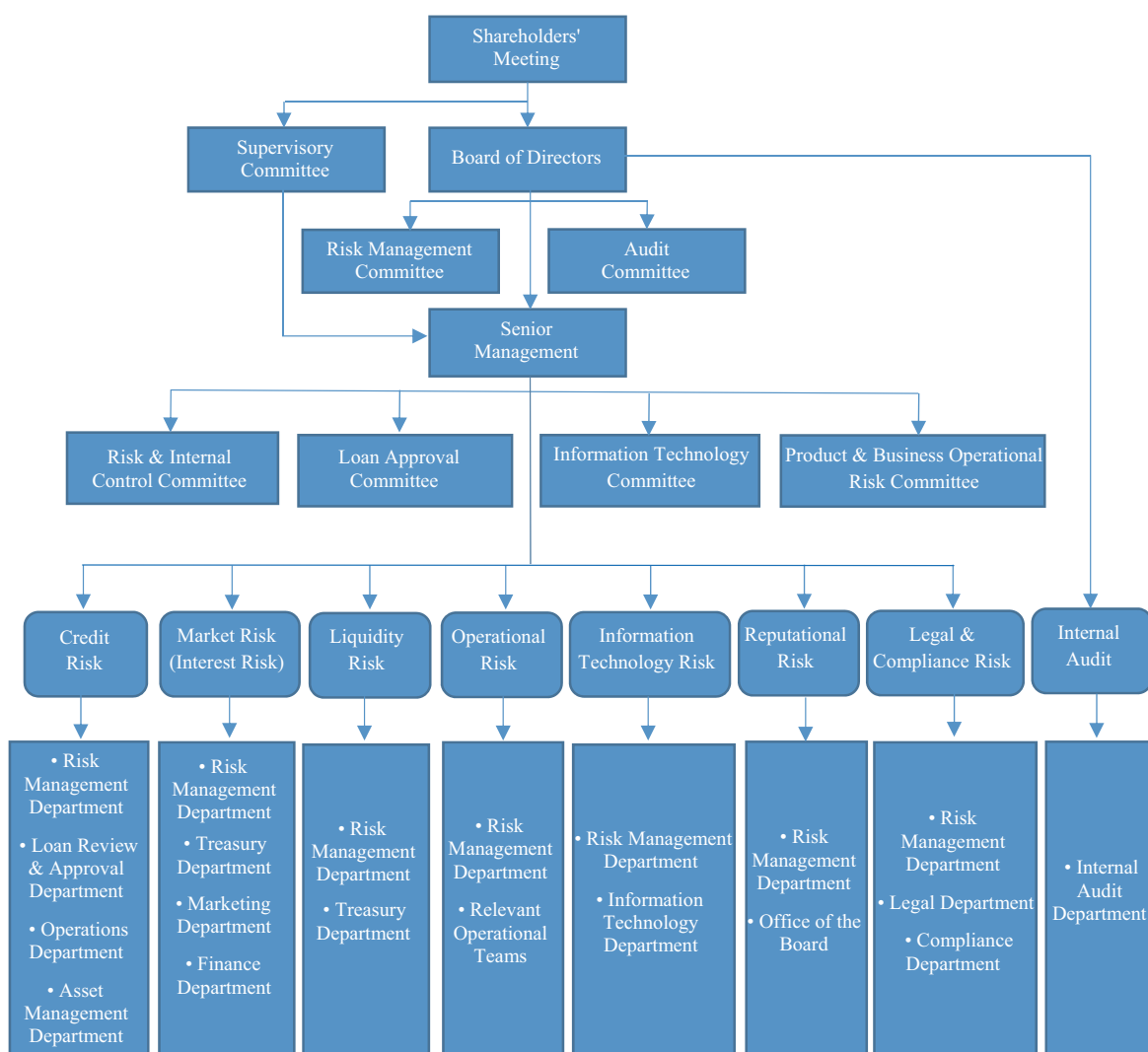
# RISK MANAGEMENT

## OVERVIEW

The primary risks related to our operations include credit risks, liquidity risks, market risks and operational risks. We are also exposed to information technology risks, legal and compliance risks, and reputational risks. We have established an integrated risk management system to identify, measure, evaluate, monitor, report and control these risks in quantitative and qualitative manners and are continuously invested in the optimization and upgrading of this system. For details about our risk management structure, please see “—Risk Management Mechanism.”

## RISK MANAGEMENT MECHANISM

The following chart sets forth the risk management structure of our Company:



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## RISK MANAGEMENT

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### Board of Directors and its Special Committees

The Board is our highest decision-making body for risk management. The Board is responsible for approving our Company's risk management framework and principal risk management policies, making strategic decisions on risk preference and tolerance level and overseeing the execution of our risk management strategies. Two special committees under the Board, namely the Risk Management Committee and the Audit Committee, assist the Board in fulfilling its risk management responsibilities. Specifically,

- The Risk Management Committee is primarily responsible for assisting the Board make decisions on our Company's risk management strategies and policies, overseeing senior management carry out their risk management obligations, periodically evaluating our risk management policies and their execution as well as our risk tolerance level and advising the Board on measures to strengthen our Company's risk management and internal control.
- The Audit Committee is primarily responsible for examining our risk exposure, compliance status, financial conditions, and accounting and reporting policies, conducting annual audit, engaging external auditors, and submitting to the Board a report on the accuracy, completeness and timeliness of the annual audit report.

### Supervisory Committee

The Supervisory Committee is our internal supervision organization and reports directly to the Shareholders' general meeting. The Supervisory Committee is responsible for monitoring and evaluating the Board and our senior management's compliance with laws and regulations, fulfillment of their respective obligations and the effectiveness of our risk management efforts.

### Senior Management and Specialized Committees

Our senior management has the highest executive authority for risk management at our Company. The senior management and its special committees work together to implement the risk management strategies set by the Board, organize, coordinate and supervise various risk management work and submit comprehensive risk management reports to the Board periodically. Listed below are the specific risk management responsibilities of our senior management and its special committees.

- **Senior Management**, members of which include the general manager, deputy general manager, chief risk management officer and other senior management designated by the Board. The general manager's key responsibilities include devising specific risk management rules, procedures and standards within the authority granted by the Board and reviewing and approving certain loan applications. The chief risk management officer's key responsibilities include reviewing and maintaining our risk management framework and reporting to the Board about our risk management status.
- **Risk & Internal Control Committee**, which is primarily responsible for approving loans or credit extensions over a certain amount, conducting loan classifications, reviewing and approving connected transactions and supervising the implementation of various risk management measures, etc.

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## RISK MANAGEMENT

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- **Loan Approval Committee**, which is primarily responsible for reviewing and approving, within its authority, dealer loans, retail loans to institutions and individual retail loans the principal of which exceeds a certain amount.
- **Information Technology Committee**, which is primarily responsible for assisting the senior management establish a comprehensive, advanced, secure, stable and efficient information technology system and periodically analyzing and evaluating our technological infrastructure so as to ensure that it provides sufficient support for our operations and risk management efforts.
- **Product & Business Operational Risk Committee**, which is primarily responsible for identifying and managing cross-divisional operational risks, evaluating risks related to new products and business lines and advising the senior management in their decision-making process.

### Operational Departments

Our Company's risk management functions are specifically performed by the following departments:

- ***Loan Review & Approval Department***, which comprises a retail loan group and a dealer loan group. The retail loan group in turn consists of loan review personnel and loan approval personnel. Loan review personnel are responsible for reviewing retail loan applications, conducting due diligence, analyzing the creditworthiness of loan applicants, and making application approval or denial suggestions to loan approval personnel. Based on the analysis performed and suggestions made by the loan review personnel, loan approval personnel then decide whether to extend loans within their scope of authority. For loans outside the scope of its authority, the loan approval personnel shall forward the application to organizations with the appropriate authority. The dealer loan group is responsible for assessing risks related to the loan, advising the loan approval committee whether to approve the loan, and conducting post-disbursement review by regularly assessing the dealer loan customer's risk profile.
- ***Risk Management Department***, which consists of an operational risks management team, channel risks management team, risk management module research and development team, and risk management policy team. The operational risks management team monitors daily operational risks and examines risks associated with business procedure optimization. The channel risks management team is responsible for approving cooperation relationships with dealers, conducting dealer grading and evaluating the dealers' sales performance. The risk management module research and development team is responsible for analyzing risk data and developing modules and quantitative risk management tools. The risk management policy team assists our senior management establish comprehensive risk management policies, procedures, standards, indicators and loan classification systems.
- ***Operations Department***, which comprises a disbursement center (which in turn consists of a preliminary disbursement review team and a secondary disbursement review team), post-disbursement management team, file management team, dealer loan monitoring team and customer service center.

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## RISK MANAGEMENT

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- *Asset Management Department*, which comprises a loan collection team, outsourcing management team and write-off management team.
- *Treasury Department*, which is responsible for liquidity risk management and market risk management.
- *Marketing Department*, which comprises a sales management team, marketing management team, product management team and operational management team. The product management team participates in interest rate risk management.
- *Finance Department*, which is responsible for participating in interest rate risk management and interest rate risk management.
- *Compliance Department*, which is responsible for managing compliance risks and internal control.
- *Legal Department*, which is responsible for managing legal risks
- *IT Department*, which is responsible for the daily management of information technology risks.
- *Office of the Board*, which is responsible for managing reputational risks.
- *Internal Audit Department*, which is responsible for supervising our risk management mechanism and the effectiveness of our internal control.

### MAJOR RISK MANAGEMENT

Since our inception, we have been committed to enhancing our risk management capabilities, improving corporate governance and internal controls system, and ensuring the effective implementation of an effective risk management mechanism. The major risks we face include credit risks, liquidity risks, market risks and operational risks. We are also exposed to information technology, legal and compliance, and reputational risks.

#### Credit Risk Management

Credit risk is the major risk to which we are subject. Our credit risk is primarily attributable our loans and advances to customers and finance lease receivables. Credit risk mainly arises from borrowers' inability or unwillingness to make timely or full payment for the loans we provided. Our credit risk management efforts can be divided into retail loan credit risk management and dealer loan credit risk management. We have established and continue to improve a company-wide credit risk management system to identify, assess, measure, monitor, mitigate and control risks that may arise from each step of our loan disbursement process. We have stipulated standardized policies and procedures for loan application review and approval, loan disbursement as well as post-disbursement management. We seek to improve our overall credit risk management capabilities through a variety of measures, as detailed below.

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## RISK MANAGEMENT

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### *Retail Loan Credit Risk Management*

We have stipulated the Administrative Rules for Retail Loan Credit Risk Management (《零售信用風險管理制度》), which sets up the organizations within our Company responsible for retail loan credit risk management and sets forth the limitations on the term and principal amount of our loan products, the procedures for reviewing and approving loan applications, as well as protocols for loan agreement execution and post-disbursement management. In addition, we have also promulgated other, more specific credit risk management rules, including the Administrative Rules for Retail Loan Operational Management (《零售運營管理制度》), the Administrative Measures for the Review and Approval of Individual Retail Loans (《個人汽車貸款信貸審批管理辦法》) and the Administrative Guidelines for Five-Category Classification of Retail and Dealer Loans (《零售批售貸款五級分類管理準則》), etc.

### *Application and Acceptance*

Dealers within our sales network undertake under our agreements with them to help collect and pass on to us loan application materials and conduct preliminary authentication of the identity of the loan applicant and basic information contained in their loan application materials. Our employees dispatched to the dealer stores also collect loan application materials from time to time when they visit the store.

### *Review*

For individual loan applicants, we verify the authenticity of their identity and check if they have any criminal record through the National Citizen Identity Information Center operated by the PRC Ministry of Public Security and the Credit Reference Center operated by the PBOC after obtaining the loan applicants' consent and approval for conducting such search from the National Citizen Identity Information Center and the Credit Reference Center. We then assess the loan applicant's creditworthiness by reviewing their credit profile at the Credit Reference Center of PBOC, their judicial enforcement record, as well as other relevant information from various external sources, assisted by our big data analytics. Key sources of data that we utilize for such big data analytics include, among others, judicial enforcement records, criminal defense records, lists of individuals with poor credit records as well as the loan applicants' unutilized credit, debit card transaction records and borrowing records. In general, we assess the creditworthiness and loan repayment capability of the loan applicants with a three-fold approach: (i) our proprietary credit risk assessment model automatically extracts relevant information from the extensive array of data within our access, including, among others, the loan applicant's credit limit, current credit balance and monthly loan repayment obligations; (ii) our proprietary credit risk assessment model analyses the loan applicant's debit card transaction records and fixed assets to assess the loan applicant's capital sufficiency, as well as the compatibility between the loan applicant's estimated repayment capability and the car model to be purchased; and (iii) we speak to the loan applicant on the phone for authentication purposes.

If we are uncertain about whether we should approve or deny a loan application based on the information we have, our assessment of the authenticity of the loan application materials submitted by the loan applicant and the truthfulness of the loan applicant's stated intention to purchase cars, especially in cases of high disbursement amounts, we will conduct on-site inspection in accordance with the procedures set forth in our Administrative Measures for On-site Inspection (《實地查訪管理辦法》) to verify the truthfulness of their loan application materials and enhance the accuracy of our assessment of the loan applicant's loan repayment capability. All of our on-site inspectors are required



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## RISK MANAGEMENT

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to learn the details of the loan application before conducting the on-site inspection. The scope of the on-site inspection includes (i) checking whether the loan applicant is aware of the details of the loan product, the payment obligations and the car model to be purchased, whether the loan applicant can provide a legitimate reason for making the loan application, whether the loan applicant has other outstanding loans and whether the loan applicant intends to make repayment in time; (ii) verifying the authenticity and validity of the loan application materials and their originals; (iii) collecting other information after obtaining the loan applicant's consent about the loan application that is relevant in assessing his or her loan repayment capability, such as living conditions and living quality; and (iv) in cases where there is a co-applicant or guarantor for the loan, verifying the government-issued identity cards of such co-applicant or guarantor in his or her presence, obtaining his or her signature on the on-site inspection notes and taking photos or videos of the co-applicant or guarantor as evidence of his or her presence.

### *Approval*

Based on our review of the loan applicants' credit profile, our inspection results and our assessment of their creditworthiness and loan repayment capability, we reach one of three types of decision for each loan application, namely, approval, denial, and conditional approval. Organizations or personnel with the authority to approve retail loans include the Board, chairman of the Board, risk & internal control committee, loan approval committee, the general manager, and authorized employees at the loan review & approval department. The approval limits for the disbursement amount of our retail loan products are RMB0.5 million for managers, RMB0.9 million for senior managers, RMB1.2 million for the head of the loan review & approval department, RMB2.0 million for our general manager and RMB5.0 million for the chairman of the Board. For the years ended December 31, 2016, 2017 and 2018, the rejection rate for our self-operated retail loans was 25%, 21% and 30%, respectively, which is calculated by the number of rejected applications divided by the total number of applications received.

According to the Administrative Measures for the Review and Approval of Individual Retail Loans, the loan application shall be denied in any of the following circumstances:

- The loan application contains fraudulent information;
- The loan proceeds are not intended to be used for purchasing cars to be owned by the applicant;
- The applicant has poor credit record, has criminal or judicial enforcement record, or is involved in economic disputes;
- The applicant owns or uses more than one PRC ID card;
- The applicant has gambling addiction or alcohol abuse issues.

We may also resort to additional risk control measures as circumstances warrant, including but not limited to raising the requisite amount of down payment and requiring cash deposits, third-party guarantee or collaterals.

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## RISK MANAGEMENT

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In addition, according to the Administrative Measures for Retail Loan Credit Risk Management, the amount of retail loan principal to be issued to each borrower shall not exceed a certain prescribed amount.

### *Loan Execution*

After the loan application is approved, the loan agreement shall be executed by the applicant in person and witnessed by our employee dispatched to the dealer store, following the procedures set forth in the Administrative Rules for Executing Retail Loan Agreements (《零售汽車貸款面簽管理制度》). The loan applicants are required to take a picture or record a video while holding the contract up. The employee shall also verify the identity of the guarantor or provider of collaterals, if applicable, through checking their government-issued identity card and their credit records.

### *Disbursement*

After a loan application is approved, the preliminary disbursement review team at our operations department will check if all the application materials required for loan disbursement have been received and meet the applicable requirements. Such materials include, among others, purchase agreement for the car and invoice, loan application form, loan agreement, photo or video record of the loan agreement execution process, photocopies of the applicant's ID card and bank card, and insurance documents. If so, the secondary disbursement review team at the operations department will conduct another round of review of the application materials to see if all the conditions for loan disbursement are met and send a loan disbursement request to our finance department, along with an itemized list of the amounts to be disbursed. The finance department will then check if the amount on the list and the reviewer who signed the list are consistent with the information in our system. Our operations department will verify the actual amount disbursed after the finance department makes the disbursement.

Depending on the credit profile of the loan applicant, in certain circumstances, we will only make the disbursement after the collateral registration process has been completed or if the dealer who referred the loan applicant to us provides us with a guarantee before the collateral registration process is completed.

### *Post-Disbursement Management*

Following loan disbursement, we actively monitor each loan's scheduled repayments and promptly act upon any delinquency. For risk management purposes, based on the CBIRC five-category loan classification method (i.e., normal, special mention, substandard, doubtful and loss), we have stipulated the Administrative Guidelines for Five-Category Classification of Retail and Dealer Loans, which provide more detailed guidance on the classification of our retail loans.

Our asset management department will pass the various pieces of relevant information it collected during the loan collection process to our risk management department at the end of every month for it to perform the five-category loan classification analysis. Our risk management department will submit its preliminary determination to our risk & internal control committee for review and sign-off. The classification results will then be filed by our risk management department. The factors we consider in classifying our retail loans include but are not limited to: (i) the overdue time; (ii) the borrower's repayment capability, repayment records, and repayment willingness, (iii)

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## RISK MANAGEMENT

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guarantee or collateral available, and (iv) other non-financial factors affecting loan repayment. According to the Administrative Guidelines for Five-Category Classification of Retail and Dealer Loans we formulated in accordance with applicable guidelines issued by the CBIRC and PBOC, the following standards apply to the classification process.

Classification	Overdue Time	Note
Normal	0	—
Special Mention	1-60 days	<p>In any of the circumstances below, the loan should be at least be classified as “special mention”:</p> <ul style="list-style-type: none"> <li>(i) the repayment is on time but there is reason to believe that the borrower intends to avoid repayment through changes of corporate format, such as merger and division</li> <li>(ii) the repayment is made with newly borrowed funds or through other financing methods;</li> <li>(iii) the amount disbursed were not used for car purchase;</li> <li>(iv) The borrower’s other outstanding loan(s) issued by us or other financial institutions has been classified as sub-standard, doubtful or loss.</li> </ul>
Sub-standard	61-90 days	<p>In any of the circumstances below, the loan should be at least be classified as sub-standard:</p> <ul style="list-style-type: none"> <li>(i) the repayment is overdue to the extent that the corresponding interests to be collected shall not be included in the same period;</li> <li>(ii) the borrower seeks to avoid repayment through changes of corporate format, such as merger and division.</li> </ul>
Doubtful	91-120 days	—
Loss	Over 121 days	—

To avoid delinquency, a borrower may request for extension of the loan term by submitting relevant application materials to our operations department, which will then pass the complete set of application materials to our loan review & approval department. The loan review & approval department will review the loan extension application and assess the borrower’s creditworthiness in the same manner as with the initial loan application, while the final approval or denial decision shall be made by personnel one level higher than the original reviewer. Our risk management department may decide to accelerate retail loans with high credit risks. The post-disbursement management team at our operations department will then complete the acceleration process in our system.

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## RISK MANAGEMENT

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In addition, following the adoption of HKFRS 9 on January 1, 2018, we have concurrently adopted the following credit risk grading framework in addition to the five-category loan classification approach.

Category	Description	Basis of Recognizing Expected Credit Loss (“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 increases 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

### *Loan Collection*

Our asset management department is responsible for loan collection, loan restructuring and the initiation of the loan write-off process. We have our own loan collection team and have also engaged independent third party collection agencies to carry out our collection work. We pay service fees to these collection agencies pursuant to our agreement with them and have adopted internal control measures to supervise and monitor the loan collection activities by these collection agencies. Depending on the classification of the loan under the five-category classification method, we undertake different loan collection approach, as detailed below.

Classification	Loan Collection Method
Normal	SMS messages five days prior to loan repayment date
Special Mention	Phone calls, combined with on-site visit and litigation proceedings
Sub-standard	Our legal department and third party collection agencies will take the lead in collecting repayment.
Doubtful	We will seek to take control over the car financed through our in-house or third-party collection agencies. Should the borrower fail to make repayment in time, we may dispose of the car through judicial proceedings or regular auction. We have in place a streamlined car recovery mechanism to quickly take control and dispose of the car purchased by the defaulted customers.
Loss	

Our PRC Legal Advisors confirmed that, as of the Latest Practicable Date, we had not breached any applicable PRC laws, regulations and regulatory rules in any material respect with respect to the loan collection arrangements under loan collection agency agreements. As of the Latest Practicable Date, we are not involved in any material litigation proceedings in relation to loan collection activities or collection agencies.

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## RISK MANAGEMENT

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### *Dealer Loan Credit Risk Management*

We have stipulated the Administrative Rules for Dealer Loan Credit Risk Management (《批售信用風險管理制度》), which sets forth the organizations within our Company responsible for dealer loan credit risk management, the limitations on the term and principal amount of dealer loans, the procedures to follow for reviewing and approving loan applications, as well as protocols for loan agreement execution and post-disbursement management. In addition, we have also promulgated other, more specific credit risk management rules including the Administrative Rules for Dealer Loan Operational Management (《批售運營管理制度》), the Administrative Guidelines for Five-Category Classification of Retail and Dealer Loans (《零售批售貸款五級分類管理準則》), the Administrative Measures for Dealer Loan Review and Approval (《批售貸款信貸審批管理辦法》) and the Dealer Loan Post-Disbursement Management Risk Alert Plan (《批售經銷商貸後管理預警方案》).

### *Application and Acceptance*

Our marketing department is responsible for processing dealer loan application materials submitted by dealers we work with. According to the Administrative Measures for Dealer Loan Credit Risk Management, the applicant for dealer loans must meet the following conditions:

- Has valid business license;
- Is authorized in writing by automakers to sell certain car brands;
- Its debt to asset ratio is no higher than 80%;
- Has stable revenue or assets sufficient for repayment of loan principal and interests; and
- Its executive management and their end customers have no bad credit record nor have them engaged in any material breach of contract.

### *Review*

Our marketing department conducts the first round of review of loan application materials submitted by the dealers we work with, engages in due diligence into the accuracy and completeness of the application materials and makes on-site inspection of external dealer loan applicants. The loan review & approval department may also join the on-site inspection or conduct the inspection independently. Based on the due diligence conducted, the examiners will prepare a pre-disbursement due diligence report, covering the background, organizational structure, operating scope and key business strategy of the dealer.

Based on the pre-disbursement due diligence report and loan application materials, the loan review & approval department will prepare a credit line assessment report for our loan approval committee to review, which covers, among other things, the loan applicant's basic information, an analysis of the loan applicant's financial conditions and repayment capability, the guarantee and/or collateral available, and the suggested credit limit, interest rate and credit term.

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## RISK MANAGEMENT

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### *Approval*

Based on credit line assessment report, the organization with the requisite authority will decide whether to approve or deny the loan application. Dealer loan credit facility of RMB30 million or less may only be approved by our loan approval committee. Dealer loan credit facility exceeding RMB30 million but not more than RMB100 million may only be approved by our risk & internal management control management committee. Dealer loan credit facility of over RMB100 million may only be approved by the Board. The amount of the loans shall be determined based on the actual inventory to be purchased, while the amount of the credit to be extended shall be determined based on the dealer's average inventory, provided that the credit extended shall not exceed 15% of our net capital for each dealer or 50% of our net capital for each dealer group borrower. During the Track Record Period, no dealer loan application was rejected.

We also engage in various risk control measures such as requiring the provision of collaterals or third-party guarantee as a condition for approval.

### *Loan Execution*

After the loan application is approved, our marketing department is responsible for arranging the dealer to sign the loan agreement with us. Should any changes to our standard agreement need to be made based on the negotiation between both parties, the marketing department shall submit the proposed changes to our loan review & approval department and legal department to review.

### *Disbursement*

Following the above, our loan review & approval department will submit the signed loan agreement, the loan application materials and approval documents to the operations department. After collecting and verifying all the materials needed, the operations department will submit a request to the finance department for loan disbursement. The loan proceeds may be disbursed to the escrow account of the organization that sells cars to the dealer or to the dealer directly if the loan value does not exceed RMB10 million.

### *Post-Disbursement Management*

Following loan disbursement, our marketing department, risk management department, loan review & approval department and operations department closely track and monitor the dealer's sales performance, inventory level and financial conditions so as to mitigate credit risks.

- The marketing department is responsible for preparing a quarterly post-disbursement management report and make on-site inspection visits to dealers on a monthly basis. The on-site inspection focuses on examining the dealers, inventory, sales, general business conditions as well as assessing their capability of promoting our services and products and interacting with our potential and existing retail customers.
- The loan review & approval department is responsible for examining the post-disbursement management report and the on-site inspection records to monitor the dealers assets and financial conditions.

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## RISK MANAGEMENT

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- The operations department is responsible for conducting periodic check of the number of cars purchased with the loan proceeds, verifying the assets of the dealer and evaluating the overall performance of its business operations.
- The loan review & approval department, the operations department and the marketing department are responsible for quantitatively evaluating the risk alert level of the dealer based on their financial conditions, inventory level and other relevant information, in accordance with our Dealer Loan Post-Disbursement Management Risk Alert Measures.
- All of our employees shall notify the risk management department any risks they identified from their interactions with the dealer.
- The risk management department shall, based on the feedback they received and the risk alert scores, take prompt risk control measures after obtaining approval from the loan approval committee, including but not limited to: (i) increasing the inspection frequency, (ii) requiring the dealer to make repayment earlier or provide additional guarantee, (iii) requiring the dealer to take remedial measures within a given time period, (iv) lowering the credit limit, (v) increasing the interest rate, (vi) ceasing to make further loan disbursement and (vii) taking control of the cars financed.

In addition, we regularly perform five-category classification of our dealer loans. Pursuant to the Administrative Measures for Five-Category Classification of Retail and Dealer Loans, which sets forth detailed description for each of the normal, special mention, substandard, doubtful and loss category, our marketing department shall make a preliminary classification finding for outstanding dealer loans at the end of each month for our risk management department to review. Our risk & internal control committee shall make the final classification decision, which will be filed by the risk management department. The similar process will be performed again at the end of each quarter.

### *Loan Collection*

Dealer borrowers are required to make repayment by the earlier of the repayment due date or the fifth business day following the sale of the cars financed. Our asset management department is responsible for collecting overdue dealer loans and disposing of loan assets, with the assistance from our marketing department and operations department.

### *Non-performing Loan Analysis and Disposal*

We have also formulated detailed rules for the treatment of non-performing loans, mainly the Administrative Guidelines for Non-performing Loan Write-Offs (《不良貸款核銷管理準則》) and the Administrative Rules of the Asset Management Department (《資產管理部管理制度》). In accordance with the Administrative Measures for Write-offs of Bad Debts of Financial Enterprises (《金融企業呆帳核銷管理辦法》), we write off unpaid loans and advances to customers and finance lease receivables when there is indication that the borrower is in severe financial difficulty and there is no realistic prospect of recovery. Specifically, circumstances that could potentially trigger write-offs include, among others, the death, missing, bankruptcy, winding-up or dissolution of the loan applicant, the occurrence of major natural disasters or accidents affecting the borrower, and criminal sentence or

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## RISK MANAGEMENT

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prosecution against the borrower. Pursuant to relevant internal policies, we will write off non-performing loan if we fail to collect on the loan after calling and visiting the borrower and repayment was still not made despite arbitral ruling or court judgment. During the years ended December 31, 2016, 2017 and 2018, we wrote off an aggregate amount of RMB6.4 million, RMB21.8 million and RMB36.4 million of unpaid loans and advances to customers.

Loans that are overdue for more than 60 days are deemed as non-performing. The asset management department is responsible for initiating the non-performing loan determination process and shall compile information about loans it deems to be non-performing every quarter. The legal department will review whether these loans meet the criteria for write-off. Following the confirmation by the legal department, the loan review & approval department, risk management department and risk & internal control committee will in turn review the loans to finalize the decision. After the final write-off decision is made, the operations department will mark the loans as to be written off in our system, the risk management department will collect all the supporting documents to be passed onto the finance department for record-keeping, and the finance department will write off the loans from our financial statements.

Our Board issues an annual budget for the write-off of non-performing loans and is responsible for approving write-offs that exceed the annual budget. When the total amount that has been written off in a given year has exceeded 80% of the annual budget, the risk management department shall issue a risk alert and the Board may decide whether to adjust the annual budget accordingly.

In addition, after a loan has been written off, our compliance department, risk management department and internal audit department will examine the reasons why the loan became non-performing and identify the parties who should be held accountable for the impairment loss. The consequences for the parties accountable for impairment losses include disqualification for bonus, warning and demotion.

### **Liquidity Risk Management**

Liquidity risk refers to the risk of failing to timely acquire sufficient capital at a reasonable cost to pay due debt, fulfill other payment obligations and meet the capital needs for ordinary business operations. Key factors affecting our liquidity include the duration structure of our assets and liabilities and changes in monetary policies of the PBOC. We have established an effective liquidity risk management framework and stipulated comprehensive strategies, policies and protocols to maintain sufficient capital to meet our payment obligations and operational needs. The key principles guiding our liquidity risk management are prudence, diversification, stability and coordination.

We have established an internal framework for liquidity risk management that consists of various internal rules and procedures with respect to budget planning, transaction settlement, bank account management, funding source management and capital expenditure. Our treasury department is the key operational department responsible for liquidity risk management. The role of our treasury department in liquidity risk management mainly includes formulating and updating internal rules and contingency plans, organizing the measurement, evaluation, monitoring, reporting and analysis of our liquidity risks, conducting liquidity pressure tests, preparing funding proposals, maintaining our



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## RISK MANAGEMENT

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relationships with various funding sources and working with our IT department to support the maintenance and optimization of our liquidity risk information management system. We conduct liquidity analysis on a monthly, quarterly, semi-annually and annual basis and also conduct liquidity risk pressure tests quarterly. We would timely issue liquidity risk alert if the circumstances so require.

Our liquidity risk management in general can be categorized into routine liquidity risk management and contingency liquidity risk management.

### *Routine Liquidity Risk Management*

Our Company manages liquidity risks in our ordinary course of business mainly through the following measures:

- Position management: We reasonably allocate our working capital through daily capital computation and distribution, while at the same time improve the accuracy of capital computation and projection, capital allocation turnaround time, market sensitivity and capital utilization efficiency. For revolving loans, we would touch base with the banks for the renewal of credit two months prior to the credit repayment date; for inter-bank borrowings, we would reasonably arrange draw-down dates and repayment due dates and adjust loan disbursement amount and frequency accordingly.
- Cash flow management: We monitor cash flows, identify potential capital gaps and duration mismatch and prevent undue reliance on short-term funding. Specifically:
  - we expand and diversify our funding channels through the securitization of our assets and seeking approval for the issuance of ABS and financial bonds;
  - each year since 2017, we have been setting a maximum limit of monthly cash outflow for loan disbursement and repayment of placements from banks and other financial institutions and use it as a key indicator for our liquidity risk exposure. In accordance with our Liquidity Risk Management Measures, this monthly limit is determined based on a quantitative analysis and estimation of our unutilized banking facilities, historical placement records, net assets, profitability and market conditions. For the years ended December 31, 2017 and 2018, the maximum limit for our monthly cash outflow was RMB5.5 billion and RMB6.1 billion, respectively; and
- Cap management: We control the size of outstanding loan balances and the amount of loans to be issued through monitoring the liquidity ratio cap and the indebtedness concentration level cap, etc. Specifically, we would:
  - monitor the market conditions on a daily basis to set the daily maximum cash outflow for loan disbursement and other purposes; and

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## RISK MANAGEMENT

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- at the end of each week, prepare cash outflow budget for the next week and cash outflow estimates for the week after.
- Conduct liquidity pressure tests periodically in order to evaluate the potential liquidity risks we face under extremely unfavorable circumstances, analyze our liquidity risk tolerance and enhance our ability to mitigate the liquidity impact of such events; and
- Monitor liquidity risk indicators on a daily basis.

### *Contingency Liquidity Risk Management*

We have stipulated the Liquidity Risk Safety Guard Contingency Plan, which is targeted towards regulating liquidity crisis caused by internal and external factors outside our control, to improve our liquidity risk management capability under emergencies and mitigate the impact of unforeseeable events. The Liquidity Risk Safety Guard Contingency Plan categorizes liquidity risk emergencies into different levels and sets forth corresponding measures and protocols, the details of which are set out in the table below.

Contingency Level	Qualitative Liquidity Contingency Indicator <sup>(1)</sup>	Qualitative Liquidity Contingency Indicator			Corresponding Measures
		Substantial increase of market interest rate over the past month or seven days	Funding Concentration	Level of credit downgrading	
Level I	Relatively Severe	≥ 50 Basis Point	20% <sup>(2)</sup>	1	Our treasury department will seek to procure additional funding from the market and other departments will work together to maintain our normal business operations, customer relationships and public image.
Level II	Severe	≥ 100 Basis Point	25% <sup>(2)</sup>	2	
Level III	Extremely Severe	≥ 150 Basis Point	30% <sup>(2)</sup>	3	In addition to the above measures, our treasury department will also analyze the amount of cash outflow that needs to be reduced and other departments will work together to execute such cash outflow reduction plan, maintain our normal business operations, customer relationships and public image.

*Notes:*

- (1) Includes internal system errors, extended tight fiscal policies, strained market liquidity, funding sources' requirement for additional security pledge, decrease in security deposits from dealers, poor liquidity pressure test results and continued negative media coverage of our Company.
- (2) Represents the amount of funding that we receive from our ten largest financial institutions divided by the total amount of funding we receive from financial institutions.

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## RISK MANAGEMENT

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### Market Risk Management

Market risk is the risk of loss arising from adverse movements in interest rate and other market factors. As a non-banking financial institution specializing in automotive loan services, we are only allowed to engage in Renminbi-denominated businesses based on the Automotive Financing Regulations. Therefore, the primary type of market risk to which we are subject is interest rate risk, i.e., risk of profit or value loss caused by negative changes in interest rates and loan term structure.

We have established an effective interest rate risk management framework that identifies, measures, monitors and controls our interest rate risk. Following the principle of prudence, we adopt an integrated approach towards interest rate risk management, liquidity risk management and business planning and aim to limit losses related to interest rate risk within a tolerable level.

The treasury department is the key operational department responsible for interest risk management. By applying interest rate sensitivity and gap analysis, the treasury department measures the repricing and maturity match characteristics of our assets and liabilities and evaluates the potential impact of changes in interest rates on a monthly basis. It also submits interest rate gap reports and interest rate risk evaluation reports to our senior management, the Risk Management Committee and the Board semi-annually. The Risk Management Committee reviews interest rate risk evaluation reports and sets the range for interest rate risk sensitivity and gap indicators, both of which are subject to approval from the Board. This reporting mechanism allows us to timely monitor interest rate gap and manage interest rate risk by actively adjusting the proportion and term of interest rate sensitive assets and liabilities and optimizing the maturity portfolio of our assets and liabilities.

### Operational Risk Management

Operational risks refer to the risk of losses arising from a wide variety of causes associated with our corporate procedure, personnel, technology and infrastructure and external factors other than credit, liquidity and interest risks. We have established an effective operational risk management system that identifies, measures, monitors and controls our operational risk. The key operating risks that we face can be categorized into seven categories, namely, internal fraud risks, external fraud risks, product and business operating risks, execution and procedural risks, operation interruption and system error risks, employee management and workplace safety risks, and tangible assets damage risks.

According to our Operational Risk Management Administrative Guidelines (《操作風險管理準則》), the guiding principles for our operational risk management are comprehensive coverage, standardized management, specific delegation, truthful reporting and prompt reaction. Our President is the person-in-charge for operational risk management, and our risk management department is primarily responsible for the identification, evaluation, monitoring, control and reporting of operational risks. During the Track Record Period, we adopted the following operational risk management measures:

- establish specific rules, mechanisms and protocols to control operational risks. For operational risks identified, we will scale down or cease the related business operations, depending on the significance of the risks;

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## **RISK MANAGEMENT**

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- adopt stringent selection criteria for dealers entering our dealer network, manage the dealers with a tailored approach based on their performance grading, and regularly conduct on-site inspection and post-disbursement examination of the dealers;
- strengthen our fraud identification capability through utilizing blacklists of fraudulent individuals that are compiled by third-party risk control systems and developing our automated fraud detection module;
- closely monitor our various business lines, products, relevant systems, transaction records, credit limit, employee performance, sensitivity to risks and the timeliness of loan collection;
- timely investigate issues identified and adjust our systems, mechanisms and procedures to rectify the issues and hold responsible parties accountable;
- strengthen our internal control and monitoring at key junctures, strictly delineate the respective responsibilities of divisions with potential conflicting interests, and reduce personnel overlap at different positions and cross-department conflict of interests;
- establish comprehensive working protocols, provide adequate on-board training and offer employees at different positions other targeted and practical trainings;
- strengthen our management of service outsourcing and procurement; and
- establish and continuously improve our contingency mechanisms and business continuity solutions.

### **IT Risk Management**

Information technology risks include operational risk, reputational risk, legal risk and other types of risks caused by natural or human factors, technical loopholes and management failure arising from our use of information technology. Through establishing an effective risk management mechanism that identifies, measures, monitors and controls our information technology risks, we seek to operate our business in a safe, stable and un-interrupted manner, promote business innovation and enhance our core competitiveness.

Our information technology department takes the lead in managing our IT risks, primarily through the following measures:

- establish IT strategies, standards and procedures that are consistent with our overall business plan and strategies, and regularly assess the effectiveness and efficiency of IT risk management;
- standardize employees' professional ethical practices and anti-corruption awareness, and strengthen our work culture to raise employees' awareness of the importance of IT risk management;

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## RISK MANAGEMENT

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- recruit talented IT professionals and continue to invest in the development, operation, maintenance, security management of our IT system and crisis preparation;
- strengthen internal control, implement information classification and protection, and standardize the management of IT outsourcing;
- regularly conduct audits into our IT risk management and timely rectify issues identified; and
- establish and continuously improve business continuity plans and contingency plans.

### Reputational Risk Management

Reputational risk refers to the risk of negative comments about our Company as a result of our business, management or other activities or external events. We have established an effective reputational risk management mechanism to monitor, identify, report, control and assess our reputational risk, maintain a positive corporate image, and reduce the potential negative impact to the extent possible.

We collect, compile and analyze information related to our reputation on a daily basis and issue risk alerts for potential reputational risk incidents. In cases of events that trigger reputational risks, the Office of the Board is tasked with monitoring media coverage and maintaining a positive relationship with the media so as to mitigate the adverse impact of such events to the extent possible.

Our major reputational risk management measures include:

- allocate adequate resources to manage our reputational risks;
- cultivate a culture of reputational risk management across the company and improve employees' reputational risk awareness;
- develop reputational risk management mechanisms, policies and procedures, regularly review reputational risks and prepare reputational risk assessment reports;
- establish mechanisms to handle customers complaints, maintain customer relationships, protect customer interests and improve customer satisfaction;
- establish centralized management of press releases and information disclosure to the public;
- establish public opinion monitoring and evaluation mechanisms and timely address false or inaccurate media coverage; and
- develop and continuously improve contingency plans for events that might affect our reputation, classify such events into different categories and specify the authorities and obligations for parties involved.

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## RISK MANAGEMENT

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### Legal and Compliance Risk Management

#### *Legal Risk Management*

Legal risk refers to the risk of legal liability arising from violation of laws and regulations, breach of contracts, infringement on legal rights of others or otherwise in connection with any contract or business activity in which we are involved.

Our legal department is primarily responsible managing our legal risks. We carry out legal risk management mainly through the following measures:

- require all the contracts we enter in the course of our business operations to be reviewed by our legal department to ensure the legality of our operational activities;
- adopt standard form agreements for frequent operational activities to reduce legal risks; and
- conduct company-wide legal trainings periodically to enhance the legal knowledge and risk awareness of our personnel.

#### *Compliance Risk Management*

Compliance risk refers to the risk of being subject to legal sanctions, regulatory penalties, significant financial loss and reputational loss as a result of failing to comply with laws, regulations and rules. As a key component of our comprehensive risk management system, compliance risk management is closely associated with risk control measures for various other types of risks. Our effective compliance risk management system identifies, evaluates and mitigates compliance risks to ensure our compliance with applicable laws and regulations.

The Board is the highest managerial organization for compliance risk management and bears the ultimate responsibility for ensuring the compliance of our operational and management activities with applicable laws and regulations. The Board is also responsible for approving compliance policies and overseeing their implementation. Our senior management is responsible for implementing compliance policies, timely identifying, reporting and rectifying non-compliance issues, establishing compliance management framework and approving compliance risk management working plans. Our compliance department is responsible for daily compliance risk management, preparing monthly compliance risk monitoring reports, making quarterly recommendations to improve our compliance risk control measures as well as preparing annual compliance risk evaluation reports for our senior management to review, and formulating annual compliance examination plans and training plans to continually strengthen our compliance risk management. Our internal audit department conducts compliance audit of our operating activities and works together with the compliance department to mitigate our compliance risks.

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## RISK MANAGEMENT

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We carry out compliance risk management mainly through the following measures:

- strengthen the culture of compliance across the company and especially among senior management, promote the value of integrity and honesty, and continuously improve employees' compliance awareness;
- provide sufficient resources to support compliance work, establish a sizable compliance management team with appropriate qualifications, experience and expertise, specify the management responsibilities of compliance officers and the compliance department;
- establish an effective compliance assessment mechanism;
- stay up to date with the latest developments in laws and regulations, maintain positive relationships with the regulatory authorities, and timely file submissions with regulatory authorities;
- establish compliance indicator monitoring mechanisms and regularly prepare compliance risk assessment reports;
- establish compliance advisory and analysis mechanisms for new business and products prior to their launch;
- establish compliance accountability policies, adopt effective rectification measures, and regularly update relevant compliance policies, procedures and operational guidelines; and
- establish whistleblower mechanisms to encourage employees to report illegal or suspicious actions and violations of professional ethics.

### *Anti-money Laundering*

We conduct anti-money laundering activities in compliance with the relevant requirements under the PRC anti-money laundering laws. Our President is the person in-charge for anti-money laundering risk management, responsible for directing the compliance department to conduct daily anti-money laundering work. Our compliance department takes the lead in managing anti-money laundering risks and coordinates various departments to monitor suspicious transactions. We have formulated internal operational manual and control measures for anti-money laundering work to identify and classify anti-money laundering risks as well as monitor and analyze suspicious actions and transactions. We regularly prepare reports on suspicious transactions and timely notify in-charge regulatory authorities.

We carry out anti-money laundering risk management mainly through the following measures:

- continue to carry out anti-money laundering training and awareness education;
- build a sizable, experienced and qualified anti-money laundering team and provide the team with sufficient technical and information access support;

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## RISK MANAGEMENT

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- adopt various know-your-customer procedures and maintain thorough record-keep;
- utilize sanction list and anti-money laundering blacklist to screen and reject loan applicants covered by such lists;
- establish anti-money laundering self-assessment mechanisms, regularly assess the overall effectiveness of our anti-money laundering internal controls, and promptly adjust our anti-money laundering efforts based on the results of the assessment; and
- develop an anti-money laundering internal audit mechanism, conduct targeted anti-money laundering internal audits as planned, and timely report and address issues identified;

### *Anti-corruption*

We have formulated and adopted an Employee Code of Conduct and Employee Misconduct Monitoring Rules for Employees in Key Positions or Involved in Sensitive Matters to guide, oversee and prevent employees from engaging in bribes or corruption. We have also formulated and adopted the Precautionary Measures Guideline to ensure timely identification of corruption issues, if any, and the Guidelines on Accountability Management to make sure any corruption issues identified will be properly addressed. In addition, we have established relevant training programs and a whistleblower hotline operated by our compliance department to further mitigate anti-corruption risks.

## INTERNAL CONTROLS

### Internal Control System

Pursuant to the Guidelines for the Internal Control of Commercial Banks (商業銀行內部控制指引), we have established an internal control system covering the five aspects of internal environment, risk assessment, control activities, information and communication and internal supervision.

### Internal Control Management Structure

Our Company has established an internal control framework mainly consisting of the Board, the Supervisory Committee, our senior management, internal control department, internal audit department and all our employees. Our internal control management framework comprises the internal controls decision making levels, execution level and supervision level.

- **Decision-making level:** the Board is our decision-making body for internal controls, responsible for establishing an effective internal control system, ensuring the normal operations of such system and setting forth our overall internal control strategies and key policies. Special committees under the Board, including the Audit Committee, Remuneration and Evaluation Committee, Nomination Committee and Risk Management Committee, provide the Board with their professional opinions and make decisions within the Board's authority.



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## RISK MANAGEMENT

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- ***Execution level:*** our senior management is responsible for implementing Board resolutions, establishing systematic rules and organizational framework, monitoring and evaluating the efficiency and adequacy of internal control systems and ensuring the respective departments dutifully carry out their internal control obligations. The internal control department takes the lead in planning, implementing and evaluating our internal control work. Our various business departments also participate in internal control rule-making and implementation related to their respective obligations.
- ***Supervision level:*** the Supervisory Committee, the Board's audit committee and internal audit department are responsible for the supervision and evaluation of our internal control system and its implementation. The Supervisory Committee oversees our Directors and senior management to perform their internal control obligations. The Board's audit committee is primarily responsible for reviewing our risk exposure, compliance status, accounting policies, financial conditions and financial reporting procedures, conducting annual audit, and submitting to the Board engagement proposals of external auditors and reports on the accuracy and timeliness of our financial reports. The internal audit department conducts audits against the sufficiency and effectiveness of our internal control measures and supervise the relevant departments to timely rectify the issues identified.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### OUR CONTROLLING SHAREHOLDERS

We were established by ZhengTong and Dongfeng in 2015. As of the Latest Practicable Date, ZhengTong held 95% of our issued share capital. The Wang Family Trusts Founders, through the Wang Family Trusts, owned all the issued shares of Joy Capital, which in turn owned approximately 56.37% of the shares of ZhengTong as at the Latest Practicable Date. Credit Suisse Trust Limited is the trustee of the Wang Family Trusts, with the Wang family members being the discretionary beneficiaries of the Wang Family Trusts. Immediately after the completion of the Global Offering, ZhengTong will hold approximately 71.25% of our issued share capital (assuming the Over-allotment Option is not exercised) and 68.67% of our issued share capital (assuming the Over-allotment Option is exercised in full). Therefore, the Wang Family Trusts Founders, Joy Capital and ZhengTong will be our Controlling Shareholders upon Listing.

### CONTROLLING SHAREHOLDERS' AND DIRECTORS' INTERESTS IN OTHER BUSINESSES

Each of our Controlling Shareholders and Directors has confirmed that as at the Latest Practicable Date, he/she/it did not have any interest in any business, apart from the business of our Company, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules. See further “— Non-Competition Undertaking.”

### OUR BUSINESS RELATIONSHIP WITH ZHENG TONG

ZhengTong has been our Controlling Shareholder since we were established. Since our establishment and during the Track Record Period, we developed our business cooperation with ZhengTong in our retail loan business and dealer loan business.

#### *Retail Loan Business*

We collaborate with auto dealers by offering retail loans to their end customers. The dealers we cooperate with in the retail loan business include both ZhengTong Dealers and External Dealers. See “Business — Our Business — Retail Loan Business — Our Sales Network — Business Cooperation with Dealers” in this prospectus. At the inception of our business, we strategically focused on developing our business within the network of ZhengTong Dealers by providing them with self-operated loans while prudently developing our credit profile system and rapidly ramping up our risk management infrastructure, so that within a short period of time (1) we and our management could accumulate more experience and form a solid business foundation through such cooperation, and (2) we could independently build up a customer base and gain the capability to carry on the auto financing business. According to CIC, such strategy was also consistent with the market practice followed by other AFCs which are affiliated to specific automakers. Given the limited capital we had at our inception in 2015, in devising our business plan to enter into the auto financing market fueled by a large scale of customers' needs, we strategized to use our own funding to disburse loans mainly to ZhengTong Customers. By leveraging our knowledge on the procedures and systems adopted by the Remaining Group and complying it with our diversified database, self-developed algorithms and risk control model, we can have a smoother and more efficient execution of the loan disbursement process

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

while advancing our risk control management as target customers of luxury automobiles normally have better credit profiles and more well established credit records. As a result, we have provided more retail loan facilitation services to External Customers than we disbursed self-operated retail loans to External Customers, under which we served as an intermediary facilitating loan transactions between end customers and commercial banks. By providing such loan facilitation services, we promoted and maintained our relationship with External Dealers by meeting their end consumers' demands and simultaneously got more familiarized with these External Dealers with a view to enhancing our collaboration with them going forward and conducting our self-operated retail loan business with them.

As a result of the strategies described above, during the Track Record Period, the total number of retail loans disbursed to ZhengTong Customers and the total number of retail loans disbursed/facilitated to External Customers were as follows:

	For the year ended December 31,					
	2016		2017		2018	
Total number of self-operated retail loans						
disbursed to ZhengTong Customers . . . . .	11,763	100%	15,230	100%	31,141	100%
Total number of retail loans facilitated to						
ZhengTong Customers . . . . .	—	—	—	—	—	—
<b>Total number of loans disbursed/facilitated</b>						
<b>to ZhengTong Customers . . . . .</b>	<b>11,763</b>	<b>100%</b>	<b>15,230</b>	<b>100%</b>	<b>31,141</b>	<b>100%</b>
Total number of self-operated retail loans						
disbursed to External Customers . . . . .	3,785	15.3%	3,424	11.4%	10,589	18.3%
Total number of retail loans facilitated to						
External Customers . . . . .	20,946	84.7%	26,655	88.6%	47,165	81.7%
<b>Total number of loans disbursed/facilitated</b>						
<b>to External Customers . . . . .</b>	<b>24,731</b>	<b>100%</b>	<b>30,079</b>	<b>100%</b>	<b>57,754</b>	<b>100%</b>

During the Track Record Period, the outstanding amount of retail loans disbursed to ZhengTong Customers and External Customers were as follows:

	As at December 31,					
	2016		2017		2018	
	RMB	%	RMB	%	RMB	%
(RMB in millions, except percentages)						
Gross outstanding amount of loans						
disbursed to ZhengTong Customers . . . . .	2,898.9	82.7%	4,508.8	85.5%	5,975.3	74.7%
Gross outstanding amount of loans						
disbursed to External Customers . . . . .	606.2	17.3%	764.1	14.5%	2,026.9	25.3%
<b>Total gross outstanding amount of loans</b>						
<b>disbursed under the Retail Loan</b>						
<b>Business . . . . .</b>	<b>3,505.1</b>	<b>100.0%</b>	<b>5,272.9</b>	<b>100.0%</b>	<b>8,002.2</b>	<b>100.0%</b>

*Note:* The gross outstanding balance is the amount irrespective of the initial recognition of such accounting standards and VAT of direct lease products consideration.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The following table shows further details of our revenue generated from the retail loan business from ZhengTong Customers and External Customers, respectively, for the periods indicated:

	For the year ended December 31,					
	2016	2017		2018		
	(RMB in thousands, except percentages)					
<b>Interest income <sup>(1)</sup></b>						
ZhengTong Customers . . . . .	204,631	80.2%	311,919	80.1%	570,473	77.8%
External Customers . . . . .	50,411	19.8%	77,590	19.9%	162,605	22.2%
<b>Total</b> . . . . .	255,042	100.0%	389,509	100.0%	733,078	100.0%
<b>Service fee <sup>(2)</sup></b>						
ZhengTong Customers . . . . .	621	0.4%	8,233	4.0%	45,753	13.9%
External Customers . . . . .	168,213	99.6%	195,920	96.0%	282,976	86.1%
<b>Total</b> . . . . .	168,834	100.0%	204,153	100.0%	328,729	100.0%
<b>Revenue from retail loan business</b>						
ZhengTong Customers . . . . .	205,252	48.4%	320,152	53.9%	616,226	58.04%
External Customers . . . . .	218,624	51.6%	273,510	46.1%	445,581	41.96%
<b>Total</b> . . . . .	423,876	100.0%	593,662	100.0%	1,061,807	100.0%

*Notes:*

- (1) Under our self-operated retail loan business, some dealers also provide us with other forms of administrative assistance, for which we would reimburse the dealers subsequently on an as-incurred basis. In accordance with relevant accounting standards, such administrative costs directly relating to retail loan business reimbursed to dealers are initially recognized in loans and advances to customers, then amortized with the effective interest method in aggregation with loans and advances to customers, and the interest income is measured by effective interest method after netting off by such amortization of administrative costs. The amount in this table is the interest income before netting off by those amortization of administrative costs.
- (2) Includes fee and commission income arising from consulting services and joint loan services.

During the Track Record Period, the increase in the amount and proportion of the revenue generated from ZhengTong Customers under the retail loan business was primarily driven by: (1) the continuous development of our self-operated retail loan business; and (2) the difference in the nature and recognition method of the revenue generated from the self-operated loan business (which was conducted more often with ZhengTong Customers during the Track Record Period) and the retail loan facilitation business (which was conducted solely with External Customers during the Track Record Period). Revenue generated from ZhengTong Customers during the Track Record Period was mainly interest income, the recognition of which is ascertained throughout a full term of the loan period (ranging typically from one to five years), while revenue generated from External Customers was primarily loan facilitation service fee which is one-off in nature and is recognised when the service is rendered with no continuous revenue stream. Therefore, the proportion of our revenue generated from ZhengTong Customers has increased in a faster pace than that from External Customers during the Track Record Period.

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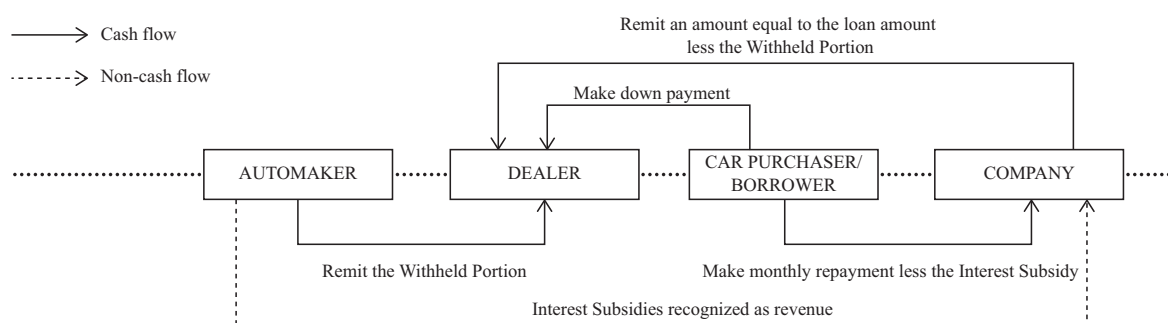
## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### *Joint Promotion with Automakers*

During the Track Record Period, under our retail loan business, we entered into joint promotion arrangements with two luxury-brand automakers. Under such arrangement, when customers purchase certain car models of the automaker from the ZhengTong Dealers and take out a retail loan from us, the automaker would subsidize the car purchasers and bear a portion of the monthly interest payable under our retail loans (the “**Interest Subsidy**”). For cooperation with one of the automakers, we would withhold an amount equal to the aggregate amount of the Interest Subsidy payable for the entire term of the retail loan (the “**Withheld Portion**”) when we provide the loan to our customers by remitting a fund, which equals to the loan amount less the Withheld Portion, to the ZhengTong Dealers. Throughout the term of the retail loan, we would recognize revenue out of the Interest Subsidy on a monthly basis. ZhengTong Dealers will record the amount as cost of sales upon deduction and a corresponding receivables from automakers will be booked to reverse the aforementioned cost of sales. Subsequently, ZhengTong Dealers will collect the interest subsidies from the automakers on a periodic basis, e.g. quarterly basis. When we remit the loan amount to the dealers on behalf of our end customers, an amount equal to the interest subsidies from the dealers will be deducted directly from the loan amount and is recorded as deferred income, which is to be deferred to interest income during the loan tenor.

Consistent with its practice with other business partners under a joint promotion arrangement, such automaker would remit the Withheld Portion to the ZhengTong Dealers as a pass-through when it settles its other funds with the ZhengTong Dealers in their ordinary course of business. The diagram below shows the operations of the joint promotion arrangement with this automaker.



The Withheld Portion from such automaker that was settled through ZhengTong Dealers as a pass-through under our related party transactions were RMB99.7 million, RMB152.7 million and RMB110.2 million, respectively, for the years ended December 31, 2016, 2017 and 2018. Pursuant to applicable accounting policy, we recorded interest income from such Interest Subsidy in an amount of RMB28.2 million, RMB89.0 million and RMB153.8 million, respectively, for the years ended December 31, 2016, 2017 and 2018. Nonetheless, such related party transaction does not constitute a connected transaction under the Listing Rules because the Interest Subsidies are granted and funded by the automaker while the ZhengTong Dealers merely act as a pass-through.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### *Joint Promotion with ZhengTong Dealers*

We also undertook joint promotion arrangements with the ZhengTong Dealers during the Track Record Period whereby the ZhengTong Dealers granted us Interest Subsidies directly. We would withhold the Withheld Portion when we provide the loan to our customers by remitting a fund, which equals to the loan amount less the Withheld Portion, to the ZhengTong Dealers. The Interest Subsidies we received from the ZhengTong Dealers were nil, RMB80.1 million and RMB130.7 million, respectively, for the years ended December 31, 2016, 2017 and 2018. The interest income recognized from such Interest Subsidies provided by ZhengTong Dealers was nil, RMB12.0 million and RMB106.5 million, respectively, for the years ended December 31, 2016, 2017 and 2018. For more details, see “Business — Our Business — Retail Loan Business — Self-operated Retail Loan Business — Self-operated Loan Products.” We do not plan to undertake any joint promotion arrangement with the ZhengTong Dealers after Listing in order to focus our marketing effort with the External Dealers. We will continue to recognise interest revenue from the ZhengTong Dealers after Listing in accordance with the relevant accounting treatment arising from the joint promotion transactions with the ZhengTong Dealers which were concluded and consummated prior to Listing. To continue to recognize interest revenue for these joint promotion arrangements already entered into, we entered into the Joint Promotion Framework Agreement to document such revenue recognition arrangement with ZhengTong. See “Connected Transactions — Non-exempt Continuing Connected Transactions — 3. Joint Promotion Framework Agreement”.

### *Administrative services from dealers incidental to our retail loan business*

As described in “Business — Our Business — Retail Loan Business — Our Sales Network — Business Cooperation with Dealers”, during our cooperation with both ZhengTong Dealers and External Dealers, they assist us with certain administrative matters in relation to our provision of the retail loans. Administrative costs arise in instances where dealers provide administrative assistance to us and we reimburse them subsequently on an as-incurred basis. See “Connected Transactions — Non-Exempt Continuing Connected Transactions — 1. Administrative Cost Reimbursement Framework Agreement — Description of the Agreement” for details of the reimbursement arrangement with ZhengTong Dealers. Such arrangement applies to both ZhengTong Dealers and External Dealers. For the years ended December 31, 2016, 2017 and 2018, the administrative costs we reimbursed to ZhengTong Dealers was RMB0.2 million, RMB3.0 million, and RMB5.5 million, respectively. We expect such administrative service to continue after Listing. See also “Connected Transactions — Non-Exempt Continuing Connected Transactions — 1. Administrative Cost Reimbursement Framework Agreement”. We also make reimbursements to External Dealers and historically we engaged certain external local agents to help us expand our network with External Dealers. For the years ended December 31, 2016, 2017 and 2018, the administrative reimbursement we made to External Dealers was RMB8.5 million, RMB8.3 million, and RMB7.9 million, respectively. Such amount was higher than what we reimbursed ZhengTong Dealers because we had more staff members in areas where ZhengTong Dealers locate and hence ancillary administrative services we require from ZhengTong Dealers are less compared to those from External Dealers.

Since our establishment, we have already established collaboration with most of ZhengTong Dealers and the growth in our business volume with ZhengTong Customers is expected to become more stabilized. In the long run, in order to seize more business opportunities, we will continue to look

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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beyond the network of ZhengTong Dealers to promote our growth and development and put emphasis on the business development with External Dealers and External Customers to further enhance our overall performance. We will gradually expand the scale of our retail loan business with External Dealers by means of (i) expanding the network of External Dealers and gaining more access to External Customers, (ii) broadening funding sources to provide financial support for business with External Customers, and (iii) building a dedicated team to ensure the input of manpower *vis-à-vis* External Customers and External Dealers.

Within the Remaining Group, Dingze Financial Leasing provides financial leasing services. Further to providing retail loans to ZhengTong Customers, we also provided retail loans to Dingze Financial Leasing for its purchase of lease equipment and gained interests income of RMB2.1 million in aggregate during the Track Record Period. See “— No Competition with Controlling Shareholders — ZhengTong’s Business” for further details of Dingze Financial Leasing’s business.

### *Dealer Loan Business*

We also provide loans to dealers to facilitate their purchase of cars. For the years ended December 31, 2016, 2017 and 2018, the aggregate amount of interest income generated from the Remaining Group was RMB14.5 million, RMB27.7 million and RMB15.7 million, respectively. During the Track Record Period, interest income generated from ZhengTong Dealers and External Dealers under our dealer loan business is as follows:

	For the year ended December 31,		
	2016	2017	2018
	(RMB in millions, except percentages)		
Interest income generated from ZhengTong Dealers	14.5	27.7	15.7
and as a percentage of the total interest income	50.9%	67.6%	44.4%
Interest income generated from External Dealers and	14.0	13.2	19.8
as a percentage of the total interest income	49.1%	32.4%	55.6%
<b>Total interest income from dealer loan business</b>	<b>28.5</b>	<b>40.9</b>	<b>35.5</b>
	As of December 31,		
	2016	2017	2018
	(RMB in millions, except percentages)		
Gross outstanding balances of dealer loans disbursed			
to ZhengTong Dealers and as a percentage of the	213.4	716.4	683.1
total gross outstanding balances of dealer loans	60.0%	78.2%	76.7%
Gross outstanding balances of dealer loans disbursed			
to External Dealers and as a percentage of the total	142.2	199.6	207.4
gross outstanding balances of dealer loans	40.0%	21.8%	23.3%
<b>Total gross outstanding balances of dealer loans</b>	<b>355.6</b>	<b>916.0</b>	<b>890.5</b>

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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The following table shows how our revenue from the dealer loan business would be accounted for, from ZhengTong Dealers and External Dealers, respectively, for the periods indicated:

	For the year ended December 31,					
	2016		2017		2018	
	RMB	%	RMB	%	RMB	%
	(RMB in millions, except percentages)					
<b>Revenue from dealer loan business</b>						
ZhengTong Dealers . . . . .	14.5	50.9%	27.7	67.6%	15.7	44.4%
External Dealers . . . . .	14.0	49.1%	13.2	32.4%	19.8	55.6%
<b>Total . . . . .</b>	<b>28.5</b>	<b>100.0%</b>	<b>40.9</b>	<b>100.0%</b>	<b>35.5</b>	<b>100.0%</b>

### **Our ability to diversify our revenue generated from ZhengTong Customers and External Customers**

Going forward, we believe that we will be able to diversify our revenue generated from ZhengTong Customers and External Customers under our retail loan business based on the following considerations:

#### ***Business collaboration with ZhengTong Dealers has become stable.***

From the perspective of our collaboration with ZhengTong Dealers, we have already included 114 out of 116 ZhengTong Dealers in our customer acquisition network as of the Latest Practicable Date. The number of automobiles sold by ZhengTong and financed by us reached 15,230 in 2017 and 31,141 in 2018, accounting for 13.97% and 27.66%, respectively, of the number of automobiles sold by ZhengTong Dealers in the same period. In addition, as discussed in “— Our Business Relationship with Zhengtong — Joint Promotion with ZhengTong Dealers”, we intend to focus our marketing effort with the External Dealers after Listing and do not plan to undertake any joint promotion arrangement with the ZhengTong Dealers. 65% of the net proceeds from our Global Offering will be used to fund the self-operated retail loans to be disbursed to External Customers. See “Future Plans and Use of Proceeds.” As such, it is expected that the revenue to be generated from ZhengTong Customers will grow in a more stable manner.

#### ***We continue to capture External Dealers in our dealer network.***

The Company will continue to expand its sales network through expanding beyond the ZhengTong Dealers’ network. Our External Dealers include branded automaker dealers, dealers from 4S dealership groups (other than ZhengTong), 4S dealers of smaller scale and second-level dealers. Among which, branded automakers and 4S dealership groups present a great source of dealer outlets which we have been working to include in our dealer network. As the end of 2017, according to CIC, the total number of auto dealers (include branded automaker dealers, dealers from 4S dealership groups, 4S dealers of smaller scale and second-level dealers) in the PRC reached approximately 90 thousand. As of the Latest Practicable Date, we have formed cooperation with 1,229 External Dealers, which account for approximately 1.4% of the total number of external dealers. There is substantial room for us to further expand our external dealer network.



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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*Expansion of our source of funding will allow us to conduct more self-operated retail loan business with External Customers.*

Through the retail loan facilitation business that the Company has operated with External Customers over the years, we have deepened our relationship with External Dealers and gained a better grasp of the risk profile of their target end customers. By virtue of the continuing expansion of our source of funding through bank loans, the Listing, and the issue of equity and debt securities after the Listing, we will further strengthen our capital base and expand our self-operated retail loan business more rapidly with External Dealers, thereby further adjust and diversify the structure of our self-operated retail loan business between ZhengTong Customers and External Customers.

*Business with External Dealers will form the main growth driver for our business going forward.*

According to CIC, as measured by loan value, the China retail auto finance market grew at a CAGR of 27.4% from 2013 to 2017, reaching a market size of RMB1,014.0 billion in 2017, and it's expected to grow to RMB2,376.0 billion by 2022, accounting for a 43.8% auto finance penetration rate by 2022. Our business expansion plan of attracting more External Dealers into our dealer network is fully aligned with and supported by the immense market demand for auto financing in China.

## NO COMPETITION WITH CONTROLLING SHAREHOLDERS

### **Our Business**

Our business primarily consists of (i) retail loan business, whereby we offer retail loans and other financing services to our end customers for their purchase of cars; and (ii) dealer loan business, whereby we provide loans to dealers to facilitate their purchase of new vehicles to be sold to end customers. Our retail loan business has two components: self-operated retail loan business, which in turn consists of our standard retail loan business and joint retail loan business, and retail loan facilitation business. For a more detailed description, see “Business” in this prospectus.

### **ZhengTong's Business**

The Remaining Group is committed to developing luxury and ultra-luxury auto sales and traditional after-sales services. It is the leading 4S dealership group in China focusing on dealership of luxury-brand cars such as Porsche, BMW, Mercedes-Benz, Audi, Jaguar and Land Rover, and Volvo. It also operates dealership stores of middle market brands, such as FAW Volkswagen, Buick, Nissan, Toyota, Honda and Hyundai.

ZhengTong conducts financial leasing business for fixed-asset type of equipment required by dealers for their provision of after-sales services through its subsidiary Dingze Financial Leasing. The key factors that delineate the business of Dingze Financial Leasing and our business are listed below.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### **Clear Business Delineation between Dingze Financial Leasing and our Company**

#### *Different business model*

Due to the differences in regulatory oversight, the scope of business of the Company and Dingze Financial Leasing is different. Contrary to the Company which extends loans to end customers to purchase cars for private consumption under its retail loan business, Dingze Financial Leasing can conduct financial leasing business but cannot grant any loans to its customers which is a licensed business under the laws of the PRC. Dingze Financial Leasing is predominantly conducting financial leasing for fixed-asset type of equipment deployed in the after-sales services of dealers in their ordinary business operations, which is not a CBIRC-licensed business. As a financial leasing company, Dingze Financial Leasing offers operating and finance leases.

#### *Different target customers*

Dingze Financial Leasing's target customers are primarily external dealers outside the Remaining Group which have financial leasing needs for fixed-asset type of equipment used in their provision of after-sales services such as lifting machine. Our major target customers are retail end customers that have financing needs to purchase cars for private consumption.

#### *Different financing channels*

As a licensed non-banking financial institution and according to the Administrative Measures on Governing the Automotive Financing Company (《汽車金融公司管理辦法》), the Company is permitted to take time deposits of three months or more from ZhengTong and wholly-owned members of the Remaining Group in the PRC, carry out inter-bank borrowing, accept deposits as guarantee from dealers for loans that are used for purchasing cars, and engage in auto finance lease business (excluding leaseback business). These financing channels allow the Company to raise capital at a relatively lower capital cost than financial leasing companies such as Dingze Financial Leasing which do not have such financing channels.

#### *Different business size*

Owing to a spectrum of differences and limitations as described above, Dingze Financial Leasing has a much smaller scale of business than the Company. For the years ended December 31, 2016, 2017 and 2018, Dingze Financial Leasing's revenue was approximately RMB0.8 million, RMB24.6 million and RMB30.0 million, respectively. For the same periods, the revenue of all our business segments from independent third parties was approximately RMB397.0 million, RMB497.6 million and RMB813.8 million, respectively.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### NON-COMPETITION UNDERTAKING

#### Non-competition

On March 1, 2019, the Controlling Shareholders executed the Non-Competition Undertaking in favor of us which is effective in the Relevant Period (as defined below). Pursuant to the Non-Competition Undertaking, the Controlling Shareholders have confirmed that, as of the date of the Non-Competition Undertaking, each of the Controlling Shareholders and any of his/its close associates has not engaged in, participated in any form of business activities, or held any direct or indirect interest in any entity which, directly or indirectly, compete with our business. The Controlling Shareholders have also made irrevocable covenants to our Company that during the Relevant Period (as defined below), each of the Controlling Shareholders will not and will procure that his/its respective close associates will not:

- (a) solely or jointly with a third party, engage in or participate in business or activity which constitute or may constitute competition with our business in any manner directly or indirectly (including but not limited to investment, merger and acquisition, associates, joint ventures, cooperation, partnership, contracting or leasing operation, purchase of shares of listed companies or equity participation) domestically or abroad (in each case whether as a director or shareholder (other than being a Director or Shareholder), partner, agent or otherwise and whether for profit, reward or interest otherwise); and
- (b) directly or indirectly, hold any interest or obtain any control (in each case whether as a director or shareholder (other than being a director or shareholder of our Company), partner, agent or otherwise and whether for profit, reward or interest otherwise) in any business, operating entities, institutions or economic organizations, which is or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the business engaged by our Company domestically or abroad from time to time.

The above restrictions are not applicable to circumstances where any of the Controlling Shareholders or his/its close associates invests in, holds, engages in or participates in less than 10% of the equity interests in any other companies (whether listed or not) which engage in business competing with our business.

#### Options for New Business Opportunities

Pursuant to the Non-Competition Undertaking, each of the Controlling Shareholders irrevocably undertakes that, during the Relevant Period, if any of the Controlling Shareholders or his/its close associates is aware of any new business opportunity which directly or indirectly competes or may compete with our business, such Controlling Shareholder will and will procure his/its respective close associates to notify our Company as soon as practicable, and will use his/its best efforts to procure that such business opportunity will be firstly offered to our Company to consider (a) if such new business opportunities will compete with our business; and (b) if such new business opportunities are of the interests of our Company. Each of the Controlling Shareholders further undertakes that our Company will have right of first refusal to engage in such new business opportunity, pursuant to which we will be offered a period of 10 business days upon receipt of such written notice to decide and

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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respond in writing on whether to exercise such option. If we decide not to proceed with the business opportunity or not to provide our written response to such Controlling Shareholder within the required time, such Controlling Shareholder may himself/itself proceed with or offer such option to third parties on conditions as stated in its written notice to us. We will comply with the requirements under Chapter 14A of the Listing Rules when deciding whether to exercise our option for new business opportunities.

Each of the Controlling Shareholders undertakes to use his/its best efforts to procure his/its close associates to offer our Company with options for new business opportunities in accordance with the requirements as stated above.

### **Options for Acquisitions**

Pursuant to the Non-Competition Undertaking, each of the Controlling Shareholders undertakes that, subject to applicable laws, our Company is entitled to acquire any equity interest, asset or other interest in the business currently carried out by our Company from the Controlling Shareholders at any time, unless a third party exercises its right of first refusal pursuant to relevant laws or constitutional documents on the same conditions. Each of the Controlling Shareholders also undertakes that he/it will use his/its best efforts to procure his/its close associates to provide to us such option for their respective businesses in accordance with the provisions as stated in the Non-Competition Undertaking. We will comply with the requirements under Chapter 14A of the Listing Rules when deciding whether to exercise our option for acquisitions.

### **Pre-emptive Rights**

Where the Controlling Shareholders have acquired any business, investment or interest in any entity relating to the business engaged by our Company from time to time pursuant to “— Options for New Business Opportunities” above, the Controlling Shareholders shall provide us with pre-emptive right (the “**Pre-emptive Right**”) by way of written notice to acquire any such business, investment or interest under the same circumstances. We will be entitled to decide and respond in writing on whether to acquire such business, investment or interest to such Controlling Shareholder within 30 days upon receipt of the written notice from such Controlling Shareholder. Each of the Controlling Shareholders further undertakes that he/it will not and will procure his/its respective close associates not to notify the Pre-emptive Right to other third parties before it receives objection in writing from our Company. If we decide not to proceed with such acquisition opportunity or not to provide our written response to such Controlling Shareholder within the required time, such Controlling Shareholder may offer to sell such business, investment or interest to other third parties on such terms which are no more favorable than those made available to our Group. We will comply with the provisions under Chapter 14 and Chapter 14A of the Listing Rules when deciding on whether it will exercise the pre-emptive right.

Each of the Controlling Shareholders undertakes that he/it will use his/its best efforts to procure its close associates to grant our Company with pre-emptive right in accordance with the Non-Competition Undertaking or to transfer such business to our Company as consideration of investment subject to the requirements of relevant PRC laws.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### FURTHER UNDERTAKINGS FROM THE CONTROLLING SHAREHOLDERS

Each of the Controlling Shareholders further undertakes that:

- (a) upon request from our independent non-executive Directors, he/it will provide all necessary information to our independent non-executive Directors to review the compliance with and implementation of the Non-Competition Undertaking by the Controlling Shareholders and its subsidiaries (if applicable);
- (b) he/it agrees that we can disclose the decisions made by the independent non-executive Directors regarding his/its compliance with and implementation of the Non-Competition Undertaking in our annual reports and announcements; and
- (c) he/it shall make an annual statement to our Company and our independent non-executive Directors on his/its compliance with the Non-Competition Undertaking for disclosure in our annual reports.

We will adopt the following measures to ensure that the undertakings under the Non-Competition Undertaking are observed:

- (a) we will provide the independent non-executive Directors with notices on offering or transferring the new business opportunities or pre-emptive rights provided by the Controlling Shareholders (as the case may be), within seven days upon receipt of such notices;
- (b) the independent non-executive Directors will report in our annual reports (i) the results of their review on the Controlling Shareholders' compliance with the Non-Competition Undertaking and (ii) any decisions on our Company's options for new business opportunities and pre-emptive rights and basis for the decisions; and
- (c) our Directors consider that the independent non-executive Directors have sufficient experience in assessing whether or not to take up the new business opportunities or exercise the pre-emptive rights. Under appropriate or necessary circumstances, our independent non-executive Directors may appoint financial advisors or experts to provide advice on whether the options or pre-emptive rights under the Non-Competition Undertaking shall be exercised and any fees incurred as a result of such shall be borne by us.

The Non-Competition Undertaking will take effect from the date of this agreement until the occurrence of one of the following events, whichever is earlier (the "**Relevant Period**"):

- (a) when the Controlling Shareholders and his/its close associates, individually or taken as a whole, are interested in no more than 30% of the equity interests of our Company; or
- (b) the H Shares cease to be listed on the Stock Exchange except for suspension of trading of H Shares due to any reasons.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Our PRC Legal Advisors are of the view that the Non-Competition Undertaking does not violate relevant laws of the PRC. Upon signing of the Non-Competition Undertaking, the undertakings made by the Controlling Shareholders pursuant to the Non-Competition Undertaking are valid under the laws of the PRC and are binding on the Controlling Shareholders.

In view of (a) the Controlling Shareholders' undertaking that he/it will support the development of our business on a priority basis; (b) the legally binding obligations of the Controlling Shareholders under the Non-Competition Undertaking and the options for new business opportunities, options for acquisitions and the pre-emptive rights granted to us thereunder; and (c) the information sharing and other mechanisms in place as described above to monitor the compliance with the Non-Competition Undertaking by the Controlling Shareholders, our Directors are of the view that our Company has taken all appropriate and practicable measures to ensure that the Controlling Shareholders will comply with its obligations under the Non-Competition Undertaking.

Our Company has not experienced any dispute with our Shareholders or among our Shareholders themselves and our Directors believe that our Company has maintained positive relationship with our shareholders. With corporate governance measures and the further undertaking provided by the Controlling Shareholders as mentioned above, our Directors believe that the interests of the Shareholders will be protected.

### INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are able to carry on our business independently from our Controlling Shareholders after the Listing.

#### Management Independence

##### 1. *The Company*

###### (a) *Board structure*

Our business is managed and conducted by our Board. Our Board comprises two executive Directors, two non-executive Directors and three independent non-executive Directors.

The Directors are of the view that our Board and our senior management are capable of operating our business and managing all actual or potential conflicts of interest independently of the Remaining Group for the following reasons:

- Except for Mr. Koh Tee Choong (who is our non-executive Director and also the chief executive officer and an executive director of ZhengTong as of the Latest Practicable Date), there will not be any overlap between the Remaining Group and our Company in terms of directors and senior management upon Listing. Mr. Koh Tee Choong is our non-executive Director and will not be involved in the day-to-day management and operations of our

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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businesses. He will provide professional advice to and share his experience in the automobile industry with our Company. See “Directors, Supervisors and Senior Management” in this prospectus for their roles within the Remaining Group and the Company;

- The two executive Directors and the members of our senior management and management team are responsible for the day-to-day management and operations of our business and none of them will hold any directorships and/or other roles within the Remaining Group upon Listing; and
- All of our independent non-executive Directors are independent of the Company and the Remaining Group and have extensive experience in their respective areas of expertise. See “Directors, Supervisors and Senior Management” in this prospectus for more details. Our independent non-executive Directors are appointed in accordance with the requirements under the Listing Rules to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions. None of our independent non-executive Directors are directors of the Remaining Group or otherwise connected with the Remaining Group in any manner that may affect their independent judgement or independence as required under the Listing Rules.

### (b) *Director’s duties*

Each of our Directors is aware of his/her fiduciary duties as a director which require, among other things, that he/she acts for the benefit and in the best interest of our Company and our Shareholders as a whole and does not allow any conflict between his/her duties as a director and his/her personal interests.

### (c) *Corporate governance measures*

Our Directors recognize the importance of good corporate governance in protecting our Shareholders’ interests. We have adopted the following corporate governance measures to identify and manage potential conflicts of interests:

- Where the Board is considering a resolution in which the Remaining Group is materially interested, any Director who concurrently holds a material position at the Remaining Group will be required to abstain from voting on such resolution;
- We have established internal control mechanisms to identify connected transactions. Any connected transactions between our Group and the Remaining Group will be and are identified in advance and the Conflicting Director must abstain from voting on the relevant resolutions and the requirements set out in Chapter 14A of the Listing Rules will be complied with;
- Our independent non-executive Directors are independent from the Remaining Group and are appointed in accordance with the requirements under the Listing Rules to ensure that decisions of the Board are made only after due consideration of independent and impartial opinions;

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- We will disclose decisions on matters reviewed by our independent non-executive Directors and basis of such decisions, either in our annual reports or by way of announcements as required by the Listing Rules;
- The Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Non-Competition Undertaking;
- Our independent non-executive Directors will, based on the information available to them, review on annual basis all the decisions taken in relation to whether to pursue the new opportunity under the Non-Competition Undertaking, and to disclose all decisions on the matters pertaining to the annual review either through the annual report, or by way of announcement to the public;
- Our Board has put in place adequate arrangements set forth above to manage conflicts of interest, to ensure independent decision-making, to safeguard the protective measures under the Non-Competition Undertaking, and ultimately, to protect the interests of our Shareholders. Our Directors believe that the presence of Directors from different backgrounds provides a balance of views and opinions;
- In order to allow non-conflicting members of the Board to function properly with necessary professional advice, we will engage a third-party professional advisor to advise our Board when necessary; and
- We have appointed Altus Capital Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts that may arise between us and the Remaining Group, and to protect our Shareholders' interests after the Listing.

(d) *Separate management team*

Our Company has our own management team and separate functional departments including accounting, administration, human resources, legal and company secretarial departments. All essential administration and daily operations of our Company are carried out by a team of staff employed by our Company independently of and without any support from the Remaining Group. In addition, save as disclosed above, none of our senior management holds any office in or is employed by the Remaining Group.

On the basis of the aforesaid, our Directors believe that we operate independently of the Remaining Group and in the interests of our Shareholders.

## 2. **ZhengTong Group**

As of the Latest Practicable Date, Mr. Shao Yongjun, one of our executive Directors, also serves as an executive director of ZhengTong but will cease to act as such upon Listing.



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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As of the Latest Practicable Date, Mr. Koh Tee Choong, one of our non-executive Directors, also serves as the chief executive officer and an executive Director of ZhengTong.

Apart from Mr. Koh Tee Choong, who holds directorship and management position in the Remaining Group, none of our Directors will hold any directorship or management position in the ZhengTong Group upon Listing.

In light of the above, the Directors are of the view that the Directors, senior management and key management of the Company are independent from the directors and senior management of the ZhengTong Group.

### **Operational Independence**

Our Company makes business decisions independently. Our Company holds all relevant licenses necessary to carry on its businesses and has sufficient capital, equipment and employees to operate its businesses independently.

On the basis of the following reasons, the Directors consider that our Company will continue to operate independently of the the Remaining Group after the Listing:

- Our material management and operational decision-making have been made by our core management team which consists of the two executive Directors and our President, Mr. Li Yi. The day-to-day management and operation of the Company have been carried out by an experienced full-time senior management and management members with the authorization from the Board. Neither the executive Directors nor any member of the senior management or management of our Company will hold any position with the Remaining Group upon the Listing;
- We have established our own operational structure made up of separate departments, each with a specific area of responsibility. We have also established a set of internal control procedures to facilitate the effective operation of our business;
- The entire flow of our retail loan business is market-driven and the end customers make the ultimate decisions as to which loan and from which financing providers to apply for the loan. In terms of the financing providers that are currently cooperating with the Remaining Group, ZhengTong's 4S dealership stores typically display an array of offerings for retail loans from various commercial banks, auto manufacturing financing companies and auto financing companies. The end customers would not receive any discount on the selling price of the cars from ZhengTong Dealers for taking out a retail loan from or through the Company (save for the case of a joint promotion arrangement), nor any rebates from the Remaining Group/ the Company. The staff of the external business partners and that of the Remaining Group do not receive any commission or incentive from the financing providers including us;
- We promote our retail loan offerings to end customers primarily through a dealer network of 1,280 dealers as of December 31, 2018, while ZhengTong operates its 4S dealership

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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business through its network of 4S dealership outlets. In addition, as disclosed in “Future Plans and Use of Proceeds”, we expect to use 70% of the proceeds from the Global Offering to support the development of our business with External Customers. We expect to increase revenue from External Customers after Listing; and

- There is no competing business between the Controlling Shareholders and our Company, and the Controlling Shareholders have entered into the Non-Competition Undertaking in favor of our Company. For more details, please refer to “Non-Competition Undertaking” above.

### Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group’s own business needs. We have an independent internal control and accounting systems and also have an independent finance department responsible for discharging the treasury function. We are capable of obtaining financing from third parties, if necessary, without reliance on the the Remaining Group.

As a CBIRC-licensed AFC, we are permitted under our business scope to take time deposits of three months from wholly-owned members of the ZhengTong Group onshore. The interest offered by us to ZhengTong for ZhengTong’s time deposits (the “**Time Deposits**”) is the same as the benchmark interest rate published by the PBOC from time to time for time deposits of three months. The Time Deposits were made since December 2017 at an interest rate of 1.10%. According to the principle of “equality, voluntariness, fairness, reasonableness and mutual benefit” which we always uphold and provided in the Deposit Service Framework Agreement we entered into with ZhengTong, ZhengTong is allowed to withdraw any amount of its deposits prior to or upon expiry, or renew the term of deposits upon expiry. Notwithstanding the Time Deposits, we believe we are financially independent of ZhengTong having regard to the following factors:

1. As of the Indebtedness Date, the outstanding balance of the Time Deposits amounted to RMB202.3 million, and the unutilized banking facilities we secured from other commercial banks or third party financial institutions free of any guarantee from ZhengTong as of December 31, 2018 is RMB1.5 billion, which is much higher than such amount;
2. From a regulatory perspective, the deposit-taking ability is part and parcel of our permitted business activities as a whole under the regulations of CBIRC and should not be viewed unfavorably as an indication of financial dependence on ZhengTong;
3. We have a core tier-one capital adequacy ratio above the statutory requirement and does not rely on the Time Deposits to satisfy such capital adequacy requirement; and
4. Our operating income increased from RMB332.4 million in 2016 to RMB815.8 million in 2018, and our profit and total comprehensive income for the year increased from RMB174.5 million in 2016 to RMB452.5 million in 2018. We have therefore been in a strong business and financial position before the receipt of the Time Deposits.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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In addition, while as of the Indebtedness Date, RMB1.9 billion of our placements from banks and other financial institutions were guaranteed by the Remaining Group, such guarantees has been released as at the date of this prospectus.

Based on the above, our Directors are of the view that we are capable of carrying on our business independently of, and do not place undue reliance on the Remaining Group after the Listing.

## CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the transactions that we enter into with our connected persons will constitute connected transactions upon the Listing.

### SUMMARY OF OUR CONNECTED PERSONS

We have entered into certain transactions which will constitute our continuing connected transactions following the Listing with the following connected person:

Name	Connected Relationship
ZhengTong	Controlling Shareholder

### SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

Transactions	Applicable Listing Rules	Waivers sought	Proposed annual cap for the year ending December 31,		
			2019	2020	2021
(RMB in millions)					
<b>Fully exempt continuing connected transactions</b>					
1. Deposit Services Framework Agreement	14A.34, 14A.52 and 14A.90	N/A	N/A	N/A	N/A
<b>Non-exempt continuing connected transactions</b>					
1. Administrative Cost Reimbursement Framework Agreement	14A.34, 14A.35, 14A.49, 14A.52, 14A.53, 14A.71, 14A.76(2) and 14A.105	Announcement requirement under Chapter 14A of the Listing Rules	15	20	26
2. Revolving Loan Facility Framework Agreement	14A.34, 14A.35, 14A.49, 14A.52, 14A.53, 14A.71, 14A.76(2) and 14A.105	Requirements on announcement, circular and shareholders' approval under Chapter 14A of the Listing Rules	1,500 <sup>(1)</sup> 128.0 <sup>(2)</sup>	1,500 <sup>(1)</sup> 128.0 <sup>(2)</sup>	1,500 <sup>(1)</sup> 128.0 <sup>(2)</sup>
3. Joint Promotion Framework Agreement	14A.34, 14A.35, 14A.49, 14A.52, 14A.53, 14A.71 and 14A.105	Requirements on announcement, circular and shareholders' approval under Chapter 14A of the Listing Rules	67	23	2

*Notes:*

- (1) The proposed annual caps of the maximum outstanding balance of loans to the ZhengTong Dealers at any time.
- (2) The proposed annual caps of the interest income we may derive from the loans to the ZhengTong Dealers.

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## CONNECTED TRANSACTIONS

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### FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### Deposit Services Framework Agreement

As a CBIRC-licensed AFC, we are permitted under our business scope to take time deposits of three months from ZhengTong's wholly-owned subsidiaries in the PRC, which constitutes "financial assistance" pursuant to Rule 14A.24(4) of the Listing Rules. On March 1, 2019, we entered into the Deposit Service Framework Agreement with ZhengTong, pursuant to which we agreed to take time deposits of three months from ZhengTong's wholly-owned subsidiaries in the PRC. The initial term of the Deposit Service Framework Agreement will commence on the Listing Date and expire on December 31, 2021, subject to early termination by mutual agreement of the parties. The interest rate offered by us is 1.10%, which is the same as the benchmark interest rate published by the PBOC from time to time for time deposits of three months and in compliance with any applicable guiding standards set by the relevant authorities. The taking of such deposits allows the Company to raise capital at a relatively lower capital cost. We take time deposits from the Remaining Group from time to time. The outstanding balance of deposit placed by the Remaining Group is RMB600 million as at December 31, 2018, and the balance accounts for approximately 6.29% of our total assets as at December 31, 2018. The time deposit placed by the Remaining Group is not secured by our assets. In this regard, such transaction will constitute a fully exempt continuing connected transaction under Rule 14A.90 of the Listing Rules, namely financial assistance received by us from a connected person in the form of deposits placed with us on normal commercial terms (or on terms that are better to the listed issuer) and not secured by our assets, and thus will be fully exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For the years ended December 31, 2016, 2017 and 2018, the amount of interest expenses from such time deposit was nil, RMB1.9 thousand and approximately RMB5.3 million, respectively.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We set out below a summary of the continuing connected transactions for our Company, among which, the continuing connected transactions contemplated under the Administrative Cost Reimbursement Framework Agreement are subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules, but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, while the continuing connected transactions contemplated under both of the Revolving Loan Facility Framework Agreement and the Joint Promotion Framework Agreement will constitute non-exempt continuing connected transactions under the Listing Rules and are subject to the reporting, annual review, announcement, circular and shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## CONNECTED TRANSACTIONS

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### 1. Administrative Cost Reimbursement Framework Agreement

#### *Description of the Agreement*

Out of administrative convenience and given our business was in a ramp-up stage in the beginning years of operation, we would have dealers to carry out certain administrative tasks under the retail loan business in the context of a typical car loan application process. On March 1, 2019, we entered into the Administrative Cost Reimbursement Framework Agreement with ZhengTong, pursuant to which we would reimburse the administrative cost that may be incurred by ZhengTong Dealers in assisting our 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 us in:

- (a) preparing the materials required for applying for the car mortgage upon issuance of end customers' registration certificate, and reminding end customers to process the mortgage procedures at the local vehicle administration department (the "VDA") with their identity card;
- (b) delivering end customers' mortgage registration certificate to us upon the approval of their mortgage, and reminding them to have the mortgage released at the VDA with their identity card;
- (c) informing end customers applying for a car loan as to the required information and ensuring the materials to be provided for the loan application are complete;
- (d) assisting end customers in printing the contracts if needed;
- (e) assisting end customers with regard to the signing procedure of a formal loan agreement; and
- (f) other administrative affairs executed by ZhengTong's 4S dealers in relation to our provision of the retail loans.

The term of the Administrative Cost Reimbursement Framework Agreement shall commence on the Listing Date and expire on December 31, 2021, subject to early termination by mutual agreement of the parties. Parties can also extend or renew such terms by mutual agreement, provided that the requirements under the relevant laws, regulations and the Listing Rules are complied with.

#### *Reasons for the Transactions*

We entered into the transactions under the Administrative Cost Reimbursement Framework Agreement to formalize and facilitate our reimbursement to ZhengTong Dealers which assist with some administrative tasks that our employees would have to perform otherwise. We expect that after Listing we will still have such arrangement in place to facilitate the fast-growing operations of our

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## CONNECTED TRANSACTIONS

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business. Such practice is common among AFCs in the industry. The assistance provided by ZhengTong Dealers in a loan application procedure is also provided by other External Dealers in our usual and ordinary course of business. The expenses we pay to External Dealers and ZhengTong Dealers are calculated on a consistent basis.

### ***Pricing Policy***

The administrative cost incurred by ZhengTong Dealers are reimbursed by us on an as-incurred basis confirmed in writing by the subsidiaries of ZhengTong and us and in compliance with any applicable guiding standards set by the relevant authorities.

### ***Historical Amounts and Basis of Annual Caps***

For the years ended December 31, 2016, 2017 and 2018, the administrative costs we expensed was RMB0.2 million, RMB3.0 million and RMB5.5 million, respectively.

For the years ending December 31, 2019, 2020 and 2021, the maximum amounts of reimbursement to ZhengTong Dealers to be expensed are expected to be RMB15 million, RMB20 million and RMB26 million, respectively. When estimating the annual caps, our Directors have taken into consideration the historical amounts of such transactions, the future development of the automobile industry, the overall business development of the Company and the future development strategy of the Company.

## **2. Revolving Loan Facility Framework Agreement**

### ***Description of the Agreement***

On March 1, 2019, we entered into the Revolving Loan Facility Framework Agreement with ZhengTong, pursuant to which we agreed to provide revolving loan facility to ZhengTong Dealers to facilitate their purchase of cars. The precise scope of service, service fee calculation, method of payment and other details of the service arrangement will be agreed under separate agreements between us and the ZhengTong Dealers.

The initial term of the Revolving Loan Facility Framework Agreement will commence on the Listing Date and expire on December 31, 2021, subject to early termination by mutual agreement of the parties. Parties can extend or renew such terms by mutual agreement, provided that the requirements under the relevant laws, regulations and the Listing Rules are complied with.

### ***Reasons for the Transactions***

We have been providing dealer financing loans to certain dealers, which is a common practice for AFCs in the PRC. Our dealer network includes the ZhengTong Dealers and External Dealers. Therefore, we entered into the transactions under the Revolving Loan Facility Framework Agreement to (i) diversify our revenue source from dealers as corporate clients and (ii) help us establish a business relationship with those dealers at the beginning of our operation and gain a better understanding of their needs with a view to expanding the sales network for our retail loan business.

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## CONNECTED TRANSACTIONS

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### *Pricing Policy*

The interest rates for the loans we provide to the ZhengTong Dealers shall be determined by reference to the interest rate published by the 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. We 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). In general, before each drawdown on a loan, the dealer is required to provide deposits equivalent to 5% of the drawdown amount to us.

### *Historical Amounts and Basis of Annual Caps*

For the years ended December 31, 2016, 2017 and 2018, the maximum daily outstanding amount of the loans provided by us to the ZhengTong Dealers were RMB269.8 million, RMB939.1 million and RMB716.4 million, respectively, and the interest rates that we charged to such loans during the corresponding years and period ranged from 5.90% to 8.50%. For the years ended December 31, 2016, 2017 and 2018, the aggregate amount of interest income derived from the loans provided by us to the ZhengTong Dealers were approximately RMB14.5 million, RMB27.7 million and RMB15.7 million, respectively.

For the years ending December 31, 2019, 2020 and 2021, the maximum outstanding balances of the loans our Company may provide to the ZhengTong Dealers at any time are expected to be RMB1,500 million, RMB1,500 million and RMB1,500 million, respectively. For the years ending December 31, 2019, 2020 and 2021, the maximum amounts of interest income that we expect to derive from our revolving loans to the ZhengTong Dealers are approximately RMB128.0 million, RMB128.0 million and RMB128.0 million, respectively.

According to the Administrative Measures for AFCs (as issued by China Banking Regulatory Commission in 2008) (《汽車金融公司管理辦法》), the balance of credit that may be extended by an auto financing company to a single group client shall not exceed 50% of the auto financing company's net capital, and the balance of the credit extended to a single shareholder and its related parties thereof shall not exceed the amount of such shareholder's investment in the auto financing company.

When estimating the annual caps of the maximum outstanding balance of loans we may provide to the ZhengTong Dealers, our Directors have taken into consideration (1) the historical amounts of maximum daily balance of loans granted by us to the ZhengTong Dealers, (2) the future development of the automobile industry, (3) our plan to continue to operate and deepen our dealer loan business in general, a part of which comprises that with the ZhengTong Dealers, (4) the continuing increase in the car sales by the ZhengTong Dealers to their retail customers, which will continue to fuel the ZhengTong Dealers' demand for dealer loans, (5) our estimated net capital, (6) our registered capital contributed by ZhengTong as of the Latest Practicable Date which is RMB1,520 million, and other applicable requirements under applicable PRC laws and regulations.

When estimating the annual caps of the maximum interest income that we may derive from the loans to the ZhengTong Dealers, our Directors have taken into consideration (1) the maximum outstanding balance of loans we may provide to the ZhengTong Dealers at any time during the three years ending December 31, 2021, (2) our plan to continue to operate and deepen our dealer loan



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## CONNECTED TRANSACTIONS

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business in general, a part of which comprises that with the ZhengTong Dealers, (3) the continuing increase in the car sales by the ZhengTong Dealers to their retail customers, which will continue to fuel the ZhengTong Dealers' demand for dealer loans, and (4) the pricing policy as described above.

### 3. Joint Promotion Framework Agreement

#### *Description of the Agreement*

As described in “Business — Our Business — Retail Loan Business — Self-operated Retail Loan Business — Self-operated Loan Products” and “Relationship with Controlling Shareholders — Our business relationship with ZhengTong — Joint Promotion with ZhengTong Dealers”, we had entered into joint promotion arrangements with the 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 us for purchasing the specific car models under promotion. The interest rate we charged under these arrangements was the same as our standard interest rate. The interest rate borne by the ZhengTong Dealers ranged from 0.10% to 11.88% during the Track Record Period. When we remitted the loan amount to the ZhengTong Dealers on behalf of our end customers, an amount equal to the interest subsidies from the ZhengTong Dealers was deducted directly from the loan amount and recorded as deferred income, which is to be recorded and amortized in interest income with effective interest rate method during the loan tenor. To document the interest income to be recognized from the ZhengTong Dealers after Listing under such joint promotion arrangements already entered into, we have entered into the Joint Promotion Framework Agreement with ZhengTong.

The initial term of the Joint Promotion Framework Agreement will commence on the Listing Date and expire on December 31, 2021, subject to early termination by mutual agreement of the parties. Parties can extend or renew such terms by mutual agreement for so long as interest income will be recognized from the joint promotion arrangements already entered into prior to Listing, and provided that the requirements under the relevant laws, regulations and the Listing Rules are complied with. We do not plan to undertake any joint promotion arrangement with the ZhengTong Dealers after Listing in order to focus our marketing effort with the External Dealers.

#### *Reasons for the Transactions*

We entered into the joint promotion arrangements with the ZhengTong Dealers to promote the sale of specific car models. Although we do not plan to undertake any joint promotion arrangement with ZhengTong Dealers, we will after Listing continue to recognize interest revenue for these joint promotion arrangements already entered into in accordance with the relevant accounting treatment. To document the interest income to be recognized after Listing, we entered into the Joint Promotion Framework Agreement with ZhengTong.

#### *Pricing Policy*

The interest revenue to be recognized under the Joint Promotion Framework Agreement has been pre-determined in accordance with the interest subsidies provided by the ZhengTong Dealers to the end customers when we disbursed the retail loans under the joint promotion arrangements.

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## CONNECTED TRANSACTIONS

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### *Historical Amounts and Basis of Annual Caps*

For the years ended December 31, 2016, 2017 and 2018, the interest income recognized from the interest subsidies provided by the ZhengTong Dealers was nil, RMB12.0 million and RMB106.5 million, respectively.

For the years ending December 31, 2019, 2020 and 2021, the maximum amounts of interest revenue to be recognized under the joint promotion arrangements already entered into with the ZhengTong Dealers are expected to be RMB67 million, RMB23 million and RMB2 million, respectively. When estimating the annual caps, our Directors have taken into consideration the amounts of deferred income that shall be recorded and amortized in interest income with effective interest rate method during the respective loan tenors.

### WAIVER APPLICATIONS

#### **Revolving Loan Facility Framework Agreement and Administrative Cost Reimbursement Framework Agreement and Joint Promotion Framework Agreement**

Since the highest of the applicable percentage ratios calculated under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Administrative Cost Reimbursement Framework Agreement are 0.1% or more but less than 5%, pursuant to Rule 14A.76(2) of the Listing Rules, such transactions will be exempt from the circular (including the opinion and recommendation from an independent financial adviser) and the independent shareholders' approval requirements, but will be subject to the announcement requirements under Rule 14A.35 of the Listing Rules and the annual reporting requirements under Rules 14A.49 and 14A.71 of the Listing Rules.

Since the highest of the applicable percentage ratios calculated under Chapter 14A of the Listing Rules in respect of the transactions contemplated under both of the Revolving Loan Facility Framework Agreement and the Joint Promotion Framework Agreement are more than 5%, the transactions will be subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the transactions under the Revolving Loan Facility Framework Agreement, the Administrative Cost Reimbursement Framework Agreement and the Joint Promotion Framework Agreement will continue after the Listing on a recurring basis, our Directors consider that strict compliance with the relevant announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules would be impractical and burdensome, and would add unnecessary administrative cost to our Company each time when such transaction arises.

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to us under Rule 14A.105 of the Listing Rules from strict compliance with (1) the announcement requirement under the Listing Rules in respect of the transactions under the Administrative Cost Reimbursement Framework Agreement, and (2) the announcement, circular and independent

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## **CONNECTED TRANSACTIONS**

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shareholders' approval requirements under the Listing Rules in respect of the transactions under the Revolving Loan Facility Framework Agreement and the Joint Promotion Framework Agreement, provided that the total values of such transactions for each of the years ending December 31, 2019, 2020 and 2021 will not exceed the relevant annual caps above.

### **DIRECTORS' CONFIRMATION**

Our Directors (including independent non-executive Directors) are of the view that the non-exempt continuing connected transactions set out above have been and will be entered into in the ordinary and usual course of business on normal commercial terms or better which are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and the proposed monetary annual caps in respect of non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

### **JOINT SPONSORS' CONFIRMATION**

Based on the documentation and data provided by our Company and participation in due diligence and discussions with us, the Joint Sponsors believe that the aforesaid non-exempt continuing connected transactions have been and will be entered into in the ordinary and usual course of business of our Company on normal commercial terms which are fair and reasonable, and in the interests of our Company and our Shareholders as a whole, and the proposed monetary annual caps in respect of the non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### OUR BOARD

Our Board consists of seven Directors, among which, two are executive Directors, two are non-executive Director(s) and three are independent non-executive Directors. The directors are appointed for a term of three years and are eligible for re-election. Our Board is responsible for and has general power for the management and conduct of our business.

### DIRECTORS

The following table sets forth certain information in respect of our Directors:

Name	Age	Date of joining our Company	Date of appointment <sup>1</sup>	Position/Title	Roles and responsibilities
Mr. Lin Fan (林帆)	52	February 2017	February 2017	Chairman and Executive Director	Formulate overall strategic planning and business direction and management
Mr. Shao Yongjun (邵永駿)	43	March 2015	March 2015	Executive Director	Formulate overall strategic planning and business direction and management
Mr. Koh Tee Choong (許智俊)	60	August 2018	August 2018	Non-executive Director	Provide professional advice and judgments to the Board
Mr. Yin Yaoliang (殷耀亮)	55	July 2018	July 2018	Non-executive Director	Provide professional advice and judgments to the Board
Mr. Lau Wai Leung Anders (劉偉良)	63	March 2019	March 2019	Independent Non-executive Director	Give objective and independent opinions on matters decided by the Board
Mr. Lin Zheyang (林哲瑩)	54	August 2018	August 2018	Independent Non-executive Director	Give objective and independent opinions on matters decided by the Board
Ms. Liang Yanjun (梁艷君)	35	August 2018	August 2018	Independent Non-executive Director	Give objective and independent opinions on matters decided by the Board

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<sup>1</sup> The date of appointment as a Director stated here represents the date on which the relevant Director obtained the approval of qualification as a director from the CBIRC.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### Executive Directors

**Mr. Lin Fan (林帆)**, aged 52, is an executive Director and the Chairman of the Board. He joined our Company in February 2017. Mr. Lin is responsible for the overall strategic planning and business direction and management of the Company.

From July 1988 to September 2015, Mr. Lin successively served at several managing positions with business and finance functions in Hubei and Sanxia branches, and the headquarters of China Construction Bank (“CCB”) (中國建設銀行). Among those positions, Mr. Lin served as the Vice President of the Hubei branch of CCB from September 2003 to November 2007, and was in charge of its operation management. He served as the President of the Sanxia branch of CCB from November 2007 to May 2014. 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 (中南財經政法大學, formerly known as Zhongnan University of Economics (中南財經大學)) in July 1988, and a bachelor’s degree in economic law from Wuhan University (武漢大學) in June 1998. He received a doctoral graduate degree in national economics from Zhongnan University of Economics and Law (中南財經政法大學) in December 2012. Mr. Lin was accredited as a senior accountant by CCB in December 2000. Mr. Lin has nearly 30 years’ experience in the finance industry.

**Mr. Shao Yongjun (邵永駿)**, aged 43, is an executive Director. He joined our Company in March 2015. Mr. Shao is responsible for the overall strategic planning and business direction and management of the Company.

From August 2002 and December 2003, he was an auditor of KPMG China (畢馬威中國). From January 2004 to December 2007, he was the general manager of Shenzhen Zhao Hong Yuan Technology Co., Ltd. (深圳市兆鴻源科技有限公司), which was principally engaged in the development of technology products, the supply and marketing of electronic products as well as the import and export of goods. From January 2008 to December 2010, he was the vice president of Hua Xiang Group (華祥集團), a real property developing and investing company. Mr. Shao has served as the vice president and an executive director of ZhengTong since July 2011, and he is responsible for investor relations and auto financing new business. Mr. Shao will cease to act as an executive director of ZhengTong upon Listing.

Mr. Shao received a bachelor’s degree with a major in accounting from Shenzhen University (深圳大學) in June 1997 and received an executive master of business administration degree from Shanghai Jiao Tong University (上海交通大學) in November 2005. Mr. Shao has nearly 15 years’ experience in management.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### Non-executive Directors

**Mr. Koh Tee Choong (許智俊)**, aged 60, is a non-executive Director. He was appointed as such in August 2018. Mr. Koh is responsible for providing professional advice and judgments to the Board.

From January 1997 to December 1998 and from May 2016 to December 2016, Mr. Koh served at BMW Asia Pte Ltd (寶馬亞洲私人有限公司). In between the period from January 1999 to April 2016, he was seconded to BMW China Automotive Trading Ltd. (寶馬(中國)汽車貿易有限公司) to head up BMW China business, holding the position of its president.

Since January 2017 and up to the Latest Practicable Date, Mr. Koh has served as an executive director and chief executive officer of ZhengTong.

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. Koh has extensive operational and management experience in the luxury-brand dealership market.

**Mr. Yin Yaoliang (殷耀亮)**, aged 55, is a non-executive Director. He was appointed as such in July 2018. Mr. Yin is responsible for providing professional advice and judgments to the Board.

From July 1987 to November 2007, Mr. Yin served in several accounting and financial managing positions successively at Dongfeng Motor Finance Company Limited (東風汽車工業財務公司), Dongfeng Industrial Co., Ltd (東風實業開發公司), Daya Bay Dongfeng Checheng Co., Ltd. (大亞灣東風車城股份有限公司), Shenzhen Dongfeng Building Industrial Co.,Ltd. (深圳東風大廈實業公司) and Dongfeng. From November 2007 to April 2015, Mr. Yin served as a deputy general manager of Dongfeng Nissan Automobile Finance Co. Ltd. (東風日產汽車金融有限公司). Mr. Yin has served as a deputy minister of finance and accounting department of Dongfeng since April 2015.

Mr. Yin received a bachelor's degree in accounting (chrematistics) from Hubei University (湖北大學) in June 2000. Mr. Yin has also been recognized as a senior accountant by Hubei Vocational Title Reform Leading Group Office (湖北省職稱改革辦公室) in December 2002. Mr. Yin has over 30 years of accounting and managing experience in the automobile manufacturing industry.

### Independent non-executive Directors

**Mr. Lau Wai Leung Anders (劉偉良)**, aged 63, is an independent non-executive Director. He was appointed as such in March 2019. Mr. Lau is responsible for giving objective and independent financial opinions on matters decided by the Board. Mr. Lau is our Director who has the appropriate related financial management expertise for the purpose of Rule 3.10(2) of the Listing Rules through his experience listed below.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Mr. Lau worked at KPMG from July 1980 to September 1983. He worked at Ernst & Young from September 1983 to June 2016 and was admitted as partner in January 1997. He has been serving as an independent non-executive director of The Sincere Company, Limited (a company listed on the Stock Exchange, stock code: 244) since March 2018, and a director of Rizhao Port Jurong Co., Ltd. since December 2018.

Mr. Lau graduated from the University of Hull in England with bachelor's degree in economics with honours in July 1980. He became a member of Hong Kong Institute of Certified Public Accountants in October 1990 and a member of American Institute of Certified Public Accountant in February 1990.

**Mr. Lin Zheyang (林哲瑩)**, aged 54, is an independent non-executive Director. He was appointed as such in August 2018. Mr. Lin is responsible for giving objective and independent opinions on matters decided by the Board.

From 2005 to November 2010, Mr. Lin served as a deputy director in the Department of Foreign Investment Administration of the MOFCOM, was in charge of foreign investment and trade services. Since January 2011, Mr. Lin has been serving as an executive director of Ancient Jade Capital Management Co., Ltd. (古玉資本管理有限公司), an investment management company, and was in charge of direct investment and merger and acquisition projects. From May 2011 to December 2014, he served as an executive director of HanKore Environment Tech Group Limited (漢科環境科技集團有限公司), a company focused on water and wastewater treatment, and was responsible for corporate strategic and marketing activities. Mr. Lin served as a director of Shenzhen Fengchao Technology Limited (深圳市豐巢科技有限公司), an internet technology company, from November 2016 to December 2017, and was responsible for internet strategy regarding intelligent express delivery cabinet.

From June 2014, Mr. Lin has been serving as a vice chairman of S.F. Holdings (Group) Co. Ltd. (深圳順豐泰森控股(集團)有限公司), an integrated logistics service provider. Since March 2017, he has been serving as 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). 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), an information consulting service company.

Mr. Lin received a bachelor's degree with a major in planing statistics from Shanxi College of Finance and Economics (山西財經學院, currently known as Shanxi University of Finance and Economics (山西財經大學)) in July 1987 and received a master's degree in business administration from Guanghua School of Management, Peking University (北京大學) in July 2006, and received a doctoral degree in business administration from ESC Rennes School of Business (法國雷恩商學院) in June 2008.

**Ms. Liang Yanjun (梁艷君)**, aged 35, is an independent non-executive Director. She was appointed as such in August 2018. Ms. Liang is responsible for giving objective and independent opinions on matters decided by the Board.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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From March 2009 to February 2010, Ms. Liang served as a minister's assistant of China Center for International Economic Exchange (中國國際經濟交流中心) and assisted foreign affairs. From December 2010 to May 2016, Ms. Liang practiced as a lawyer at Jingtian & Gongcheng (北京市競天公誠律師事務所). Since June 2016, Ms. Liang has been practicing as a lawyer and served as a member of the internal auditing group of Beijing Maode Law Firm (北京懋德律師事務所).

Ms. Liang received a law degree from China University of Political Science and Law (中國政法大學) in June 2005 in China. Ms. Liang received her lawyer's practicing certificate of the PRC granted by the Ministry of Justice of the PRC in March 2011.

Save as disclosed above, each of our Directors has confirmed that he or she has not held any other directorships in listed companies during the three years immediately prior to the date of this prospectus and that there is no other information in respect of our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there is no other matter that needs to be brought to the attention to our Shareholders.

According to the Guidelines for the Corporate Governance of Commercial Banks (商業銀行公司治理指引), which is applicable to us as a CBIRC-regulated AFC, the total term of the independent non-executive directors in any one commercial bank, or in our case as an AFC, shall not exceed six years.

**Dr. Bao Xiaoli (鮑曉莉)** served as an independent non-executive director of the Company from August 2018 to March 2019. She ceased to act as a director of the Company on March 2019.

### SUPERVISORY COMMITTEE

Both the PRC Company Law and the Articles of Association stipulate that joint stock companies with limited liability shall establish a supervisory committee. Our Supervisory Committee consists of three Supervisors, one of whom is an employee representative Supervisor. The functions and duties of the Supervisory Committee include but not limited to inspecting the Company's financial condition, supervising the performance of the corporate duties of the Directors and senior management and proposing the dismissal of the Directors and senior management who are in breach of laws and regulations, the Articles of Association or the resolutions of the general meeting, requiring directors, the manager and other senior management to rectify any actions which impair the interests of the Company, proposing to convene the general meetings, convening and presiding over the Shareholders' general meeting in the event that the Board fails to perform its duties to convene and preside over the Shareholders' general meetings, putting forward proposals to the Shareholders' general meetings and reviewing the financial documents formulated by the Board.



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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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All resolutions of the Supervisory Committee shall be effective subject to the affirmative votes from more than two-thirds of the Supervisors.

The following table presents certain information in respect of the Supervisors:

Name	Age	Date of joining our Company	Date of appointment	Position/Title	Roles and responsibilities
Mr. Li Huihua (李輝華)	45	December 2015	March 2016	Supervisor	Supervise the Board and senior management
Mr. Li Tao (李濤)	49	May 2018	May 2018	Supervisor	Supervise the Board and senior management
Ms. Wang Qing (王清)	29	April 2016	May 2018	Employee representative Supervisor	Supervise the Board and senior management

**Mr. Li Huihua (李輝華)**, aged 45, is a Supervisor. He was appointed as such in March 2016, and was appointed as the chairman of Supervisory Committee in May 2018.

From June 2003 to December 2004, he served as an auditor of Skyworth Group Co., Ltd (創維集團有限公司), a company that provides smart home appliances and information technology products. From May 2005 to October 2012, Mr. Li served as an auditor, financial management manager, manager of the audit department, general manager of the audit department, and general manager of the 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) successively. Since November 2012, Mr. Li has served as the general manager of the audit department of ZhengTong and has been responsible for the audit work of ZhengTong Group.

He was awarded as an accountant by the MOF in May 1997 and as a certified public accountant (non-practicing member) by the Chinese Institute of Certified Public Accountants in August 1999.

Ms. Li received a bachelor's degree in industrial management engineering from Hunan University (湖南大學) in December 1999. He has nearly 16 years of experience in financing and auditing.

**Mr. Li Tao (李濤)**, aged 49, is a Supervisor. He was appointed as such in May 2018.

From September 1996 to July 2016, Mr. Li was the president of the civil court in Higher People's Court. Since August 2016, Mr. Li has served as the general manager of the legal department of ZhengTong and is responsible for the legal work of ZhengTong and its subsidiaries.

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. Mr. Li has over 22 years of legal experience.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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**Ms. Wang Qing (王清)**, aged 29, is the employee representative Supervisor. She was appointed as such in May 2018. She joined our Company as the senior legal officer and was responsible for corporate legal work of our Company in April 2016.

From May 2012 to June 2014, 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 was responsible for its management work. From July 2014 to March 2016, Ms. Wang worked at Sunshine P&C Insurance Co., Ltd. (陽光財產保險股份有限公司) and was responsible for insurance management work.

Ms. Wang received a bachelor's degree in law from Shanghai University (上海大學) in March 2012, and she is now majoring in law as a master candidate at Shanghai University.

### SENIOR MANAGEMENT

**Mr. LI Yi (李禕)**, aged 45, is the President of our Company. He joined us and was appointed<sup>(1)</sup> as a President of the Company in May 2017. Mr. Li is responsible for the overall business operations and management of the Company.

From November 2015 to March 2017, Mr. Li served as an executive director of ZhengTong. He was the person designated by ZhengTong to spearhead and organize the establishment of our Company which was memorialized by the obtaining of the automotive financing license from the then China Banking Regulatory Commission in March 2015. Since then Mr. Li has been closely involved in the operations and strategic planning of the Company's business, eventually leading to his formal appointment as the President of the Company in May 2017.

From February 2004 to February 2008, 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 was responsible for its overall management and operation. From February 2008 to December 2009, Mr. Li served as 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) and was responsible for overall management and operation. From January 2010 to June 2012, Mr. Li served as the general manager of the operating management department of ZhengTong, and was responsible for managing group dealers. From July 2012 to March 2017, Mr. Li served as the chief operating officer of ZhengTong in charge of the overall operation and management of the dealers' network of ZhengTong and its subsidiaries.

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<sup>1</sup> The date of appointment as a management member stated here represents the date on which he obtained the approval of qualification as a president of the Company from the CBIRC.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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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).

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 (武漢理工大學)) in June 1996. Mr. Li has over 14 years of dealership and auto finance experience.

### MANAGEMENT

The following table sets forth certain information in respect of our management team who assisted our President Mr. Li Yi in the day-to-day operation of our Company:

Name	Age	Date of joining our Company	Date of appointment <sup>1</sup>	Position/Title	Roles and responsibilities
Mr. Wang Ping (王平)	47	July 2016	October 2018	Vice President	In charge of finance and capital works
Ms. Yao Wen (姚雯)	47	September 2015	September 2015	Company secretary, secretary to the Board and chief risk management officer	In charge of overall risk management and the daily work for the Board
Mr. Xu Shuo (徐碩)	46	August 2017	August 2017	Chief information officer	In charge of the information system management and technology risk management of the Company

**Mr. Wang Ping (王平)**, aged 47, is the Vice President of our Company. He joined our Company in July 2016. Mr. Wang is responsible for finance and capital operations.

Prior to joining our Company, Mr. Wang served at the credit bureau of the Xuhui sub-branch of Industrial and Commercial Bank of China (中國工商銀行徐匯支行) from August 1989 to September 2002. From September 2002 to January 2010, Mr. Wang served on several management positions in the financing and operating departments of the Shanghai branch of Shenzhen Development Bank Co. Ltd (深圳發展銀行上海分行). From March 2010 to February 2012, Mr. Wang served as a deputy general manager of the small and medium enterprises department of the Shanghai Branch of China Bohai Bank (渤海銀行上海分行), and was in charge of credit management of small and medium

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<sup>1</sup> The date of appointment as a management member stated here represents the date on which the relevant management member obtained the approval of qualification to hold his/her respective position from the CBIRC.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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enterprises. From February 2012 to June 2016, Mr. Wang served as the general manager of the capital department and the general manager of the finance department of Grand Baoxin Auto Group Limited (廣匯寶信汽車集團有限公司), and was in charge of treasury and financial business management. From February 2012 to June 2016, he served as the general manager of Shanghai Dingxin Finance Lease Co. Ltd (上海鼎信融資租賃有限公司), and was in charge of the planning and management of group financial leasing business.

Mr. Wang received a bachelor's degree in business administration from Shanghai Jiao Tong University (上海交通大學) in July 2004 and received a master of business administration degree from the University of Wales in December 2014.

**Ms. Yao Wen (姚雯)**, aged 47, is the company secretary, secretary to the Board and chief risk management officer of our Company. She joined our Company in September 2015. Ms. Yao is responsible for the overall risk management and the daily work of the Board.

From July 1992 to March 2000, Ms. Yao served as the deputy chief of the credit planning department of the Hankou branch of Bank of China (中國銀行漢口分行), and was responsible for managing credit and funds. From March 2000 to January 2003, she served as the chief of the risk management department of the Hubei branch of Bank of China (中國銀行湖北省分行), and was responsible for risk management. From January 2003 to January 2005, she served as the vice president of the Xiangfan branch of Bank of China (中國銀行襄樊分行), and was responsible for leading risk management department, international affair department and information technology department. From January 2005 to February 2012, Ms. Yao served as the vice president of the corporate business department of the Hubei branch of Bank of China (中國銀行湖北省分行), and was responsible for business management, industry policy research and industry risk management. 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 (平安銀行武漢分行) successively, and was responsible for monitoring the Wuhan branch on behalf of the Ping An Bank head office.

Ms. Yao received the 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 completed her study in finance in 1999 and obtained a bachelor's degree, and obtained a master's degree in economics in December 2000, both from Zhongnan University of Economics and Law (中南財經政法大學). She received a doctoral graduate degree in industrial economics from Wuhan University in June 2011.

**Mr. Xu Shuo (徐碩)**, aged 46, is the chief information officer of our Company. He joined our Company in August 2017. Mr. Xu is responsible for the information system management and technology risk management of the Company.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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From July 2000 to November 2007, Mr. Xu served as global technical services manager at the Beijing branch of International Business Machine (China) Co., Ltd.\* (國際商業機器(中國)有限公司). From August 2009 to July 2013, Mr. Xu served as a regional Arbortext manager of PTC (NASDAQ: PTC) in China. From August 2013 to June 2017, he successively served as an ERP manager of application software department and a Greater China application software digital business manager at 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 (上海交通大學) in July 1995 and a master's degree in business administration from National School of Development at Peking University (北京大學國家發展研究院) and Vlerick Leuven Gent Management School (弗拉瑞克—魯汶—根特管理學院, currently known as Vlerick Business School (弗拉瑞克商學院)) in August 2011.

### JOINT COMPANY SECRETARIES

**Ms. Yao Wen (姚雯)** was appointed as our joint company secretary on August 16, 2018. See “— Management” in this section for the biography of Ms. Yao.

**Ms. Yu Wing Sze (余詠詩)**, was appointed as our joint company secretary on November 15, 2018. Ms. Yu is an assistant manager of Listing Services Division in TMF Hong Kong Limited. Ms. Yu currently acts as the joint company secretary of LH Group Limited (stock code: 1978), a top full service multi-brand restaurant group listed on the Main Board of the Stock Exchange.

Ms. Yu received a bachelor's degree of Business Administration from the Chinese University of Hong Kong. Ms. Yu has been an associate member of both The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries.

### CORPORATE GOVERNANCE

We aim to achieve high standards of corporate governance to safeguard the interests of our Shareholders. To accomplish this, we will comply with the Corporate Governance Code in Appendix 14 to the Listing Rules after the Listing.

### BOARD COMMITTEES

Various committees have been established under the Board. In accordance with the relevant regulations of the PRC and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, the Company has set up four Board committees, including the Audit Committee, the Nomination Committee, the Remuneration and Evaluation Committee and the Risk Management Committee.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### Audit Committee

We have established the Audit Committee and have expressly defined its scope of authority in written form. The Audit Committee consists of three Directors, including Mr. Lau Wai Leung Anders, Mr. Lin Zheyang and Ms. Liang Yanjun. All of them are independent non-executive Directors. Mr. Lau Wai Leung Anders currently serves as the chairman of the Audit Committee. The main duties of the Audit Committee include but not limited to the following:

- (1) To examine the accounting policies and practices regarding the preparation of financial statements of the Company;
- (2) To monitor the preparation process of periodic financial reports and examine the periodic financial reports, financial results and relevant information disclosed in other announcements;
- (3) To evaluate the effectiveness of the internal control and risk management framework, to consult with the management level regarding the scope and quality of the internal control system, and to ensure that the management level has performed its duties for ensuring the internal control system being effective;
- (4) To examine the important investigation results and responses from the management with respect to the internal control;
- (5) To ensure the mutual coordination between the internal and the external auditor(s), and to ensure that the functions of internal examination and verification can be provided with sufficient resources and are in appropriate position within the Company;
- (6) To investigate the financial and accounting policies and practices of the Company;
- (7) To check any material questions regarding the accounting record, financial account or control system put forward to the management level by the accounting firm, the feedback of the management level or other correspondence documents; and to ensure effective communication between the independent accountants and the management;
- (8) To ensure that the Board can timely respond to the issues to be put forward in the management proposal prepared by the external auditor(s);
- (9) To check and examine the following arrangements made by the Company: the employees of the Company may secretly raise concerns in relation to possible occurrence of inappropriate actions in respect of financial reporting, internal control or other aspects; to ensure that appropriate arrangements will be made to conduct fair and independent investigation and appropriate action will be adopted regarding such matters; and
- (10) To consider other topics as proposed by the Board.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### **Nomination Committee**

We have established the Nomination Committee and have expressly defined its scope of authority in written form. The Nomination Committee consists of three Directors, including Mr. Lin Zheyang, Ms. Liang Yanjun and Mr. Koh Tee Choong. Mr. Lin Zheyang currently serves as the chairman of the Nomination Committee. The main duties of the Nomination Committee include but not limited to the following:

- (1) To examine the structure, scale and diversification of the Board, and to put forward a proposal regarding the change of the Board;
- (2) To study the standards and procedures for the selection of Directors and senior management members, and to put forward relevant proposals to the Board;
- (3) To extensively search for candidates qualified for Directors and senior management members;
- (4) To investigate the candidates for Directors and the candidates for senior management members and propose relevant proposals;
- (5) To investigate such other senior management members required to be appointed by the Board and propose relevant proposals;
- (6) To evaluate the independence of independent Directors;
- (7) To propose proposals regarding the appointment or re-appointment of Directors and the succession plan of Directors (and in particular the chairman and the chief executive) to the Board; and
- (8) To conduct such other matters authorized by the Board.

### **Remuneration and Evaluation Committee**

We have established the Remuneration and Evaluation Committee and have expressly defined its scope of authority in written form. The Remuneration and Evaluation Committee consists of three Directors, including Mr. Lau Wai Leung Anders, Mr. Koh Tee Choong and Mr. Lin Zheyang. Mr. Lin Zheyang currently serves as the chairman of the Remuneration and Evaluation Committee. The main duties of the Remuneration and Evaluation Committee include but not limited to the following:

- (1) With respect to the policy and structure of remuneration regarding all members of the Board and senior management members of the Company and the establishment of such official and transparent procedures for formulating such remuneration policies, to propose a proposal to the Board;

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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- (2) To investigate and approve the proposal on the remuneration of the senior management level based on the corporate principles and goals set by the Board;
- (3) To determine the specific remuneration of all executive Directors and senior management members, including but not limited to basic salary, warrant and non-monetary interests, pension, bonus, and indemnified amount (including the indemnification for the loss or termination of position or appointment);
- (4) To propose proposals to the Board regarding the remuneration of non-executive Directors;
- (5) To take consideration of the remuneration paid by similar companies, such time required to be spent by Directors, scope of duties of Directors, employment conditions for other positions within the Company;
- (6) To investigate and approve such compensation required to be paid to executive Directors and senior management officers due to the loss or termination of their positions or appointment, in order to ensure that such compensation shall be determined pursuant to the relevant contractual terms. Should such determination fails to be made pursuant to the relevant contractual terms, such compensation should be fair and reasonable and should not be too much;
- (7) To investigate and approve such compensation arrangements involving the termination of employment or dismissal of the relevant Directors due to the inappropriate act of such Directors, in order to ensure that such arrangements shall be determined pursuant to the relevant contractual terms. Should such determination fails to be made pursuant to the relevant contractual terms, such relevant compensation should be fair and appropriate;
- (8) To ensure that no Directors nor any connected persons would determine their own remuneration by themselves; and
- (9) Such other matters authorized by the Board.

### **Risk Management Committee**

We have established the Risk Management Committee specific to our business and operational needs as a non-banking financial institution and have expressly defined its scope of authority in written form. The Risk Management Committee consists of three Directors, including Mr. Lin Fan, Mr. Shao Yongjun and Mr. Lau Wai Leung Anders. Mr. Lin Fan currently serves as the chairman of the Risk Management Committee. The main duties of the Risk Management Committee include but not limited to the following:

- (i) To formulate the comprehensive risk management strategy of the Company and propose risk preference and risk limit to the Board;
- (ii) To formulate major risk management policies and procedures of the Company and make recommendations to the Board;



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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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- (iii) To oversee senior management personnel to carry out the comprehensive risk management (including control of credit risk, liquidity risk, market risk, interest rate risk, operation risk, compliance risk, legal risk, reputational risk, strategic risk, information technology risk and other risks), regularly assess the risk policies, management status and risk tolerance of the Company, and put forward suggestions on improving the Company's risk management and internal control;
- (iv) To review the comprehensive risk management report of the Company and its disclosure of comprehensive risk and various important risks, and submit them to the Board for approval;
- (v) To establish an effective communication mechanism with the Audit Committee, the Nomination Committee, the Remuneration and Evaluation Committee and other special committees under the Board to ensure that information can be fully shared and supportive of decisions on risk management;
- (vi) To formulate the Company's middle and long term information technology strategies, supervise senior management to establish and improve organizational structure as well as an information technology system that is technically mature, operates in a safe and steady manner and can be applied in a broad and flexible way under scientific and efficient management, regularly analyze and evaluate the Company's information technology policies on an overall basis to ensure that information technology construction can effectively support the Company's operations and risk management and control, and regularly report to the Board the implementation of information technology strategic planning, budget and actual spending on information technology and overall information technology management;
- (vii) To assist the Board in managing connected transactions, including regular review the management of connected transaction, filing of ordinary connected transactions, review of major connected transactions, and submit to the Board or the general meeting for approval according to authoritative as applicable; and
- (viii) Other risk management matters authorized by the Board.

### **REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

For the years ended December 31, 2016, 2017 and 2018, the total remuneration paid to our Directors and Supervisors (including the aggregate amount of fees, salaries, discretionary bonus, welfare contribution plans (including pensions), housing, other allowances and other benefits in kind) were nil, RMB1.3 million and RMB2.1 million, respectively.

For the years ended December 31, 2016, 2017 and 2018, the aggregate amount of fees, salaries, discretionary bonus, welfare contribution plans (including pensions), housing, other allowances and other benefits in kind received by the five highest-paid individuals were RMB6.2 million, RMB6.5 million and RMB8.3 million, respectively.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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For the years ended December 31, 2016, 2017 and 2018, no remuneration was paid by us to, or receivable by, our Directors, Supervisors or the five highest-paid individuals as an inducement to join or upon joining the Company, or as a service pay for compensation. For the years ended December 31, 2016, 2017 and 2018, no remuneration was paid by us to, or receivable by, our Directors, former Directors, our Supervisors, former Supervisors or the five highest-paid individuals for the loss of any office in connection with the management of the affairs of any subsidiary of the Company. In addition, none of our Directors or Supervisors waived any remuneration for said period.

Save as disclosed above, no other payments have been paid, or are payable, by us or any of our subsidiaries to our Directors for the years ended December 31, 2016, 2017 and 2018.

### COMPLIANCE ADVISOR

We have appointed Altus Capital Limited as our compliance advisor pursuant to Rule 3A.19 and Rule 19A.05 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise us on the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction within the meaning of the Listing Rules, is contemplated under the Listing Rules, including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares or any other issues pursuant to Rule 13.10 of the Listing Rules.

In accordance with Rule 19A.06 of the Listing Rules, our compliance advisor shall timely inform us of any amendment or supplement made to the Listing Rules published by the Stock Exchange.

The appointment shall commence from the date of listing shall end on the day on which the annual report regarding our financial performance for the first complete financial year after the relevant date of listing is distributed.

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## SHARE CAPITAL

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### SHARE CAPITAL

Our registered share capital as of the Latest Practicable Date was RMB1,600,000,000, divided into 1,600,000,000 Shares of par value RMB1.00 each, including 80,000,000 Domestic Shares and 1,520,000,000 Unlisted Foreign Shares, with a nominal value of RMB1.00 each.

Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately after the Global Offering will be as follows:

Description of Shares	Number of Shares	Approximate percentage of share capital
Domestic Shares . . . . .	80,000,000	3.75%
H Shares issued pursuant to the Global Offering . . . . .	533,336,000	25.00%
Unlisted Foreign Shares . . . . .	1,520,000,000	71.25%
<b>Total</b> . . . . .	<u>2,133,336,000</u>	<u>100.00%</u>

Assuming the Over-allotment Option is exercised in full, the share capital of our Company immediately after the Global Offering will be as follows:

Description of Shares	Number of Shares	Approximate percentage of share capital
Domestic Shares . . . . .	80,000,000	3.61%
H Shares issued pursuant to the Global Offering . . . . .	613,336,400	27.71%
Unlisted Foreign Shares . . . . .	1,520,000,000	68.67%
<b>Total</b> . . . . .	<u>2,213,336,400</u>	<u>100.00%</u>

### RANKING

Upon completion of the Global Offering, the Shares of our Company will be divided into three categories: Domestic Shares, Unlisted Foreign Shares and H Shares. The three classes of Shares are both ordinary shares in the share capital of our Company. Our H Shares may only be subscribed for and traded in Hong Kong dollars, our Domestic Shares may only be subscribed for and traded in Renminbi and our Unlisted Foreign Shares may only be subscribed for and traded in foreign currencies. Apart from certain qualified domestic institutional investors in the PRC, the qualified PRC investors under the Shanghai-Hong Kong Stock Connect, the Shenzhen-Hong Kong Stock Connect or other persons who are entitled to hold our H Shares pursuant to relevant PRC laws and regulations or upon approvals of any competent authorities, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. Domestic Shares and Unlisted Foreign Shares, on the other hand, can be subscribed for by and traded between legal or natural persons of the PRC and qualified foreign institutional investors. We must pay all dividends in respect of H Shares in Hong Kong dollars, all dividends in respect of Domestic Shares in RMB. Our Promoters hold all existing Domestic Shares and Unlisted Foreign Shares as promoter shares (as defined in the PRC Company

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## SHARE CAPITAL

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Law) and all dividends in respect of Unlisted Foreign Shares in foreign currencies. Under the PRC Company Law, promoter shares shall not be sold within a period of one year from the date on which we were converted into a joint stock limited company. The PRC Company Law further provides that in relation to the public share offering of a company, the shares of the company which have been issued prior to the offering shall not be transferred within one year from the date of the listing. Pursuant to the Interim Measures on Shareholding Management of Commercial Banks (《商業銀行股權管理暫行辦法》), unless required by CBIRC in accordance with applicable laws, a major shareholder of the Company shall be prohibited from transferring its shareholdings within five years from the date when it becomes a shareholder.

Except as described in this prospectus and in relation to the dispatch of notices and financial reports to the Shareholders, dispute resolution, registration of Shares on different parts of our register of shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarized in Appendix V to this prospectus, our Domestic Shares, Unlisted Foreign Shares and our H Shares will rank *pari passu* with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares and Unlisted Foreign Shares is subject to such restrictions as the PRC law may impose from time to time.

Save for the Global Offering, we do not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within six months after the Listing Date. We have not approved any share issue plan other than the Global Offering.

### **PUBLIC FLOAT REQUIREMENTS**

Rule 8.08 of the Listing Rules requires there to be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that (i) at least 25% of the issuer's total issued shares must at all times be held by public; and (ii) where an issuer has one class of securities or more apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Stock Exchange) at the time of listing must be at least 25% of the issuer's total issued shares. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total issued shares and must have an expected market capitalization at the time of listing of not less than HK\$50 million.

Based on the information in the above tables, the Company will meet the public float requirement under the Listing Rules after the completion of the Global Offering (whether or not the Over-allotment Option is exercised in full). We will make appropriate disclosure of our public float and confirm the sufficiency of our public float in successive annual reports after Listing.

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## SHARE CAPITAL

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### CONVERSION OF OUR UNLISTED SHARES INTO H SHARES

#### Conversion of Unlisted Shares

As at the date of this prospectus, we have two classes of ordinary shares, Unlisted Foreign Shares and Domestic Shares, which are unlisted Shares.

Our unlisted Shares may be converted into H Shares, in accordance with the stipulations by the State Council's securities regulatory authority and the Articles of Association. Such converted H Shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted shares, the requisite internal approval processes shall have been duly completed and the approval from the CSRC and other relevant regulatory authorities shall have been obtained. In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities, the CBIRC and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

Approval of the Stock Exchange is required if any of our unlisted Shares are to be converted into and traded as H Shares on the Stock Exchange. Based on the methodology and procedures for the conversion of our unlisted Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our unlisted Shares on the Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Stock Exchange and delivery of shares for entry on the H Share register. As any listing of additional shares after our initial listing on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong.

No shareholder voting by class is required for the listing and trading of the converted shares on an overseas stock exchange. Any application for listing of the converted shares on the Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform Shareholders and the public of any proposed transfer.

Our PRC Legal Advisors have advised us that the Articles of Association does not contradict with any PRC laws and regulations with respect to conversion of unlisted Shares.

#### Mechanism and procedures for conversion of unlisted Shares

After all the requisite approvals have been obtained, the following procedures will need to be completed in order to effect the conversion: the relevant unlisted Shares will be withdrawn from the CSDCC and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct the H Share Registrar to issue H Share certificates. Registration on our H Share Register will be conditional on (i) our H Share Registrar lodging with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates, and (ii) the admission of the H Shares to trade on the Stock Exchange complying with the Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the transferred shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as our Directors are aware and save as set out in “— Share Capital” above, none of our Shareholders currently proposes to convert any of the unlisted Shares held by it into H Shares.

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## SHARE CAPITAL

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### **REGISTRATION OF SHARES NOT LISTED ON AN OVERSEAS STOCK EXCHANGE**

According to the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (《關於境外上市公司非境外上市股份集中登記存管有關事宜的通知》) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on an overseas stock exchange with the CSDCC within 15 business days upon listing and provide a written report to the CSRC regarding the centralized registration and deposit of its non-overseas listed shares as well as the current offering and listing of shares.

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETINGS ARE REQUIRED**

For details of circumstances under which the Shareholders' general meeting and class Shareholders' meeting are required, please refer to "Variation of Rights of Existing Shares or Classes of Shares" and "Annual General Meetings" under "Appendix V — Summary of the Articles of Association of the Company" to this prospectus.

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## SUBSTANTIAL SHAREHOLDERS

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### SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering (but not taking into account any H Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option), the following persons will have interests or short positions in our Shares or our underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

<b>Name of Shareholder</b>	<b>Capacity/nature of interest</b>	<b>Class of Shares</b>	<b>Number of Shares held</b>	<b>Approximate percentage of shareholding</b>
ZhengTong	Beneficial interest	Unlisted Foreign Shares	1,520,000,000	71.25%
Joy Capital	Interest in a controlled corporation	Unlisted Foreign Shares	1,520,000,000	71.25%
Mr. Wang Muqing	Founder of a discretionary trust	Unlisted Foreign Shares	1,520,000,000	71.25%
Mr. Wang Weize	Founder of a discretionary trust	Unlisted Foreign Shares	1,520,000,000	71.25%

Except as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the Global Offering and assuming that the Over-allotment Option is not exercised, have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

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## FINANCIAL INFORMATION

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*You should read the following discussion of our financial conditions and results of operations in conjunction with our financial statements and the related notes set forth in the accountants' report as of and for the years ended December 31, 2016, 2017 and 2018, which are included as Appendix I to this prospectus. Our financial statements have been prepared in accordance with HKFRS, which may differ in certain material respects from generally accepted accounting principles in other jurisdictions, including the United States.*

*The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance and, as such, involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as factors we believe to be appropriate under the circumstances. Accordingly, the actual outcome and our future results could differ materially from those discussed below as a result of various risks, uncertainties and factors, including those set forth in the sections headed "Forward-looking Statements," "Risk Factors" and elsewhere in this prospectus.*

### OVERVIEW

We are the only AFC regulated by the CBIRC in China with a dealer background. We specialize in providing auto finance products and services for the purchase of a diverse range of luxury-brand cars. The average loan principal amount that our retail loan customers received in 2017 was RMB220,028, which ranked third among all the AFCs in China in 2017 and was substantially higher than the industry average of RMB98,411 in the same period, according to the CIC Report.

We operate the following two business segments: (i) retail loan business, whereby we offer retail loan and other financing services to our end customers for their purchase of cars; and (ii) dealer loan business, whereby we provide loans to dealers to facilitate their purchase of new cars to be sold to end customers.

As of December 31, 2018, we had total assets of RMB9,532.2 million, loans and advances to customers of RMB8,426.2 million, and placements from banks and other financial institutions of RMB6,085.3 million. We experienced significant growth during the Track Record Period. We recorded operating income of RMB332.4 million, RMB462.0 million and RMB815.8 million for the years ended December 31, 2016, 2017 and 2018, respectively. We recorded profits and total comprehensive income of RMB174.5 million, RMB260.8 million and RMB452.5 million for the years ended December 31, 2016, 2017 and 2018, respectively.

### BASIS OF PRESENTATION

Our historical financial information has been prepared in accordance with all applicable HKFRS, which comprise all applicable individual standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong. We consistently applied all HKFRS that are effective throughout the Track Record Period, except that we adopted the HKFRS 9 "Financial Instruments" which became effective for accounting periods beginning on or after January 1, 2018.



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## FINANCIAL INFORMATION

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For more information on the basis of preparing and presenting the financial information included herein, please refer to Note 1 to the Accountants' Report in Appendix I to this prospectus.

### FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations and financial conditions have been, and will continue to be, affected by a number of factors.

#### Economic Conditions and Government Policies in China

Our results of operations and financial conditions have been significantly affected by the overall economic conditions in China. China has experienced rapid economic growth over the past three decades, which has led to a significant growth in disposable income. Such trends are expected to continue, which are expected to drive China's automobile market. According to the CIC Report, the number of new passenger automobiles sold in China increased steadily from 17.9 million units in 2013 to 24.7 million units in 2017, representing a CAGR of 8.4%. In addition, the used passenger automobiles market expanded significantly between 2013 and 2017, with the number of cars sold increasing from 3.4 million units in 2013 to 9.4 million units in 2017, representing a CAGR of 28.4%, and is expected to continue to grow at a CAGR of 12.1% from 2017 to 16.6 million units in 2022, according to the CIC report.

In line with the rapid growth of the automobile market, the auto finance market in China has also significantly expanded over the years, and car purchasers have been increasingly willing to finance car purchases with borrowings. According to the CIC Report, the retail auto finance market in China in terms of overall loan value increased from RMB384.7 billion in 2013 to RMB1,014.0 billion in 2017, representing a CAGR of 27.4%, and is expected to continue to grow at a CAGR of 18.6% to reach RMB2,376.0 billion in 2022. Furthermore, the penetration rate of auto finance for luxury car purchases is generally higher than non-luxury car purchases, according to the CIC Report. All these growth trends may have a material impact on our results of operations.

Our growth may be affected by changes in governmental policies, especially those affecting the overall automotive market and the auto finance industry in China. Such policies are evolving, creating both challenges and opportunities that may affect the demand for our products and services which will affect our results of operations. For example, tax breaks or termination of tax breaks on certain types of cars could materially affect the sales of such types of cars. In addition, we are subject to existing laws and regulations that govern various aspects of our auto finance business, including interest rate range and terms of the loan products we offer, risk management, and collaboration with third-party funding partners.

#### Our ability to fund our operations and manage funding costs

Our capacity to raise funds at commercially reasonable cost is vital to our business development and our results of operations. During the Track Record Period, we relied primarily on placements from commercial banks and other financial institutions and capital injections from shareholders, among others, to fund our operations. Our future business expansion requires us to explore additional sources of funding, and our ability to secure such additional funding at a commercially reasonable cost will

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## FINANCIAL INFORMATION

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affect our ability to expand our self-operated financing business and our result of operations. A deterioration of our relationships with our funding channels will result in a significant decrease in our liquidity and we may not be able to secure alternative financing on terms acceptable to us, or at all. This may result in a decrease in the volume of loans we disburse, which will have a material adverse impact on our business and results of operations. See “Risk Factors—Our business is capital intensive, and any disruption to our funding sources or our inability to access the capital markets could have a material adverse effect on our business, results of operations and financial conditions.” In addition, any upward change in prevailing market interest rates, including the PBOC benchmark interest rates, will increase our funding costs and directly affect our business performance.

### **Our ability to grow our customer base through collaboration with dealers**

Our financial conditions and results of operations are significantly affected by our ability to further develop and expand our business in new target markets. Due to the nature of our business, our ability to increase our loan volume largely depends on our ability to acquire new customers for the loans we disburse and facilitate. Our results of operations and ability to sustain and increase loan volumes partly depend on our ability to maintain and strengthen our collaboration with dealers, since we source a significant portion of our customers through our dealer network. The number of dealers within our sales network grew from 226 as of December 31, 2016 to 351 as of December 31, 2017 and further to 1,280 as of December 31, 2018. The continued expansion of our sales network has and will continue to have a material impact on our results of operations.

### **Our ability to price competitively**

Our results of operations largely depend on our ability to price our loan products competitively, which is influenced by prevailing market interest rates, the pricing strategies of other players in the market, and our own funding costs, expected profitability and risk management capabilities. We face competition from commercial banks and other market participants that provide similar services and expect that competition will become more intensive as more market participants commence auto finance business. See “Industry Overview” and “Business — Competition.” We believe our ability to price our loan products competitively will help expand our business and contribute to our future revenue growth.

### **Our risk management capability**

Our business is subject to various inherent risks, in particular, credit risk, liquidity risk and interest rate risk. We have established an integrated risk management system to identify, measure, evaluate, monitor, report, and control these risks in quantitative and qualitative manners and are committed to the optimization and upgrade of this risk management system. Under our risk management system, we are able to (i) review and assess applicants’ credit records through a pre-disbursement risk management process, (ii) control such credit risk through review process, and (iii) improve our collection on delinquent loans and mitigate the risk of loss through our comprehensive collection system. However, any significant weakness in our risk management system may directly or indirectly lead to customer default or our failure to collect repayment or foreclosure of collaterals. For a detailed discussion of our risk management system, see “Risk Management.”

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## FINANCIAL INFORMATION

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### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial statements have been prepared in accordance with HKFRS. We have identified certain accounting policies that are critical to the preparation of our financial information. These accounting policies are important for an understanding of our financial position and results of operations and are set forth in Note 2 to the Accountants' Report in Appendix I to this prospectus. Except that we adopted HKFRS 9 "*Financial Instruments*" since January 1, 2018, our significant accounting policies, including HKFRS 15, were applied consistently throughout the Track Record Period.

In addition, the preparation of the financial information requires our management to make significant and subjective estimates, assumptions and judgments relating to accounting items. Our Directors are required to make estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. As such, actual results may differ from these estimates. Our key estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in Note 3 to the Accountants' Report in Appendix I to this prospectus.

#### Change in Accounting Policies

##### ***HKFRS9***

We have adopted HKFRS 9 "*Financial Instruments*" since January 1, 2018, which has a cumulative effect of its initial application as an adjustment to the opening balance of retained earnings as of January 1, 2018. We have applied HKFRS 9 consistently with the new methodology introduced by it since the initial application. Accordingly, there is no significant impact on our overall historical financial statements for the Track Record Period. A number of other new standards are effective from January 1, 2018, but they do not have a material effect on our financial statements. HKFRS 9 sets out the requirement for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. HKFRS 9 has also introduced a new Expected Credit Losses (ECLs) method for measurement of loss allowance, which replaces the "incurred loss" model in HKAS 39. The accounting policies for financial instruments under HKFRS 9 are set out in Note 2(h) to the Accountants' Report included in Appendix I to this prospectus.

HKFRS 9 replaces HKAS 39, financial instruments: recognition and measurements. We have applied HKFRS 9 retrospectively to items that existed as of January 1, 2018, in accordance with the transition requirements prescribed in HKFRS 9. For the impact of transition to HKFRS 9 and the transition approach, see Note 4 to the Accountants' Report included in Appendix I to this prospectus. We have adopted the ECL model and recognize a loss allowance for the financial assets measured at amortized cost. The impact of HKFRS 9 on opening balance has caused an increase of RMB39.3 million on expected credit losses on financial assets measured at amortized cost, and a decrease of RMB9.8 million on related tax, resulting in a net decrease of RMB29.5 million in retained earnings as of January 1, 2018.

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## FINANCIAL INFORMATION

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### **HKFRS 15**

HKFRS 15 Revenue from Contracts with Customers, which is effective for the accounting period beginning January 1, 2018, has replaced HKAS 18 with a new five-step model to recognize revenue from customer contracts. HKFRS 15 offers a range of transition options for the entities, including either the retrospective method or the cumulative effect method that an entity could apply.

Pursuant to the requirement of the Listing Rules, an issuer should apply the accounting policies, except where the change in accounting policy is required by an accounting standard which came into effect during the financial year. Accordingly, we have adopted HKFRS 15 consistently throughout the Track Record Period with a retrospective method.

Our revenue recognized under HKFRS 15 primarily comprises the fee and commission income arising from (i) our joint loan retail business, whereof we cooperate with commercial banks to disburse loans, and then charge the commercial banks for the joint loan service fee regarding the loan related services which we provided to the banks, and (ii) our retail loan facilitation business, whereof we refer customers in need of auto finance services to commercial banks, and provides loan-related services such as loan consultation and preparation of loan applications, and generates consulting service fees from retail customers when they enter into loan agreements with the commercial banks.

For illustrative purpose, we re-evaluated the estimate of variable consideration at each relevant period, and determine that there were no material changes for the services that the Company rendered in terms of revenue recognition. Based on the assessment, the adoption of HKFRS 15 does not have any material impact on our financial statements for the Track Record Period when compared to that of HKAS 18.

### **SUMMARY OF KEY FINANCIAL AND OPERATING INDICATORS OF OUR COMPANY**

The following table sets forth our key financial and operating ratios for the periods or as of the dates indicated:

	<b>For the Year ended or as of December 31,</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
Net interest spread <sup>(1)</sup> . . . . .	4.02%	3.80%	3.39%
Net interest margin <sup>(2)</sup> . . . . .	5.17%	5.55%	5.48%
Return on total assets <sup>(3)</sup> . . . . .	5.81%	5.04%	5.72%
Return on equity <sup>(4)</sup> . . . . .	28.51%	18.90%	19.92%
Core tier-one capital adequacy ratio <sup>(5)</sup> . . . . .	19.98%	37.12%	30.18%
Capital adequacy ratio <sup>(6)</sup> . . . . .	20.66%	37.89%	31.26%

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*Notes:*

(1) Net interest spread equals the ratio of interest income to the average balance of interest-earning assets minus the ratio of interest expenses to the average balance of interest-bearing liabilities.

## FINANCIAL INFORMATION

- (2) Net interest margin equals net interest income for the period divided by the average balance of interest-earning assets.
- (3) Return on total assets equals profit and total comprehensive income for the year divided by the average of the opening and closing balances of total assets of the period.
- (4) Return on equity equals profit and total comprehensive income for the year divided by the average of the opening and closing balances of total equity of the period.
- (5) Calculated by dividing core tier-one capital, net of core tier-one capital deductions, by risk-weighted assets. For the components of core tier-one capital, core tier-one capital deduction and risk-weighted assets under the Measure, see “Regulatory Overview—Automotive Financing Companies—Regulations of Capital Adequacy.”
- (6) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets. For the components of our total capital, capital deductions and risk weighted assets under the Measures, please see “Regulatory Overview—Automotive Financing Companies—Regulations of Capital Adequacy.”

### RESULTS OF OPERATIONS

The income statement information presented below for the years ended December 31, 2016, 2017, and 2018 are derived from our financial statements included in the Accountants’ Report set out in Appendix I to this prospectus.

	Year Ended December 31,		
	2016	2017	2018
	(RMB in thousands)		
Interest income . . . . .	280,340	424,600	759,035
Interest expenses . . . . .	<u>(121,148)</u>	<u>(169,768)</u>	<u>(320,485)</u>
<b>Net interest income . . . . .</b>	<u>159,192</u>	<u>254,832</u>	<u>438,550</u>
Fee and commission income . . . . .	170,226	205,323	331,554
Fee and commission expenses . . . . .	<u>(912)</u>	<u>(905)</u>	<u>(1,425)</u>
<b>Net fee and commission income . . . . .</b>	<u>169,314</u>	<u>204,418</u>	<u>330,129</u>
Other net income <sup>(1)</sup> . . . . .	<u>3,913</u>	<u>2,710</u>	<u>47,098</u>
<b>Operating income . . . . .</b>	332,419	461,960	815,777
Operating expenses . . . . .	<u>(67,879)</u>	<u>(70,042)</u>	<u>(127,955)</u>
Impairment losses . . . . .	<u>(31,795)</u>	<u>(43,395)</u>	<u>(84,343)</u>
<b>Profit before taxation . . . . .</b>	232,745	348,523	603,479
Income tax . . . . .	<u>(58,260)</u>	<u>(87,750)</u>	<u>(150,962)</u>
<b>Profit and total comprehensive income for the year . . . . .</b>	<u><u>174,485</u></u>	<u><u>260,773</u></u>	<u><u>452,517</u></u>

*Note:*

- (1) Other net income mainly represents government grant, net of donation expenses.

## FINANCIAL INFORMATION

### SEGMENT OPERATING RESULTS

Operating segments are reported in a manner consistent with our internal reporting. We report by two business segments during the Track Record Period, namely, the retail loan business and dealer loan business.

#### Summary of Business Segment Data

Based on our products and services, our operating segments include retail loan business, dealer loan business, and others (representing property and equipment, intangible assets, other assets and liabilities, interest income arising from deposits with central bank, banks and other financial institutions, other net income, etc., which cannot form a single reportable segment). The following table sets forth the segment income from each business segment for the periods indicated:

	Year ended December 31,											
	2016				2017				2018			
	Retail Loan Business	Dealer Loan Business	Others	Total	Retail Loan Business	Dealer Loan Business	Others	Total	Retail Loan Business	Dealer Loan Business	Others	Total
	(RMB in thousands)											
Interest income	246,276	28,511	5,553	280,340	378,241	40,948	5,411	424,600	719,714	35,445	3,876	759,035
Interest expenses	(108,578)	(12,570)	—	(121,148)	(153,185)	(16,583)	—	(169,768)	(305,442)	(15,043)	—	(320,485)
<b>Net interest income</b>	137,698	15,941	5,553	159,192	225,056	24,365	5,411	254,832	414,272	20,402	3,876	438,550
Fee and commission income	170,226	—	—	170,226	205,323	—	—	205,323	331,554	—	—	331,554
Fee and commission expenses	(912)	—	—	(912)	(905)	—	—	(905)	(1,425)	—	—	(1,425)
<b>Net fee and commission income</b>	169,314	—	—	169,314	204,418	—	—	204,418	330,129	—	—	330,129
Other net income	—	—	3,913	3,913	—	—	2,710	2,710	—	—	47,098	47,098
Operating income	307,012	15,941	9,466	332,419	429,474	24,365	8,121	461,960	744,401	20,402	50,974	815,777
Operating expenses	(63,530)	(4,349)	—	(67,879)	(65,449)	(4,593)	—	(70,042)	(123,781)	(4,174)	—	(127,955)
Impairment losses	(32,449)	654	—	(31,795)	(40,458)	(2,802)	(135)	(43,395)	(85,678)	1,200	135	(84,343)
<b>Profit before taxation</b>	<b>211,033</b>	<b>12,246</b>	<b>9,466</b>	<b>232,745</b>	<b>323,567</b>	<b>16,970</b>	<b>7,986</b>	<b>348,523</b>	<b>534,942</b>	<b>17,428</b>	<b>51,109</b>	<b>603,479</b>

Operating income from our retail loan business increased by 39.9% from RMB307.0 million in 2016 to RMB429.5 million in 2017 and further increased by 73.3% to RMB744.4 million in 2018, primarily as a result of the expansion of our retail loan business. Operating income from our dealer loan business represented 92.4%, 93.0% and 91.3% of our total operating income in 2016, 2017 and 2018, respectively.

Operating income from our dealer loan business increased by 52.8% from RMB15.9 million in 2016 to RMB24.4 million in 2017, primarily as a result of the expansion of our dealer loan business. Operating income from our dealer loan business remained relatively stable in 2018. Operating income from our dealer loan business represented 4.8%, 5.3% and 2.5% of our total operating income in 2016, 2017 and 2018, respectively.

## FINANCIAL INFORMATION

### PERIOD TO PERIOD COMPARISON OF RESULT OF OPERATIONS

#### Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

##### *Net Interest Income*

The following table sets forth our interest income, interest expenses and net interest income for the periods indicated:

	Year Ended December 31,	
	2017	2018
	(RMB in thousands)	
Interest income . . . . .	424,600	759,035
Interest expenses . . . . .	(169,768)	(320,485)
<b>Net interest income . . . . .</b>	<b><u>254,832</u></b>	<b><u>438,550</u></b>

Our net interest income increased by 72.1% from RMB254.8 million for the year ended December 31, 2017 to RMB438.6 million for the year ended December 31, 2018.

The following table sets forth the average balance of our interest-earning assets and interest-bearing liabilities, interest income from such assets or interest expenses from such liabilities, and the average yield of those interest-earning assets and the average cost of those interest-bearing liabilities, for the years indicated:

	Year Ended December 31,					
	2017			2018		
	Average balance <sup>(1)</sup>	Interest income	Average yield <sup>(2)</sup>	Average balance <sup>(1)</sup>	Interest income	Average yield <sup>(2)</sup>
	(RMB in thousands, except percentages)					
<b>Interest-earning assets</b>						
Loans and advances to customers . . . . .	4,312,233	418,973	9.72%	7,618,487	745,070	9.78%
Deposits with central bank, banks and other financial institutions . . . . .	277,355	5,411	1.95%	279,303	3,876	1.39%
Finance lease receivables . . .	2,182	216	9.92%	108,450	10,089	9.30%
<b>Total . . . . .</b>	<b><u>4,591,770</u></b>	<b><u>424,600</u></b>	<b>9.25%</b>	<b><u>8,006,240</u></b>	<b><u>759,035</u></b>	<b>9.48%</b>

## FINANCIAL INFORMATION

	Year Ended December 31,					
	2017			2018		
	Average balance <sup>(1)</sup>	Interest expenses	Average cost <sup>(3)</sup>	Average balance <sup>(1)</sup>	Interest expenses	Average cost <sup>(3)</sup>
	(RMB in thousands, except percentages)					
<b>Interest-bearing liabilities</b>						
Placements from banks and other financial institutions	3,115,386	169,766	5.45%	4,638,785	315,230	6.80%
Deposits from shareholders	556	2	0.35%	626,860	5,255	0.84%
<b>Total</b>	<b>3,115,942</b>	<b>169,768</b>	<b>5.45%</b>	<b>5,265,645</b>	<b>320,485</b>	<b>6.09%</b>
<b>Net interest income</b>		<b>254,832</b>			<b>438,550</b>	

*Notes:*

- (1) Average balance for the period indicated is calculated by totaling the outstanding balance as of the end of each day and dividing by the days in that period.
- (2) Calculated by dividing the interest income by the average balance for the periods indicated.
- (3) Calculated by dividing the interest expenses by the average balance for the periods indicated.

*Interest Income*

Our interest income was mainly derived from interest accrued from loans and advances to customers and, to a much lesser extent, interest accrued from deposits with banks and other financial institutions, cash and deposits with central bank, and finance lease receivables. The following table sets forth a breakdown of our interest income for the periods indicated:

	Year Ended December 31,	
	2017	2018
	(RMB in thousands)	
Loans and advances to customers	418,973	745,070
Deposits with central bank, banks and other financial institutions	5,411	3,876
Finance lease receivables	216	10,089
<b>Total interest income</b>	<b>424,600</b>	<b>759,035</b>

Interest income increased by 78.8% from RMB424.6 million for the year ended December 31, 2017 to RMB759.0 million for the year ended December 31, 2018, primarily as a result of increased interest income from retail loans as we expanded our business operations and loan portfolio.



## FINANCIAL INFORMATION

### *Interest Income from Loans and Advances to Customers*

The following table sets forth the average balance of our loans and advances to customers, interest income from and the average yield of our loans and advances to customers for the periods indicated:

	Year Ended December 31,					
	2017			2018		
	Average balance <sup>(1)</sup>	Interest income	Average yield <sup>(2)</sup>	Average balance <sup>(1)</sup>	Interest income	Average yield <sup>(2)</sup>
	(RMB in thousands, except percentages)					
Retail loans . . . . .	3,688,830	378,025	10.25%	7,155,417	709,625	9.92%
Dealer loans . . . . .	623,403	40,948	6.57%	463,069	35,445	7.65%
<b>Total . . . . .</b>	<b><u>4,312,233</u></b>	<b><u>418,973</u></b>	<b>9.72%</b>	<b><u>7,618,487</u></b>	<b><u>745,070</u></b>	<b>9.78%</b>

*Notes:*

- (1) Average balance for the period indicated is calculated by totaling the outstanding balance as of the end of each day and dividing by the days in that period.
- (2) Calculated by dividing the interest income by the average balance for the period indicated.

Our interest income from loans and advances to customers increased by 77.8% from RMB419.0 million for the year ended December 31, 2017 to RMB745.1 million for the year ended December 31, 2018. The increase was primarily due to the significant increase of the interest income from retail loans by 87.7% from RMB378.0 million for the year ended December 31, 2017 to RMB709.6 million for the year ended December 31, 2018.

The average balance of retail loans increased by 94.0% from RMB3,688.8 million for the year ended December 31, 2017 to RMB7,155.4 million for the year ended December 31, 2018. The average yield of loans and advances to our retail loan customers decreased slightly from 10.25% for the year ended December 31, 2017 to 9.92% for 2018, due to the relatively low interest rates we charged for loans we disbursed under the joint promotion arrangements with automakers in 2018. For details of the joint promotion arrangements, see “Business — Our Business — Retail Loan Business — Self-operated Loan Products,” “Relationship with Controlling Shareholders — Our Business Relationship with ZhengTong — Retail Loan Business” and “Financial Information — Related Party Transactions.”

The average balance of loans and advances to our customers from dealer loans decreased by 25.7% from RMB623.4 million for the year ended December 31, 2017 to RMB463.1 million for 2018. The average yield of loans and advances to our dealer loan customers increased from 6.57% for the year ended December 31, 2017 to 7.65% for 2018, primarily because the outstanding loans we disbursed to External Dealers in 2018 accounted for a relatively higher proportion in our dealer loan portfolio and these loans were charged at relatively high interest rates.

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## FINANCIAL INFORMATION

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### *Interest Income from Deposits with Central Bank, Banks and Other Financial Institutions*

Our interest income from deposits with central bank, banks and other financial institutions decreased by 28.4% from RMB5.4 million for the year ended December 31, 2017 to RMB3.9 million for 2018.

### *Interest Income from Finance Lease Receivables*

We started to offer finance lease services in the fourth quarter of 2017. Interest income from finance lease receivables was RMB10.1 million for the year ended December 31, 2018, in line with the overall growth of our direct lease business. In 2018, we had 773 direct lease transactions, with an aggregate principal amount of RMB150.2 million.

### *Interest Expenses*

The level of our interest expenses is largely affected by the interest expenses from placements from banks and other financial institutions, being the largest component of our interest-bearing liabilities, and to a lesser extent, those from deposits from shareholders. Our interest expenses increased by 88.8% from RMB169.8 million for the year ended December 31, 2017 to RMB320.5 million for 2018, primarily as a result of the increases in (i) the placements from banks and other financial institutions to fund our business operations, and (ii) average cost of such placements from 5.45% for the year ended December 31, 2017 to 6.80% for 2018, primarily due to increasing prevailing interest rates. For details of the average balance and the average cost of our interest-bearing liabilities, see the table in “—Period to Period Comparison of Results of Operation—Year Ended December 31, 2018 Compared to Year Ended December 31, 2017—Net Interest Income.”

### *Interest Expenses from Placements from Banks and Other Financial Institutions*

Our interest expense from placements from banks and other financial institutions increased by 85.7% from RMB169.8 million for the year ended December 31, 2017 to RMB315.2 million for the year ended December 31, 2018, primarily due to increases in (i) the average balance of placements from banks and other financial institutions from RMB3,115.4 million for the year ended December 31, 2017 to RMB4,638.8 million for 2018 to support the expansion of our business, and (ii) the average cost of placements from banks and other financial institutions from 5.45% for the year ended December 31, 2017 to 6.80% for 2018, primarily due to increased prevailing interest rates.

### *Interest Expenses from Deposits from Shareholders*

Our interest expense from deposits from shareholders increased from RMB1.9 thousand for the year ended December 31, 2017 to RMB5.3 million for the year ended December 31, 2018, as a result of the deposits from our shareholders from time to time, which have a term of three months and a fixed interest rate of 1.10% per annum.

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## FINANCIAL INFORMATION

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### *Net Fee and Commission Income*

Fee and commission income primarily comprises the fee and commission generated from our retail loan facilitation business and joint retail loan business. Fee and commission expense comprises costs incurred in our auto finance business, including handling charges paid to commercial banks associated with loan remittances. For the year ended December 31, 2018, we had a net fee and commission income of RMB330.1 million, increasing by 61.5% from RMB204.4 million for the year ended December 31, 2017, primarily due to (i) an increase by 43.8% in consulting services fee from RMB195.9 million for the year ended December 31, 2017 to RMB281.7 million for 2018, as a result of the growth of our retail loan facilitation business, and (ii) an increase by 470.8% in joint retail loan services fee from RMB8.2 million for the year ended December 31, 2017 to RMB47.0 million for 2018, as a result of the growth in our joint retail loan businesses, partially offset by a 57.5% increase of fee and commission expense from RMB0.9 million for the year ended December 31, 2017 to RMB1.4 million for the year ended December 31, 2018 as a result of the growth of our retail loan facilitation business.

The following table sets forth a breakdown of our fee and commission income for the periods indicated:

	Year Ended December 31,	
	2017	2018
	(RMB in thousands, except for the number of loans facilitated and average fee per loan facilitated)	
<b>Fee and commission income arising from</b>		
Retail loan facilitation business . . . . .	195,920	281,739
Joint retail loan business . . . . .	8,233	46,990
Others . . . . .	1,170	2,825
<b>Subtotal</b> . . . . .	205,323	331,554
Number of loans facilitated . . . . .	26,655	47,165
Average fee per loan facilitated <sup>(1)</sup> (RMB) . . . . .	7,350	5,973

*Note:*

(1) calculated as the ratio of our fee and commission income arising from the retail loan facilitation business to the number of loans facilitated in the period indicated.

The decline in the average fee per loan facilitated from RMB7,350 in 2017 to RMB5,973 in 2018 was attributable to (i) increases in the number of retail loans facilitated as a result of our efforts to expand our retail loan facilitation business and broaden our customer base, (ii) the increasing concentration of our customers located in lower-tier cities, which tend to have lower purchasing power, and (iii) increased competition in the auto loan facilitation market, according to CIC. We plan to continue to grow our retail loan facilitation business by leveraging the expansion of our dealer network and our relationships with the commercial banks in cooperation with us. For further details of our retail loan facilitation business, see “Business — Our Business — Retail Loan Business — Retail Loan Facilitation Business.”

## FINANCIAL INFORMATION

### *Other Net Income*

Our other net income is comprised of government grants, net of certain non-operating expenses. Our other net income increased significantly by 1,637.9% from RMB2.7 million for the year ended December 31, 2017 to RMB47.1 million for 2018, primarily due to the significant increase in the government grants we received in 2018. Such government grants were given by Pudong New Area People's Government to support the financial services sector pursuant various industry incentive policies. The government grants were issued to us based on our overall contribution to the Pudong New Area with respect to, among others, economic development, employment and technological innovation. The government grants do not impose any specified conditions on us. We expect to continue to receive such government grants in 2019 and 2020 based on written confirmation from Pudong New Area People's Government but may not continue to receive such government grants after 2020.

The following table sets forth a breakdown of our other net income for the periods indicated:

	Year Ended December 31,	
	2017	2018
	(RMB in thousands)	
Government grants . . . . .	4,573	48,405
Others . . . . .	(1,863)	(1,307)
<b>Other net income</b> . . . . .	<b>2,710</b>	<b>47,098</b>

### *Operating Expenses*

Our operating expenses mainly consisted of staff costs, rental and property management expenses, and tax and surcharges. Our operating expenses increased by 82.7% from RMB70.0 million for the year ended December 31, 2017 to RMB128.0 million for 2018, primarily due to (i) an increase in our staff costs as a result of increased staff headcount from 273 as of December 31, 2017 to 433 as of December 31, 2018 to support our business expansion and (ii) increases in certain miscellaneous expenses, including listing expenses, reception fee and third-party service fee.

The following table sets forth key items of our operating expenses for the periods indicated:

	Year Ended December 31,	
	2017	2018
	(RMB in thousands)	
Staff costs . . . . .	34,843	76,256
Rental and property management expenses . . . . .	11,997	12,928
Depreciation and amortisation . . . . .	5,879	7,741
Tax and surcharges . . . . .	6,609	6,295
Travel expenses . . . . .	1,121	3,996
Others . . . . .	9,593	20,739
<b>Total</b> . . . . .	<b>70,042</b>	<b>127,955</b>

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## FINANCIAL INFORMATION

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### *Impairment Losses*

Our impairment losses increased significantly from RMB43.4 million for the year ended December 31, 2017 to RMB84.3 million for the year ended December 31, 2018, primarily as a result of our overall business expansion. We adopted HKFRS 9 since January 1, 2018, which introduced a new impairment model for financial assets. See Note 2(h) to the Accountants' Report included in Appendix I to this prospectus. For details on changes in our allowance for impairment losses on loans and advances, see "Assets and Liabilities—Assets—Loans and Advances to Customers—Allowance for Impairment Losses on Loans and Advances to Customers."

### *Profit before Taxation*

As a result of the foregoing, our profit before taxation increased by 73.2% from RMB348.5 million for the year ended December 31, 2017 to RMB603.5 million for the year ended December 31, 2018.

### *Income Tax Expense*

Income tax represents the tax charges provided in respect of the assessable income derived from our operations in the PRC. The following table sets forth the applicable PRC enterprise income tax paid for the periods indicated:

	Year Ended December 31,	
	2017	2018
	(RMB in thousands)	
<b>Profit before taxation</b> . . . . .	348,523	603,479
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdiction concerned <sup>(1)</sup> . . . . .	87,131	150,870
Effect of non-deductible expenses . . . . .	619	126
Others . . . . .	—	(34)
<b>Total income tax expense</b> . . . . .	<b>87,750</b>	<b>150,962</b>

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(1) The Company is subjected to PRC income tax at the statutory tax rate of 25%.

Pursuant to relevant regulations and the EIT Law and Implementation Regulations of the EIT Law, the tax rate of the Company is 25% for the year ended December 31, 2017 and 2018. We were not entitled to any preferential income tax treatment in 2017 or 2018. The effective tax rate was 25.2% in 2017 and 25.0% in 2018. Our income tax expense increased by 72.0% from RMB87.8 million for the year ended December 31, 2017 to RMB151.0 million for the year ended December 31, 2018, primarily as a result of an increase in our taxable income.

## FINANCIAL INFORMATION

### *Profit and total comprehensive income for the year*

As a result of the foregoing, profit and total comprehensive income increased from RMB260.8 million for the year ended December 31, 2017 to RMB452.5 million for the year ended December 31, 2018, respectively.

### **Year Ended December 31, 2017 Compared to Year Ended December 31, 2016**

#### *Net Interest Income*

The following table sets forth our interest income, interest expense and net interest income for the years indicated:

	Year Ended December 31,	
	2016	2017
	(RMB in thousands)	
Interest income . . . . .	280,340	424,600
Interest expense . . . . .	(121,148)	(169,768)
<b>Net interest income . . . . .</b>	<b>159,192</b>	<b>254,832</b>

Our net interest income increased by 60.1% from RMB159.2 million for the year ended December 31, 2016 to RMB254.8 million for the year ended December 31, 2017.

The following table sets forth the average balance of our interest-earning assets and interest-bearing liabilities, interest income from such assets or interest expense from such liabilities, the average yield of those interest-earning assets and the average cost of those interest-bearing liabilities, for the years indicated:

	Year Ended December 31,					
	2016			2017		
	Average balance <sup>(1)</sup>	Interest income	Average yield <sup>(2)</sup>	Average balance <sup>(1)</sup>	Interest income	Average yield <sup>(2)</sup>
	(RMB in thousands, except percentages)					
<b>Interest-earning assets</b>						
Loans and advances to customer . . . . .	2,846,590	274,787	9.65%	4,312,233	418,973	9.72%
Deposits with central bank, banks and other financial institutions . . . . .	232,394	5,553	2.39%	277,355	5,411	1.95%
Finance lease receivables . . .	—	—	—	2,182	216	9.92%
<b>Total . . . . .</b>	<b>3,078,984</b>	<b>280,340</b>	<b>9.10%</b>	<b>4,591,770</b>	<b>424,600</b>	<b>9.25%</b>

## FINANCIAL INFORMATION

	Year Ended December 31,					
	2016			2017		
	Average balance <sup>(1)</sup>	Interest expenses	Average cost <sup>(3)</sup>	Average balance <sup>(1)</sup>	Interest expenses	Average cost <sup>(3)</sup>
	(RMB in thousands, except percentages)					
<b>Interest-bearing liabilities</b>						
Placements from banks and other financial institutions . . . . .	2,385,373	121,148	5.08%	3,115,386	169,766	5.45%
Deposits from shareholders . . . . .	—	—	—	556	2	0.35%
<b>Total . . . . .</b>	<u>2,385,373</u>	<u>121,148</u>	5.08%	<u>3,115,942</u>	<u>169,768</u>	5.45%
<b>Net interest income . . . . .</b>		<u>159,192</u>			<u>254,832</u>	

*Notes:*

- (1) Average balance for the period indicated is calculated by totaling the outstanding balance as of the end of each day and dividing by the days in that period.
- (2) Calculated by dividing the interest income by the average balance for the periods indicated.
- (3) Calculated by dividing the interest expense by the average balance for the periods indicated.

*Interest Income*

The following table sets forth a breakdown of our interest income for the years indicated:

	Year Ended December 31,	
	2016	2017
	(RMB in thousands)	
Loans and advances to customers . . . . .	274,787	418,973
Deposits with central bank, banks and other financial institutions . . . . .	5,553	5,411
Finance lease receivables . . . . .	—	216
<b>Total interest income . . . . .</b>	<u>280,340</u>	<u>424,600</u>

Interest income increased by 51.5% from RMB280.3 million for the year ended December 31, 2016 to RMB424.6 million for the year ended December 31, 2017, primarily as a result of increased interest income from loans and advances to customers as we expanded our business operations and loan portfolio.

## FINANCIAL INFORMATION

### *Interest Income from Loans and Advances to Customers*

The following table sets forth the average balance of our loans and advances to customers and interest income from our loans and advances to customers by type for the years indicated:

	Year Ended December 31,					
	2016			2017		
	Average balance <sup>(1)</sup>	Interest income	Average yield <sup>(2)</sup>	Average balance <sup>(1)</sup>	Interest income	Average yield <sup>(2)</sup>
	(RMB in thousands, except percentages)					
Retail loans . . . . .	2,405,197	246,276	10.24%	3,688,830	378,025	10.25%
Dealer loans . . . . .	441,393	28,511	6.46%	623,403	40,948	6.57%
<b>Total . . . . .</b>	<b><u>2,846,590</u></b>	<b><u>274,787</u></b>	<b>9.65%</b>	<b><u>4,312,233</u></b>	<b><u>418,973</u></b>	<b>9.72%</b>

*Notes:*

(1) Average balance for the period indicated is calculated by totaling the outstanding balance as of the end of each day and dividing by the days in that period.

(2) Calculated by dividing the interest income by the average balance for the periods indicated.

Our interest income from loans and advances to customers increased by 52.5% from RMB274.8 million for the year ended December 31, 2016 to RMB419.0 million for the year ended December 31, 2017. The increase was primarily due to an increase by 53.5% in interest income from retail loans from RMB246.3 million for the year ended December 31, 2016 to RMB378.0 million for the year ended December 31, 2017.

The average balance of loans and advances to customers of our retail loans business increased from RMB2,405.2 million for the year ended December 31, 2016 to RMB3,688.8 million for the year ended December 31, 2017, primarily due to the further expansion of our retail loan business. The average yield of loans and advances to customers of our retail loans business remained relatively stable, and was 10.24% and 10.25% for the year ended December 31, 2016 and 2017, respectively.

The average balance of loans and advances to customers of our dealer loans business increased by 41.2% from RMB441.4 million for the year ended December 31, 2016 to RMB623.4 million for the year ended December 31, 2017, primarily as a result of the increased demand for our dealer loan business. The average yield of loans and advances to customers of our dealer loans business remained relatively stable, and was 6.46% and 6.57% for the year ended December 31, 2016 and 2017, respectively.

### *Interest Income from Deposits with Central Bank, Banks and Other Financial Institutions*

Our interest income from deposits with central bank, banks and other financial institutions remained relatively stable, and was RMB5.6 million for the year ended December 31, 2016 and RMB5.4 million for the year ended December 31, 2017, respectively.



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## FINANCIAL INFORMATION

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### *Interest Income from Finance Lease Receivables*

We started offering finance lease services in the fourth quarter of 2017 and generated interest income of RMB0.2 million from finance lease receivables for the year ended December 31, 2017.

### *Interest Expense*

Our interest expenses, which primarily consisted of those from placements from banks and other financial institutions, increased by 40.1% from RMB121.1 million for the year ended December 31, 2016 to RMB169.8 million for the year ended December 31, 2017, primarily due to increases in (i) the average balance of placements from banks and other financial institutions from RMB2,385.4 million for the year ended December 31, 2016 to RMB3,115.4 million for the year ended December 31, 2017 to support the growth of our business, and (ii) the interest rate charged by banks on such fund, as a result of increased market interest rates. The interest expenses arising from deposits from shareholders was nil and RMB1.9 thousand for the year ended December 31, 2016 and 2017, respectively.

For details of the average balance and the average cost of our interest-bearing liabilities, see the table in “—Period to Period Comparison of Results of Operation—Year Ended December 31, 2017 Compared to Year Ended December 31, 2016—Net Interest Income.”

### *Net Fee and Commission Income*

We had a net fee and commission income of RMB204.4 million for the year ended December 31, 2017, representing an increase of 20.7% from RMB169.3 million for the year ended December 31, 2016, driven by the growth in our retail loan facilitation business.

The following table sets forth a breakdown of our fee and commission income for the periods indicated:

	Year ended December 31,	
	2016	2017
	(RMB in thousands, except for the number and size of loans facilitated and average fee per loan facilitated)	
<b>Fee and commission income arising from</b>		
Retail loan facilitation business . . . . .	168,213	195,920
Joint retail loan business . . . . .	621	8,233
Others . . . . .	1,392	1,170
<b>Subtotal . . . . .</b>	<b>170,226</b>	<b>205,323</b>
Number of loans facilitated . . . . .	20,946	26,655
Average fee per loan facilitated <sup>(1)</sup> (RMB) . . . . .	8,031	7,350

*Note:*

(1) Calculated as the ratio of our fee and commission income arising from the retail loan facilitation business to the number of loans facilitated in the period indicated.

## FINANCIAL INFORMATION

### *Other Net Income*

Our other net income, which primarily includes government grants, net of certain non-operating expenses, decreased by 30.7% from RMB3.9 million for the year ended December 31, 2016 to RMB2.7 million for the year ended December 31, 2017, primarily as a result of an increase in the non-operating expenses as we made a donation of RMB2.0 million to a university in China, partially offset by an increase in the government grant in 2017. The government grants we received in 2017 were given by (i) the Shanghai Municipal Finance Bureau of the MOF as funding support for newly established financial institutions based in Shanghai, and (ii) Pudong New Area People's Government to financially support numerous sectors, including the financial services sector, pursuant to the industry incentive policies during the 12th Five-year Period. Such government grants do not impose any specified conditions on us.

The following table sets forth a breakdown of our other net income for the periods indicated:

	Year Ended December 31,	
	2016	2017
	(RMB in thousands)	
Government grants . . . . .	3,876	4,573
Others . . . . .	37	(1,863)
<b>Other net income</b> . . . . .	<b>3,913</b>	<b>2,710</b>

### *Operating Expenses*

Our operating expenses mainly consisted of staff costs, rent and property management expenses, tax and surcharges, and others. Our operating expenses increased slightly by 3.2% from RMB67.9 million for the year ended December 31, 2016 to RMB70.0 million for the year ended December 31, 2017, primarily as a result of an increase of RMB6.9 million in staff costs caused by the increase in headcounts from 198 to 273 to support our business expansion, partially offset by a decrease of RMB5.1 million in tax and surcharges resulting from the replacement of business tax with value added tax that has been rolled out nationwide and has been completed in May 2016. The business tax we incurred in the first four months in 2016 was recorded as tax and surcharges. The value added tax we were subject to since May 2016 is not recorded on our income statement, according to applicable PRC laws and regulations.

The following table sets forth key items of our operating expenses for the years indicated:

	Year Ended December 31,	
	2016	2017
	(RMB in thousands)	
Staff costs . . . . .	27,957	34,843
Rental and property management expenses . . . . .	13,073	11,997
Tax and surcharges . . . . .	11,752	6,609
Others . . . . .	15,097	16,593
<b>Total</b> . . . . .	<b>67,879</b>	<b>70,042</b>

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## FINANCIAL INFORMATION

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### *Impairment Losses*

Our impairment losses increased by 36.5% from RMB31.8 million for the year ended December 31, 2016 to RMB43.4 million for the year ended December 31, 2017, primarily due to the increase of impairment losses of loans and advances made to customers from RMB31.8 million in 2016 to RMB43.1 million in 2017.

### *Profit before Taxation*

As a result of the foregoing, profit before taxation increased by 49.7% from RMB232.7 million for the year ended December 31, 2016 to RMB348.5 million for the year ended December 31, 2017.

### *Income Tax Expense*

The following table sets forth the applicable PRC enterprise income tax paid for the years indicated:

	Year Ended December 31,	
	2016	2017
	(RMB in thousands)	
Profit before taxation . . . . .	232,745	348,523
National tax on profit before taxation calculated at the rates applicable in the jurisdictions concerned <sup>(1)</sup> . . . . .	58,186	87,131
Effect of non-deductible expenses . . . . .	74	619
Others . . . . .	—	—
<b>Total income tax expense . . . . .</b>	<b>58,260</b>	<b>87,750</b>

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#### *Note:*

(1) The Company is subjected to PRC income tax at the statutory tax rate of 25%.

Pursuant to the relevant regulations and the EIT Law and Implementation Regulations of the EIT Law, the tax rate of our Company is 25%. We were not entitled to any preferential income tax treatment in 2016 or 2017. The effective tax rate was 25.0% in 2016 and 25.2% in 2017. Our income tax expense increased by 50.6% from RMB58.3 million for the year ended December 31, 2016 to RMB87.8 million for the year ended December 31, 2017, primarily as a result of the increase in our profit before tax.

### *Profit and total comprehensive income for the year*

As a result of the foregoing, profit and total comprehensive income increased by 49.5% from RMB174.5 million for the year ended December 31, 2016 to RMB260.8 million for the year ended December 31, 2017.

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## FINANCIAL INFORMATION

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### LIQUIDITY

We have historically financed our liquidity requirements primarily through paid-in capital, placements from commercial banks, and the revenue generated from our loan products and services. As of December 31, 2016, 2017 and 2018, we had RMB238.9 million, RMB272.0 million and RMB801.0 million, respectively, in cash and cash equivalents. We generally deposit our excess cash in interest-earning bank accounts.

Due to the capital intensive nature of our business, we manage our liquidity on an ongoing basis through continuous financing from diversified funding channels. We believe our ability in obtaining financing through various funding channels, which grows along with our business expansion, enables us to effectively manage our liquidity. As of December 31, 2016, 2017 and 2018, the outstanding balance of placements from banks and other financial institutions, being our major funding sources, was RMB3,232.9 million, RMB4,020.0 million and RMB6,085.3 million, respectively.

Our Directors are of the view that our existing funding channels will remain readily available on acceptable terms to serve our funding needs in the near future on the basis that:

- the benchmark lending rate published by PBOC has decreased four times since 2015, which resulted in a relatively favorable credit market condition in the PRC;
- our business achieved rapid growth during the Track Record Period and is expected to continue to grow, which will enhance our financing capabilities;
- we have maintained stable cooperative relationships with commercial banks, and the number of banks in China with which we had outstanding placements or unutilized banking facilities increased from eight as of December 31, 2015 to 30 as of December 31, 2018;
- we have access to the national inter-bank lending market and have financed through inter-bank lending during the Track Record Period; and
- we have unutilized banking facilities of RMB2.0 billion as of the Indebtedness Date.

In addition, we also intend to diversify our financing channels through issuing bonds and asset-backed securitization products. According to the CIC Report, bonds and asset-backed securitization products are financing tools generally adopted by AFCs in the PRC. Through taking into account the current market conditions and the key products terms (including rating, interest rate and tenor) of bonds and asset-backed securitization products already issued by the AFCs in the PRC, our Directors will assess opportunities of issuing bonds and asset-backed securitization products when appropriate. We expect that such opportunities will be available to us on acceptable terms.

The following tables provide an analysis of the contractual maturity profile of our financial assets in comparison with the financial liabilities, and our net liquidity gap, as of the dates indicated. The carrying amounts differ from the total amounts for loans and advances to customers, finance lease receivables and placements from banks and other financial institutions, because the total amounts

## FINANCIAL INFORMATION

represent the cash flow that includes remaining principals and interests receivable or repayable in the future, while the carrying amount is the book value of the interest-earning assets or interest-bearing liabilities shown on the balance sheet as of the dates indicated during the Track Record Period and represents the outstanding principal of such assets and liabilities as of such dates.

As of December 31, 2018							
Repayable on demand/ terms undated	Less than 1 month	1-3 months	3-12 months	1-5 years	Total amount	Carrying amount	
(RMB in thousands)							
<b>Assets</b>							
Cash and deposits with central bank . . . . .	35,213	—	—	—	35,213	35,213	
Deposits with banks and other financial institutions . . . . .	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	
Finance lease receivables	7,758	4,114	8,230	37,034	57,688	114,824	
Other assets . . . . .	22,791	35,393	—	—	58,184	58,184	
<b>Total</b> . . . . .	<u>904,654</u>	<u>409,906</u>	<u>1,019,994</u>	<u>3,830,379</u>	<u>4,222,420</u>	<u>10,387,353</u>	
<b>Liabilities</b>							
Placements from banks and other financial institutions . . . . .	—	(121,911)	(1,666,942)	(4,136,881)	(378,319)	(6,304,053)	
Guarantee deposits . . . . .	(62,939)	—	—	—	(16,693)	(79,632)	
Deposits from shareholders . . . . .	—	(568)	(600,990)	—	—	(601,558)	
Other liabilities . . . . .	(124,584)	(9,097)	(26,497)	(13,721)	—	(173,899)	
<b>Total</b> . . . . .	<u>(187,523)</u>	<u>(131,576)</u>	<u>(2,294,429)</u>	<u>(4,150,602)</u>	<u>(395,012)</u>	<u>(7,159,142)</u>	
<b>Net liquidity gap</b> . . . . .	<u>717,131</u>	<u>278,330</u>	<u>(1,274,435)</u>	<u>(320,223)</u>	<u>3,827,408</u>	<u>3,228,211</u>	
	<u>2,464,636</u>						

We had negative net liquidity gap of RMB1,274.4 million for the next one to three months as of December 31, 2018 and RMB320.2 million for the next three to twelve months as of December 31, 2018, primarily as a result of the incurrence of (i) placements from banks and other financial institutions and (ii) deposit from shareholders that would become mature within the next three months.

We strive to match our asset growth with our fundraising on an ongoing basis through regular review and periodic adjustment of our funding sources, as necessary, in view of the changes to our cash flow, financial condition and our external business environment. We manage our liquidity risk by regularly monitoring the maturity mismatch of our assets and liabilities and evaluate the possible countermeasures to minimize our exposure to liquidity risk. We also take the necessary steps to maintain an appropriate and prudent balance of long-term and short-term funding sources, such as

## FINANCIAL INFORMATION

communicating with banks for refinancing before maturity, and seeking additional funding from other banks and deposits from our shareholders. On the other hand, we seek to match our expected cash flows with future payment obligations through monitoring and managing the maturity schedules of our liabilities (primarily consist of placements from commercial banks) by making prepayments from time to time. We had conducted such necessary steps in view of the net liquidity gap as of December 31, 2018. In addition, we are eligible for raising funds from the national inter-bank lending market where we are allowed to take loans with maturity shorter than three months. We began to raise funds from the national inter-bank lending market in September 2018 and borrowed an aggregate principal amount of RMB450 million as of December 31, 2018, which we believe effectively improved our short-term liquidity position by providing capital needed to meet our repayment obligations and additional flexibility in our capital allocation. We plan to continue to do so to improve our net liquidity gap subsequent to December 31, 2018. During the Track Record Period and as of the Latest Practicable Date, we did not experience any net liquidity shortfall.

As of December 31, 2017							
Repayable on demand/ terms undated	Less than 1 month	1-3 months	3-12 months	1-5 years	Total amount	Carrying amount	
(RMB in thousands)							
<b>Assets</b>							
Cash and deposits with central bank . . . . .	7,003	—	—	—	7,003	7,003	
Deposits with banks and other financial institutions . . . . .	270,494	—	—	—	270,494	270,494	
Loans and advances to customers . . . . .	11,392	257,374	661,866	3,024,733	2,586,053	6,541,418	5,869,004
Finance lease receivables . . . . .	—	585	1,171	5,268	16,098	23,122	19,898
Other assets . . . . .	6,924	33,234	—	—	—	40,158	40,158
<b>Total</b> . . . . .	<u>295,813</u>	<u>291,193</u>	<u>663,037</u>	<u>3,030,001</u>	<u>2,602,151</u>	<u>6,882,195</u>	<u>6,206,557</u>
<b>Liabilities</b>							
Placements from banks and other financial institutions . . . . .	—	(351,230)	(754,188)	(3,071,953)	—	(4,177,371)	(4,020,000)
Guarantee deposits . . . . .	(76,415)	—	—	—	(2,479)	(78,894)	(78,894)
Other liabilities . . . . .	(14,862)	(5,959)	(5,008)	(9,120)	—	(34,949)	(34,949)
<b>Total</b> . . . . .	<u>(91,277)</u>	<u>(357,189)</u>	<u>(759,196)</u>	<u>(3,081,073)</u>	<u>(2,479)</u>	<u>(4,291,214)</u>	<u>(4,133,843)</u>
<b>Net liquidity gap</b> . . . . .	<u>204,536</u>	<u>(65,996)</u>	<u>(96,159)</u>	<u>(51,072)</u>	<u>2,599,672</u>	<u>2,590,981</u>	<u>2,072,714</u>

## FINANCIAL INFORMATION

As of December 31, 2016

	Repayable on demand/ terms undated						Total amount	Carrying amount
	Less than 1 month	1-3 months	3-12 months	1-5 years				
(RMB in thousands)								
<b>Assets</b>								
Cash and deposits with central bank . . . . .	4,280	—	—	—	—	4,280	4,280	
Deposits with banks and other financial institutions . . . . .	233,839	—	3,023	3,067	—	239,929	239,879	
Loans and advances to customers . . . . .	3,043	160,426	321,239	1,656,469	2,078,553	4,219,730	3,736,577	
Other assets . . . . .	4,100	30,881	—	—	—	34,981	34,981	
<b>Total</b> . . . . .	<u>245,262</u>	<u>191,307</u>	<u>324,262</u>	<u>1,659,536</u>	<u>2,078,553</u>	<u>4,498,920</u>	<u>4,015,717</u>	
<b>Liabilities</b>								
Placements from banks and other financial institutions . . . . .	—	(340,732)	(497,127)	(2,466,458)	—	(3,304,317)	(3,232,885)	
Guarantee deposits . . . . .	(27,642)	—	—	—	—	(27,642)	(27,642)	
Other liabilities . . . . .	(7,452)	(5,827)	(4,276)	(6,775)	—	(24,330)	(24,330)	
<b>Total</b> . . . . .	<u>(35,094)</u>	<u>(346,559)</u>	<u>(501,403)</u>	<u>(2,473,233)</u>	—	<u>(3,356,289)</u>	<u>(3,284,857)</u>	
<b>Net liquidity gap</b> . . . . .	<u>210,168</u>	<u>(155,252)</u>	<u>(177,141)</u>	<u>(813,697)</u>	<u>2,078,553</u>	<u>1,142,631</u>	<u>730,860</u>	

### Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated:

	Year Ended December 31,		
	2016	2017	2018
(RMB in thousands)			
Operating cash flows before movement in working capital	269,542	397,797	697,831
Net cash generated from / (used in) operating activities	99,455	(1,062,771)	540,635
Net cash used in investing activities	(6,537)	(4,066)	(8,738)
Net cash generated from / (used in) financing activities	—	1,100,000	(2,937)
Net increase in cash and cash equivalents	92,918	33,163	528,960
Cash and cash equivalents at beginning of the year	<u>145,956</u>	<u>238,874</u>	<u>272,037</u>
Cash and cash equivalents at the end of the year	<u>238,874</u>	<u>272,037</u>	<u>800,997</u>

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## FINANCIAL INFORMATION

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### *Net Cash Generated from / (Used in) Operating Activities*

Auto finance business is capital intensive and involves a substantial amount of net cash outflows from operating activities. During the Track Record Period, our business growth was mainly supported by placements from banks and other financial institutions, which were classified as cash inflows from operating activities. As our capital resources are utilized to expand our business, cash outflows associated with loan disbursement were classified as cash used in operating activities. Our auto finance business experienced rapid growth during the Track Record Period and, as such, we had a substantial amount of cash outflows from operating activities, primarily used to provide loans and advances to customers and support our business expansion. Accordingly, we reported net cash used in operating activities during the Track Record Period. See “Risk Factors—Risks Relating to Our Business—Our business is capital intensive, and any disruption to our funding sources or our inability to access the capital markets could have a material adverse effect on our business, results of operations and financial conditions.”

During the Track Record Period, operating cash flow was primarily affected by changes in our working capital, such as loans and advances to customers and placements from banks and other financial institutions. We actively monitor our liquidity, including our operating cash flow performance, and are dedicated to continuously minimizing our liquidity risk exposure. For details of our risk management measures relating to our liquidity and cash flows, see “Risk Management—Liquidity Risk Management—Routine Liquidity Risk Management.” We plan to fund our working capital needs primarily through increasing the placements from banks and other financial institutions. We will continue to strengthen our cooperation with commercial banks to ensure our access to timely funding. In the meantime, we will strive to use our funding efficiently and to reduce the likelihood of maturity mismatch, and further improve our liquidity. In addition, to fund our business development, we plan to continue to diversify our funding sources through means such as issuing ABS and financial bonds on the national inter-bank lending market, see “Business—Our Strategies—Further Diversify Our Funding Sources.”

Net cash generated from operating activities was RMB540.6 million for the year ended December 31, 2018. We had profit before taxation of RMB603.5 million, which were adjusted by impairment losses of RMB84.3 million, depreciation and amortization of RMB7.7 million and listing expenses of RMB2.3 million. Our operating cash inflow before being adjusted for movements in working capital for the year ended December 31, 2018 was RMB697.8 million, compared to RMB397.8 million for the year ended December 31, 2017. Movements in working capital primarily consisted of (i) net increase in loans and advances to customers of RMB2,669.6 million as a result of our business expansion; (ii) net increase in placements from banks and other financial institutions of RMB2,065.3 million, (iii) net increase in deposits from shareholders of RMB600.0 million, (iv) net increase in finance lease receivables of RMB94.4 million, and (v) net increase in other liabilities of RMB140.5 million.

Net cash used in operating activities was RMB1,062.8 million for the year ended December 31, 2017. We had profit before taxation of RMB348.5 million, which were adjusted by impairment losses of RMB43.4 million, and depreciation and amortization of RMB5.9 million. Our operating cash inflow before being adjusted for movements in working capital for the year ended December 31, 2017 was RMB397.8 million. Movements in working capital primarily consisted of (i) net increase in loans and advances to customers of RMB2,175.6 million as a result of our business expansion; (ii) net increase



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## FINANCIAL INFORMATION

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in guarantee deposits of RMB51.3 million, attributable to increases in our dealer loan balance, (iii) net increase in placements from banks and other financial institutions of RMB787.1 million, (iv) net increase in finance lease receivables of RMB20.0 million, and (v) net increase in other liabilities of RMB10.4 million. We significantly reduced our placements from banks and other financial institutions in 2017 because we received an aggregate amount of capital injections from our shareholders of RMB1.1 billion in that year to fund our operations, which was classified as financing activities on our cash flow statements.

Net cash generated from operating activities was RMB99.5 million for the year ended December 31, 2016. We had profit before taxation of RMB232.7 million, which were adjusted by impairment losses of RMB31.8 million, and depreciation and amortization of RMB5.0 million. Our operating cash inflow before being adjusted for movements in working capital for the year ended December 31, 2016 was RMB269.5 million. Movements in working capital primarily consisted of (i) net increase in loans and advances to customers of RMB1,995.3 million as a result of our business expansion; (ii) net decrease in guarantee deposits of RMB25.9 million, in line with decreases in our dealer loan balance, (iii) net increase in placements from banks and other financial institutions of RMB1,875.4 million, (iv) net increase in other assets of RMB22.4 million, and (v) net increase in other liabilities of RMB28.7 million.

### *Net Cash Used In Investing Activities*

Our cash used in investing activities was principally attributable to purchases of property and equipment and other assets.

Our net cash used in investing activities was RMB8.7 million in 2018, RMB4.1 million in 2017 and RMB6.5 million in 2016. The net cash outflows used in investing activities was primarily due to purchase of office equipment and intangible assets.

### *Net Cash Generated from / (Used in) Financing Activities*

Our cash generated from financing activities consisted of proceeds from capital injection from shareholders.

Net cash used in financing activities was RMB2.9 million for the year ended December 31, 2018, as a result of our payments for a portion of the listing expenses.

Net cash generated from financing activities was RMB1,100.0 million for year ended December 31, 2017, as a result of the capital injection from our shareholders.

We had nil net cash generated from financing activities for the year ended December 31, 2016.

### **Indebtedness**

We incur placements from banks and other financial institutions to support our business operations and meet our working capital requirements. As of the Indebtedness Date, the outstanding balance of our placements from banks and other financial institutions was RMB6.8 billion. The terms of these placements from banks and other financial institutions range from one to 24 months, and expire at various times throughout the year.

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## FINANCIAL INFORMATION

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We generally apply for credit facilities from banks on a case-by-case basis and make drawdowns on such credit facilities based on our capital requirements for business operations. Our debt agreements typically contain certain covenants, among others, which require us to obtain the lending institutions' prior consent for certain transactions that may adversely impact our ability to repay the loans, such as disposal of material assets, merger and consolidation, or obligate us to notify the lending institutions of occurrence of certain events, such as liquidation and winding up, and cross-default clauses which would render us in default if we, among others, default on another loan obligation which may materially and adversely impact our implementation of such debt agreement. As of the Indebtedness Date, we had unutilized banking facilities of RMB2.0 billion. Our Directors have confirmed that there was no material default in our indebtedness or breaches of financial restrictive covenants during the Track Record Period.

Except as disclosed above, as of the Latest Practicable Date, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments, any guarantees or other material contingent liabilities.

### ASSETS AND LIABILITIES

For a description of our assets and liabilities, see "Assets and Liabilities."

### CAPITAL MANAGEMENT

#### Paid-in Capital

We received capital injections from our shareholders in aggregate of the equivalent of RMB500.0 million and RMB1,100.0 million in 2015 and 2017, respectively.

#### Capital Adequacy

We calculated the capital adequacy ratios as of December 31, 2016, 2017 and 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 CBIRC in 2012 and relevant requirements promulgated by the CBIRC. The following table sets forth certain capital adequacy indicators as of the dates indicated:

	As of December 31,		
	2016	2017	2018
	(RMB in thousands, except percentage)		
<b>Capital adequacy indicators</b>			
Core tier-one capital adequacy ratio <sup>(1)</sup> . . . . .	19.98%	37.12%	30.18%
Tier-one capital adequacy ratio <sup>(2)</sup> . . . . .	19.98%	37.12%	30.18%
Capital adequacy ratio <sup>(3)</sup> . . . . .	20.66%	37.89%	31.26%
Net core tier-one capital . . . . .	686,807	2,042,627	2,467,736
Net capital base . . . . .	709,924	2,085,206	2,556,297
Total risk weighted assets . . . . .	3,436,641	5,503,024	8,176,654

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## FINANCIAL INFORMATION

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*Notes:*

- (1) Calculated by dividing core tier-one capital, net of core tier-one capital deductions, by risk-weighted assets. For the components of core tier-one capital, core tier-one capital deduction and risk-weighted assets under the Measure, see “Regulatory Overview—Automotive Financing Companies—Regulations of Capital Adequacy.”
- (2) Calculated by dividing tier-one capital, net of tier-one capital deductions, by risk-weighted assets. For the components of tier-one capital, tier-one capital deductions and risk-weighted assets under the Measures, see “Regulatory Overview—Automotive Financing Companies—Regulations of Capital Adequacy.”
- (3) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets. For the components of our total capital, capital deductions and risk weighted assets under the Measures, please see “Regulatory Overview—Automotive Financing Companies—Regulations of Capital Adequacy.”

### CAPITAL EXPENDITURES

Our capital expenditures during the Track Record Period primarily consisted of cash payments for purchase of property and equipment and intangible assets. Our expenditures on property and equipment consisted of expenditures on purchase of electronic equipment, office furniture and improvement to leasehold property. Our expenditures on intangible assets consisted of expenditures on computer software.

Our total capital expenditures in 2016, 2017 and 2018 were RMB6.5 million, RMB4.1 million and RMB8.7 million, respectively.

### CONTRACTUAL OBLIGATIONS

#### Operating Leases Commitments

The following table sets forth the commitments for future minimum lease payments under non-cancellable operating leases as of the dates indicated:

	<u>As of December 31,</u>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
	(RMB in thousands)		
Within 1 year (inclusive) . . . . .	8,239	11,674	7,925
1 — 2 years (inclusive) . . . . .	11,301	3,492	5,249
2 — 3 years (inclusive) . . . . .	3,484	—	5,415
More than 3 years . . . . .	—	—	9,834
<b>Total</b> . . . . .	<u>23,024</u>	<u>15,166</u>	<u>28,423</u>

We are the lessee in respect of a number of properties and items of buildings and cars held under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all the terms are renegotiated. Lease payments are usually increased every three years to reflect market rates. None of our leases includes contingent rentals.

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## FINANCIAL INFORMATION

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### Capital Commitments

The following table sets forth our authorized capital commitments as of the dates indicated:

	As of December 31,		
	2016	2017	2018
	(RMB in thousands)		
Contracted but not pay for . . . . .	—	—	32

### Contingent Liabilities

As of the Latest Practicable Date, we did not have any material contingent liabilities.

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we did not have any material off-balance sheet commitments or arrangements.

### RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into transactions with our related parties, being the ZhengTong and its fellow subsidiaries, such as taking deposits from, disbursing retail and dealer loans to, and conducting joint promotion arrangements with, such related parties.

The following table sets forth our significant related party transactions for the periods indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB in thousands)		
Subsidies receipt for retail loans . . . . .	99,722	232,850	240,921
Interest income . . . . .	42,558	126,828	271,426
Interest expenses . . . . .	—	(2)	(5,255)
Operating expenses . . . . .	—	—	(261)
Increase in deposits from shareholders . . . . .	—	50,000	3,584,000
Decrease in deposits from shareholders . . . . .	—	(50,000)	(2,984,000)

Under our retail loan business, we entered into joint promotion arrangements with two luxury-brand automakers. Under such arrangements, when customers purchase a certain car model of the automaker from the ZhengTong Dealers and take out a retail loan from us, the automaker would make Interest Subsidies to us for the car purchases. For cooperation with one of the automakers, we would withhold an amount equal to the aggregate amount of the Interest Subsidies payable for the entire term of the retail loan (the “**Withheld Portion**”) when we provide the loan to our customers by remitting a fund, which equals to the loan amount less the Withheld Portion, to the ZhengTong

## FINANCIAL INFORMATION

Dealers. Then throughout the term of the retail loan, we would recognize revenue out of the Interest Subsidies on a monthly basis. For further details, see “Business—Our Business—Retail Loan Business—Self-operated Loan Products” and “Relationship with Controlling Shareholders—Our Business Relationship with ZhengTong—Retail Loan Business.”

Interest Subsidies in the table above represent the Interest Subsidies we received under such joint promotion arrangements, consisting of (i) Interest Subsidies from the joint promotion arrangements with the ZhengTong Dealers, and (ii) Interest Subsidies from automaker settled through the ZhengTong Dealers as a pass-through. The following table sets forth a breakdown of the Interest Subsidies during the periods indicated:

	Year Ended December 31,		
	2016	2017	2018
	(RMB in thousands)		
<b>Interest Subsidies</b>			
Interest Subsidies from ZhengTong dealers . . . . .	—	80,110	130,697
Interest Subsidies from automaker . . . . .	<u>99,722</u>	<u>152,740</u>	<u>110,224</u>
<b>Total</b> . . . . .	<u>99,722</u>	<u>232,850</u>	<u>240,921</u>

The interest income from our significant related party transactions consisted of that from (i) interest subsidies from the joint promotion arrangements with the ZhengTong Dealers, (ii) interest subsidies from automaker settled through the ZhengTong Dealers as a pass-through, and (iii) dealer loans, and to a much lesser extent, retail loans that we disbursed to the fellow subsidiaries of ZhengTong in the ordinary course of our business. The following table sets forth a breakdown of such interest income from our significant related party transactions for the periods indicated:

	Year Ended December 31,		
	2016	2017	2018
	(RMB in thousands)		
<b>Interest income</b>			
Interest subsidies from ZhengTong Dealers . . . . .	—	12,022	106,455
Interest subsidies from automaker . . . . .	28,227	89,025	153,750
Retail and dealer loans . . . . .	<u>14,331</u>	<u>25,781</u>	<u>11,221</u>
<b>Total</b> . . . . .	<u>42,558</u>	<u>126,828</u>	<u>271,426</u>

## FINANCIAL INFORMATION

The following table sets forth our balances with related parties as of the dates indicated:

	As of December 31,		
	2016	2017	2018
	(RMB in thousands)		
<b>Assets</b>			
Loans and advances to customers . . . . .	213,383	785,979	696,299
Subsidies for retail loans <sup>(1)</sup> . . . . .	(71,495)	(203,298)	(184,014)
Mortgage service fees <sup>(1)</sup> . . . . .	2,197	6,225	7,027
Other assets . . . . .	1,072	4,637	2,134
<b>Liabilities</b>			
Guarantee deposits . . . . .	(11,133)	(59,465)	(44,128)
Deposits from shareholders . . . . .	—	—	(600,000)
Other liabilities . . . . .	(916)	(940)	(1,133)
<b>Off-balance sheet items</b>			
Guarantees received for dealer loans <sup>(2)</sup> . . . . .	213,383	716,401	683,069
Guarantees received for placements from banks and other financial institutions <sup>(3)</sup> . . . . .	1,750,000	1,550,000	1,765,000

*Notes:*

- (1) The subsidies for retail loans and mortgage service fees are initially recognized in loans and receivables at amortized method.
- (2) The guarantees were provided by our fellow subsidiaries for repayment of dealer loans. These guarantees expire on the same date as the related loans.
- (3) The guarantees were provided by our parent company and fellow subsidiaries, and will expire by the earlier of the listing date or when the related placements from banks and other financial institutions mature and repayable.

All balances with related parties are related to major business of the Company, except for other liabilities due to fellow subsidiaries amounting to RMB0.9 million, RMB0.9 million and RMB1.0 million as of December 31, 2016, 2017 and 2018, respectively. For more details about our related party transactions, see the section headed “Connected Transactions” and Note 29 to the Accountants’ Report in Appendix I to this prospectus.

Our Directors confirm that our transactions with related parties during the Track Record Period were conducted on an arm’s length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

### FINANCIAL RISK DISCLOSURE

We are exposed to various types of financial risks in the ordinary course of our business, including credit risk, interest rate risk and liquidity risk, which are set forth in detail in Note 27 to the Accountants’ Report in Appendix I to this prospectus. We manage our exposure to these risks through regularly monitoring our operating activities and financial conditions. As of the Latest Practicable Date, we did not hedge or consider necessary to hedge any of these risks.

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## FINANCIAL INFORMATION

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### Credit Risk

During the Track Record Period, we implemented standard credit risk management policies in our auto finance business, which included investigation and reporting, credit review and approval, loans distribution, monitoring post distribution and abnormal loans management. We have also formulated and implemented detailed rules of a five-category loan classification system in managing credit risk, in accordance with the relevant guidelines of CBIRC. See “Assets and Liabilities — Assets — Loans and Advances to Customers — Assets Quality of Our Loans and Advances to Customers — Loan Classification Criteria” for details of the criteria of the five-category loan classification system.

### Credit Quality

The following table set forth the credit quality of our gross balance of loans and advances to customers as of the dates indicated:

	As of December 31,	
	2016	2017
	(RMB in thousands)	
<b>Gross Balance of loans and advances to customers</b>		
Impaired . . . . .	14,089	16,667
Overdue but not impaired . . . . .	9,509	28,690
Neither overdue nor impaired. . . . .	3,750,185	5,882,763
<b>Subtotal</b> . . . . .	<b>3,773,783</b>	<b>5,928,120</b>
<b>Less:</b>		
Allowances for impairment losses		
— Impaired . . . . .	(12,460)	(16,090)
— Overdue but not impaired . . . . .	(8,095)	(17,876)
— Neither overdue nor impaired . . . . .	(16,651)	(25,150)
<b>Subtotal</b> . . . . .	<b>(37,206)</b>	<b>(59,116)</b>
<b>Net balance</b> . . . . .	<b>3,736,577</b>	<b>5,869,004</b>

As of December 31, 2016 and 2017, the gross balance of loans and advances to customers that were neither overdue nor impaired was RMB3,750.2 million and RMB5,882.8 million, respectively, representing 99.4%, and 99.2% of our gross balance of loans and advances to customers as of the respective dates.

As of December 31, 2016 and 2017, the gross balance of loans and advances to customers that were impaired was RMB14.1 million, and RMB16.7 million, respectively, representing 0.4% and 0.3% of our gross balance of loans and advances to customers as of the respective dates.

The allowance for impairment losses increased from RMB37.2 million as of December 31, 2016 to RMB59.1 million as of December 31, 2017, which we believe was in line with the increase in the gross balance of loans and advances to customers.

## FINANCIAL INFORMATION

The following table sets forth information about our exposure to credit risk and expected credit losses for loans and advances to customers and finance lease receivables based on our provision matrix:

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

For a more detailed description on the carrying amount of loss of loans and advances to customers as of January 1, 2018 and December 31, 2018 under HKFRS 9, see Note 27(a) to the Accountant's Report in Appendix I.

### Interest Rate Risk

Our interest rate risk primarily comes from credit business and inter-bank borrowings. The interest-bearing financial instruments of fixed rate make us face fair value interest rate risk and cash flow interest rate risk. For discussion of our interest rate risk including a sensitivity analysis on change in interest rate, see Note 27(c) to the Accountants' Report in Appendix I to this prospectus. Our risk management committee reviews and monitors our exposure to interest rate risk. See "Risk Management — Major Risk Management — Interest Risk Management."



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## FINANCIAL INFORMATION

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### Liquidity Risk

We maintain capability to fund our operations and to meet our payment obligations as they become due even in a changing market condition. We do not rely on single financing channel. We monitor our day-to-day funding capabilities, the liquidity ratios, and managing our balance sheet to prevent balance or maturity mismatches of our funding profile, so as to minimize our exposure to liquidity risk. For information of the maturity of our financial assets and liabilities, see “—Liquidity.” For a discussion of our liquidity risk relating to mismatch of the maturity profile of our our assets and liabilities, see “Risk Factors—Loan products we disburse may potentially be deemed as having a duration mismatch with underlying funding sources.”

### Foreign Exchange Risk

As our business is primarily conducted in Renminbi, we do not have any material foreign exchange risks.

### DIVIDEND POLICY

Our board of Directors has the absolute discretion to recommend any dividend, which will be subject to approval of our shareholders. Any payment and the amount of any dividends will depend on our earnings and financial condition, operating requirements, capital requirements and any other factors that we may consider relevant. Under the PRC Company Law and our Articles of Association, all of our shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding. Under applicable PRC laws, we may only pay dividends out of our profit after tax. Profit after tax for a given year represents net profit as determined under PRC GAAP or HKFRS, whichever is lower, less:

- any of our accumulated losses in prior years;
- appropriations we are required to make to the statutory reserve, which is currently 10% of our net profit as determined under PRC GAAP, until such reserve reaches an amount equal to 50% of our registered capital;
- a general reserve we are required to set aside through profit appropriation which should be not lower than 1.5% of the ending balance of our risk-bearing assets on an annual basis; and
- appropriations to a discretionary surplus reserve as approved by the shareholders at a general meeting.

In addition, pursuant to the Administrative Measures for Provision of Reserves by Financial Enterprises issued by Ministry of Finance [Caijin [2012] No. 20 Circular] (《金融企業準備金計提管理辦法》財金 [2012]20號, the “**Measures**”) effective from July 1, 2012, auto finance companies, with a five-year transition period up to 2017, are required to establish and maintain a general risk reserve within equity to address potential unidentified impairment losses. As defined in the Measures, the balance of general risk reserve shall not be less than 1.5% of the outstanding balance of risk assets, which may include, loans and advances to customers, disposable financial assets, long-term equity

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## **FINANCIAL INFORMATION**

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investment, deposits and placement with other banks, debt assets and other receivables. As of December 31, 2018, the Company set aside RMB107.0 million as general risk reserve out of the total retained earnings of RMB326.5 million. Upon the effectiveness of the Measures, depending on the level of our profitability and retained earnings at that time, a significant portion of our retained earnings may become subject to the general risk reserve requirement and not distributable to the Shareholders of our Company. See “Risk Factors—Risks Relating to Doing Business in the PRC—Payment of dividends is subject to restrictions under PRC laws.”

Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years. We generally do not distribute dividends in a year in which there is no profit available for distribution. We are not allowed to distribute profits to our shareholders until we have made up our losses and made appropriations to our statutory and general reserves. Our shareholders are required to return any profit distributed in violation of the relevant regulations. The CBIRC has the discretionary authority to prohibit any AFC that fails to meet the relevant capital adequacy ratio requirements, or has violated any other PRC banking regulations, from paying dividends or making other forms of distributions. In addition, some of our borrowing agreements contain certain covenants, which prevent us from distributing dividends if our net profits after tax for the year is nil or negative, or if we are unable to cover the accumulated losses of previous years or the principal, interest and expenses of the coming year. We did not make any cash dividends distribution during the Track Record Period.

We do not have any specific future dividend plans. Currently, we do not have a formal dividend policy or a fixed dividend distribution ratio. After Listing, we will continue to assess and determine any dividend payments, based on our business conditions and prevailing market circumstances.

### **DISTRIBUTABLE RESERVES**

As of December 31, 2018, our distributable reserves were RMB326.5 million.

### **WORKING CAPITAL CONFIRMATION**

Taking into account the financial resources available to us, including the net proceeds from the Global Offering, our existing cash and cash equivalents, financing arrangement with banks, and anticipated operating cash flow from our operating activities, our Directors believe that we have sufficient working capital for our present requirements, that is at least 12 months from the date of this prospectus.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since December 31, 2018 (being the date on which the latest financial information of our Company was prepared) and there is no event since December 31, 2018 which would materially affect the information shown in our financial statements included in the Accountants’ Report in Appendix I.

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## FINANCIAL INFORMATION

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### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Company prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only and it may not give a true picture of our net tangible assets following the Global Offering. The following statement of unaudited pro forma adjusted net tangible assets of our Company is set out here to illustrate the effect of the Global Offering on our net tangible assets attributable to the shareholders of the Company as of December 31, 2018, as if the Global Offering had taken place on December 31, 2018, and is based on the audited net assets of the Company derived from the financial statement in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below.

	Audited net tangible assets attributable to the Shareholders of our Company as of December 31, 2018 <sup>(1)</sup>	Estimated net proceeds from the Global Offering <sup>(2)(5)</sup>	Unaudited pro forma adjusted net tangible assets of our Company as of December 31, 2018 <sup>(3)</sup>	Unaudited pro forma adjusted net tangible assets per Share <sup>(4)(5)</sup>	
	(RMB'000)	(HK\$'000)	(RMB'000)	(RMB)	(HK\$)
Based on the Offer Price of HK\$4.20 per Share (being the lowest) . . .	2,467,736	2,138,904	4,341,844	2.04	2.23
Based on the Offer Price of HK\$6.30 per Share (being the highest) . . .	2,467,736	3,230,824	5,298,584	2.48	2.83

*Notes:*

- (1) The net tangible assets attributable to the Shareholders of the Company as of December 31, 2018 is based on the net assets attributable to shareholders of the Company as of December 31, 2018 of RMB2,483,093 thousand less intangible asset of RMB15,357 thousand as of December 31, 2018, as set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$4.20 (being the minimum offer price) and HK\$6.30 per H Share (being the maximum offer price) and the assumption that there are 533,336,000 newly issued H Shares in the Global Offering, after deduction of the underwriting fees and other related expenses payable by the Company, assuming that the Over-allotment Option is not exercised and without taking into account any discretionary incentive fees.
- (3) The unaudited pro forma adjusted net tangible assets do not take into account our financial results or other transactions subsequent to December 31, 2018.
- (4) The unaudited pro forma adjusted net tangible assets per share is arrived on the basis of 2,133,336,000 shares in issue assuming that the Global Offering has been completed on December 31, 2018 and that the Over-allotment Option is not exercised.

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## FINANCIAL INFORMATION

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- (5) The estimated net proceeds from the Global Offering and the unaudited pro forma adjusted net tangible assets per share are translated into Renminbi at the rate of RMB0.87620 to HK\$1.00, the exchange rate set by the PBOC prevailing on December 28, 2018. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rate.

### DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this prospectus, as of the Latest Practicable Date, there was no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

## ASSETS AND LIABILITIES

*The following discussion and analysis should be read in conjunction with our financial statements included in the Accountant's Report in Appendix I and the selected financial data, in each case together with the accompanying notes, included elsewhere in this prospectus. The financial statements have been prepared in accordance with HKFRS.*

### ASSETS

As of December 31, 2016, 2017 and 2018, our total assets amounted to RMB4,054.9 million, RMB6,292.4 million and RMB9,532.2 million, respectively, representing a CAGR of 53.3%. The overall increase from December 31, 2016 to December 31, 2018 was primarily due to the expansion of our business and loan portfolio. The major components of our total assets are (i) loans and advances to customers, (ii) deposits with banks and other financial institutions, and (iii) finance lease receivables, which represented 88.4%, 8.2% and 1.1%, respectively, of our total assets as of December 31, 2018.

The following table sets forth a summary of our assets as of the dates indicated:

	As of December 31,						As of Indebtedness Date,	
	2016		2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(RMB in thousands, except percentages)								
(Unaudited)								
<b>Assets</b>								
Cash and deposits with central bank . . . . .	4,280	0.1%	7,003	0.1%	35,213	0.4%	23,213	0.2%
Deposits with banks and other financial institutions . . . . .	239,879	5.9%	270,494	4.3%	780,960	8.2%	575,867	5.8%
Loans and advances to customers . . . . .	3,736,577	92.1%	5,869,004	93.3%	8,426,177	88.4%	8,971,806	91.1%
Finance lease receivables . . . . .	—	—	19,898	0.3%	102,980	1.1%	99,098	1.0%
Property and equipment . . . . .	5,874	0.2%	4,558	0.1%	5,113	0.1%	6,411	0.1%
Intangible assets . . . . .	12,460	0.3%	17,413	0.3%	15,357	0.2%	15,038	0.2%
Deferred tax asset . . . . .	20,587	0.5%	62,193	1.0%	73,804	0.7%	70,551	0.7%
Other assets . . . . .	35,283	0.9%	41,853	0.6%	92,557	0.9%	91,102	0.9%
<b>Total Assets . . . . .</b>	<b>4,054,940</b>	<b>100.0%</b>	<b>6,292,416</b>	<b>100.0%</b>	<b>9,532,161</b>	<b>100.0%</b>	<b>9,853,086</b>	<b>100.0%</b>

## ASSETS AND LIABILITIES

### Loans and Advances to Customers

The following table sets forth our loans and advances to customers by business segment as of the dates indicated. For a description of our business segments, see “Business—Our Businesses.”

	As of December 31,						As of	
	2016		2017		2018		Indebtedness Date,	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)						(Unaudited)	
Retail loans . . . . .	3,418.2	90.6%	5,012.2	84.5%	7,671.7	89.6%	8,119.5	89.3%
Dealer loans . . . . .	355.6	9.4%	916.0	15.5%	890.5	10.4%	997.3	10.7%
<b>Gross loans and advances to customers . . . . .</b>	<b><u>3,773.8</u></b>	<b><u>100.0%</u></b>	<b><u>5,928.2</u></b>	<b><u>100.0%</u></b>	<b><u>8,562.2</u></b>	<b><u>100.0%</u></b>	<b><u>9,116.8</u></b>	<b><u>100.0%</u></b>

### Retail Loans

Our retail loan business comprises self-operated retail loan business and retail loan facilitation business. We do not record the loans disbursed under our retail loan facilitation business on our balance sheet, as they are directly disbursed to customers by the commercial banks we cooperate with and we assume no credit risks for such loans. Therefore, the amount of loans and advances to customers for the retail loans segment in the table above reflects solely the outstanding balance of the loans disbursed under our self-operated retail loan business.

Self-operated retail loans had consistently been the largest component of our loan portfolio during the Track Record Period. The outstanding balance of our self-operated retail loans represented 90.6%, 84.5% and 89.6% of our total loans and advances to customers as of December 31, 2016, 2017 and 2018, respectively. The outstanding balance of our self-operated retail loans increased by 46.6% from RMB3,418.2 million as of December 31, 2016 to RMB5,012.2 million as of December 31, 2017. As of December 31, 2018, the outstanding balance of our self-operated retail loans was RMB7,671.7 million, representing an increase of 53.1% from RMB5,012.2 million as of December 31, 2017. The overall increase during the Track Record Period was primarily due to the expansion of our retail loan business. As of the Indebtedness Date, the outstanding balance of our self-operated retail loans was RMB8,119.5 million.

### Dealer Loans

The outstanding balance of dealer loans represented 9.4%, 15.5% and 10.4% of our total loans and advances to customers as of December 31, 2016, 2017 and 2018, respectively. The outstanding balance of our dealer loans increased by 157.6% from RMB355.6 million as of December 31, 2016 to RMB916.0 million as of December 31, 2017, primarily due to the growth of our dealer loan services

## ASSETS AND LIABILITIES

in 2017. As of December 31, 2018, the outstanding balance of our dealer loan was RMB890.5 million, representing a decrease of 2.8% from RMB916.0 million as of December 31, 2017, which was primarily due to repayment of dealer loans due in 2018. As of the Indebtedness Date, the outstanding balance of our dealer loans amounted to RMB997.3 million.

### *Loans and Advances to Customers by Collateral*

As of December 31, 2016, 2017 and 2018, all of our loans and advances to customers were collateralized or guaranteed. The following table sets forth the distribution of our loan portfolio by type of collateral as of the dates indicated:

	As of December 31,						As of	
	2016		2017		2018		Indebtedness Date,	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)						(Unaudited)	
Collateralized loans <sup>(1)</sup>	3,418.2	90.6%	5,012.2	84.5%	7,671.7	89.6%	8,119.5	89.3%
Guaranteed loans <sup>(2)</sup>	355.6	9.4%	916.0	15.5%	890.5	10.4%	997.3	10.7%
<b>Gross loans and advances to customers</b>	<b>3,773.8</b>	<b>100.0%</b>	<b>5,928.2</b>	<b>100.0%</b>	<b>8,562.2</b>	<b>100.0%</b>	<b>9,116.8</b>	<b>100.0%</b>

*Notes:*

- (1) Includes retail loans secured by cars financed.
- (2) Includes dealer loans guaranteed by deposits provided by dealers.

Our collateralized loans comprise retail loans secured by cars financed. Our collateralized loans increased by 46.6% from RMB3,418.2 million as of December 31, 2016 to RMB5,012.2 million as of December 31, 2017, and further by 53.1% to RMB7,671.7 million as of December 31, 2018, primarily due to the significant growth of our retail loan business, all of which were secured by cars financed. As of the Indebtedness Date, our collateralized loans amounted to RMB8,119.5 million.

Our guaranteed loans comprise dealer loans mainly guaranteed by deposits provided by dealers or their guarantors. Our guaranteed loans increased by 157.6% from RMB355.6 million as of December 31, 2016 to RMB916.0 million as of December 31, 2017, primarily due to the steady increase in our dealer loan business. Our guaranteed loans decreased by 2.8% to RMB890.5 million as of December 31, 2018, primarily due to repayment of dealer loans due in 2018. As of the Indebtedness Date, our guaranteed loans was RMB997.3 million.

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## ASSETS AND LIABILITIES

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### *Borrower Concentration*

Pursuant to the applicable PRC banking laws and regulations, our credit exposure to any single borrower shall not exceed 15% of our net capital. For details of the relevant regulatory requirements, see “Regulatory Overview—Corporate Governance and Internal Controls—Internal Controls.” The following table sets forth our credit exposure to our ten largest single borrowers as of the date indicated.

As of December 31, 2018					
Industry	Amount	% of total loans and advances to customers and finance lease receivables	% of total net capital base <sup>(1)</sup>		
(RMB in millions, except percentage)					
Borrower A . . . . .	Dealer	109.9	1.27%	4.30%	
Borrower B . . . . .	Dealer	67.2	0.77%	2.63%	
Borrower C . . . . .	Dealer	60.0	0.69%	2.35%	
Borrower D . . . . .	Dealer	53.3	0.61%	2.09%	
Borrower E . . . . .	Dealer	47.4	0.55%	1.85%	
Borrower F . . . . .	Dealer	41.0	0.47%	1.60%	
Borrower G . . . . .	Dealer	40.0	0.46%	1.56%	
Borrower H . . . . .	Dealer	40.0	0.46%	1.56%	
Borrower I . . . . .	Dealer	39.9	0.46%	1.56%	
Borrower J . . . . .	Dealer	39.3	0.45%	1.54%	
<b>Total</b> . . . . .		538.0	6.19%	21.04%	

*Note:*

(1) Represents loan balance as a percentage of our net capital base.



## ASSETS AND LIABILITIES

Pursuant to the applicable PRC banking laws and regulations, our credit exposure to any single group borrower shall not exceed 50% of our net capital. For details of the relevant regulatory requirements, see “Regulatory Overview—Corporate Governance and Internal Controls—Internal Controls.” The following table sets forth our credit exposure to our ten largest single group borrowers as of the date indicated. Group I represents the ZhengTong Group.

As of December 31, 2018				
Industry	Amount	% of total loans and advances to customers and finance lease receivables	% of total net capital base <sup>(1)</sup>	
(RMB in millions, except percentage)				
Group I . . . . .	Dealer and finance lease	696.3	8.03%	27.24%
Group II . . . . .	Dealer	207.4	2.39%	8.11%
Group III . . . . .	Transport, postal and warehousing	17.5	0.20%	0.68%
Group IV . . . . .	Transport, postal and warehousing	17.1	0.20%	0.67%
Group V . . . . .	Transport, postal and warehousing	13.3	0.15%	0.52%
Group VI . . . . .	Transport, postal and warehousing	11.0	0.13%	0.43%
Group VII . . . . .	Transport, postal and warehousing	10.1	0.12%	0.40%
Group VIII . . . . .	Transport, postal and warehousing	7.7	0.09%	0.30%
Group IX . . . . .	Transport, postal and warehousing	7.0	0.08%	0.27%
Group X . . . . .	Transport, postal and warehousing	6.6	0.08%	0.26%
<b>Total . . . . .</b>		<b>944.0</b>	<b>11.47%</b>	<b>38.88%</b>

*Note:*

(1) Represents loan balance as a percentage of our net capital base.

### ***Loan Interest Rate***

Interest rates have historically been highly regulated in China. In the past few years, certain policies have been gradually liberalized. In July 2013, the lower limit on interest rates for RMB-denominated loans was removed. The interest rates on loans are reset following the date of the change in the applicable PBOC benchmark interest rates. For details of the interest rates on our loans, see “Business — Pricing.”

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## ASSETS AND LIABILITIES

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### *Assets Quality of Our Loans and Advances to Customers*

We measure and monitor the asset quality of our loan portfolio through our loan classification system. We classify our loans using a five-category loan classification system, which complies with CBIRC’s guidelines. For information on our policies and credit risks with respect to borrowers, see “Risk Management—Major Risk Management—Credit Risk Management.”

### *Loan Classification Criteria*

We use a five-category loan classification system to grade our loans. We have formulated detailed loan classification policies for our retail loans and wholesales loans, respectively, in accordance with the requirements of the CBIRC guidelines. Set forth below are the five categories and the basis for classification.

<b>Normal</b>	Borrowers have been making timely payments under the loan agreement. There are no negative factors that may affect the timely full repayment of principal and interests. We are fairly certain that the borrowers can repay the loan principal and interest in full on a timely basis.
<b>Special-mention</b>	While the borrowers have been able to make repayment, their ability to fully repay the loan principal and interest may be adversely affected by certain factors.
<b>Sub-standard</b>	Borrowers’ ability to service their loans is in question and repayment can only be made using proceeds from the disposal of assets, external financing, or foreclosure in addition to the borrowers’ ordinary income.
<b>Doubtful</b>	Borrowers cannot repay loan principal and interest in full and significant losses will need to be recognized even when collateral or guarantees are invoked. The borrowers are involved in reorganization, merger, consolidation, collateral disposal and/or unresolved litigation, which makes the exact amount of loss to be recognized uncertain.
<b>Loss</b>	After resorting to all measures available, including legal proceedings, the loan principal and interest cannot be recovered, or only a small portion of negligible value can be recovered.

### *Loans and Advances to Customers by Loan Classification*

Under our five-category loan classification system, our non-performing loans are classified as substandard, doubtful or loss, as applicable.

## ASSETS AND LIABILITIES

The following tables set forth the distribution of our loans by business segment and by five-category loan classification as of the dates indicated:

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
(RMB in millions, except percentages)						
<b>Retail loans</b>						
Normal . . . . .	3,394.6	99.31%	4,966.7	99.10%	7,566.9	98.64%
Special mention . . . . .	9.5	0.28%	28.7	0.57%	81.4	1.06%
Substandard . . . . .	2.2	0.06%	3.2	0.06%	4.5	0.06%
Doubtful . . . . .	1.6	0.05%	2.1	0.04%	8.0	0.10%
Loss . . . . .	10.3	0.30%	11.4	0.23%	10.9	0.14%
<b>Subtotal . . . . .</b>	<b>3,418.2</b>	<b>100.0%</b>	<b>5,012.2</b>	<b>100.0%</b>	<b>7,671.7</b>	<b>100.0%</b>
Non-performing loan ratio <sup>(1)</sup> . . . . .		0.41%		0.33%		0.30%
<b>Dealer loans</b>						
Normal . . . . .	355.6	100.0%	916.0	100.0%	890.5	100.0%
Special mention . . . . .	—	—	—	—	—	—
Substandard . . . . .	—	—	—	—	—	—
Doubtful . . . . .	—	—	—	—	—	—
Loss . . . . .	—	—	—	—	—	—
<b>Subtotal . . . . .</b>	<b>355.6</b>	<b>100.0%</b>	<b>916.0</b>	<b>100.0%</b>	<b>890.5</b>	<b>100.0%</b>
Non-performing loan ratio <sup>(1)</sup> . . . . .		—		—		—
<b>Total loans and advances to customers . . . . .</b>	<b>3,773.8</b>	<b>100.0%</b>	<b>5,928.2</b>	<b>100.0%</b>	<b>8,562.2</b>	<b>100.0%</b>
<b>Non-performing loan ratio<sup>(1)</sup> . . . . .</b>		<b>0.37%</b>		<b>0.28%</b>		<b>0.27%</b>

*Note:*

- (1) Calculated by dividing the balance of non-performing loans in each category by the balance of the total loans and advances to customers in that category.

We did not have any non-performing dealer loan during the Track Record Period, and changes in our overall non-performing loan ratio has been primarily driven by that ratio of our retail loan business. Our overall non-performing loan ratio decreased from 0.37% as of December 31, 2016 to 0.28% as of December 31, 2017, and then remained relatively stable at 0.27% as of December 31, 2018, as a result of our continuous efforts to maintain a prudent risk management system and write-off policies. The declining trend of our non-performing loan ratio is also partly contributed by the significant growth in our loan balances as of the end of each year, since the ratio was calculated by dividing non-performing loans by total loans and advances to customers.

## ASSETS AND LIABILITIES

### *Non-performing Loans by Type of Collateral*

The following table sets forth our non-performing loans by type of collateral as of the dates indicated:

	As of December 31,								
	2016			2017			2018		
	Amount	% of total	NPL ratio <sup>(1)</sup>	Amount	% of total	NPL ratio <sup>(1)</sup>	Amount	% of total	NPL ratio <sup>(1)</sup>
(RMB in millions, except percentages)									
Collateralized loans . . . . .	14.1	100.0%	0.41%	16.7	100.0%	0.33%	23.4	100.0%	0.30%
Guaranteed loans . . . . .	—	—	—	—	—	—	—	—	—
<b>Total . . . . .</b>	<b>14.1</b>	<b>100.0%</b>	<b>0.37%</b>	<b>16.7</b>	<b>100.0%</b>	<b>0.28%</b>	<b>23.4</b>	<b>100.0%</b>	<b>0.27%</b>

*Note:*

(1) Calculated by dividing non-performing loans in each category by total loans and advances in that category.

Collateralized loans consist of retail loans. Therefore, the non-performing loan ratios for our retail loans represents that for the collateralized loans, and it largely drives our overall non-performing ratio.

Our non-performing loan ratios for guaranteed loans, which consist of dealer loans, was nil, because we did not have any non-performing dealer loan during the Track Record Period.

### *Non-performing Loans by Year of Initial Disbursement*

The following table sets forth the breakdown of our non-performing loans as of the dates indicated by the year they were initially disbursed:

	As of December 31,					
	2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total
(RMB in millions, except percentages)						
Loans initially disbursed in 2015 . . . . .	6.9	48.7%	2.5	15.1%	0.9	3.9%
Loans initially disbursed in 2016 . . . . .	7.2	51.3%	13.7	82.1%	6.6	28.1%
Loans initially disbursed in 2017 . . . . .	N/A	N/A	0.5	2.8%	4.3	18.2%
Loans initially disbursed in 2018 . . . . .	N/A	N/A	N/A	N/A	11.6	49.8%
<b>Total . . . . .</b>	<b>14.1</b>	<b>100.0%</b>	<b>16.7</b>	<b>100.0%</b>	<b>23.4</b>	<b>100.0%</b>

## ASSETS AND LIABILITIES

### *Ten Largest Non-performing Borrowers*

The following table sets forth our borrowers with the ten largest non-performing loan balances outstanding as of December 31, 2018:

As of December 31, 2018			
Classification	Amount	% of total non-performing loans	% of total net capital base <sup>(1)</sup>
(RMB in millions, except percentages)			
Borrower A . . . . .	Doubtful	2.0	8.55%
Borrower B . . . . .	Loss	0.8	3.19%
Borrower C . . . . .	Substandard	0.7	3.19%
Borrower D . . . . .	Loss	0.4	1.84%
Borrower E . . . . .	Loss	0.4	1.68%
Borrower F . . . . .	Loss	0.4	1.66%
Borrower G . . . . .	Loss	0.4	1.64%
Borrower H . . . . .	Doubtful	0.3	1.50%
Borrower I . . . . .	Loss	0.3	1.32%
Borrower J . . . . .	Doubtful	0.3	1.32%
<b>Total . . . . .</b>		<b>6.0</b>	<b>25.89%</b>
			<b>0.24%</b>

*Note:*

(1) Represents loan amounts as a percentage of our net capital base.

### *Movements of our Non-Performing Loans and Overdue Loans*

The table below sets forth the balance of our non-performing loans<sup>(1)</sup> as of the dates indicated and the movement during the Track Record Period:

	Amount
	(RMB in thousands)
<b>Balance of non-performing loans as of December 31, 2016 . . . . .</b>	<b>14,089</b>
Net newly incurred during the period <sup>(2)</sup> . . . . .	24,426
Written-off <sup>(3)</sup> during the period . . . . .	(21,848)
<b>Balance of non-performing loans as of December 31, 2017 . . . . .</b>	<b>16,667</b>
Net newly incurred during the period <sup>(2)</sup> . . . . .	43,049
Written-off <sup>(3)</sup> during the period . . . . .	(36,364)
<b>Balance of non-performing loans as of December 31, 2018 . . . . .</b>	<b>23,352</b>

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## ASSETS AND LIABILITIES

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*Notes:*

- (1) Non-performing loans are loans classified as substandard, doubtful or loss under our five-category loan classification system.
- (2) Calculated by loans which became non-performing loans during the period minus non-performing loans recovered and reclassified during the period.
- (3) Refers to the write-off of eligible non-performing loans in accordance with our write-off policies for non-performing loans, namely, the Administrative Guidelines for Non-performing Loan Write-Offs (《不良貸款核銷管理準則》). See “Risk Management—Major Risk Management—Credit Risk Management—Non-performing Loan Analysis and Disposal.” Our policies are formulated pursuant to the Administrative Measures on Bad Books Attraction and Write-off for Financial Enterprises (《金融企業呆賬核銷管理辦法》) issued by the MOF, as amended. See “Regulatory Overview—Regulation of Major Business—Regulations of Capital Adequacy—Bad Debts Cancellation Supervision.”

All non-performing loans written off during the periods indicated were secured by automobile collaterals. The write-off during a given period represents the aggregate amount of loans removed from our balance sheet in that period, regardless of whether they can be recovered subsequently. We have been able to recover certain non-performing loans through collection and disposal of automobile collaterals after they are written off pursuant to our write-off policies. Such amount recovered will be accounted for as loans and advances to customers on our balance sheet and reflected as a gain on our income statement subsequently.

The table below sets forth the balance of our overdue loans<sup>(1)</sup> as of the date indicated and the movement during the Track Record Period:

	<b>Amount</b>
	<b>(RMB in thousands)</b>
<b>Balance of overdue loans as of December 31, 2016</b> . . . . .	<b>23,598</b>
Net newly incurred during the period <sup>(2)</sup> . . . . .	43,607
Written-off during the period <sup>(3)</sup> . . . . .	(21,848)
<b>Balance of overdue loans as of December 31, 2017</b> . . . . .	<b>45,357</b>
Net newly incurred during the period <sup>(2)</sup> . . . . .	95,805
Written-off during the period <sup>(3)</sup> . . . . .	(36,364)
<b>Balance of overdue loans as of December 31, 2018</b> . . . . .	<b>104,798</b>

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*Notes:*

- (1) Overdue loans represent loans of which the whole or part of the principal or interest has been overdue for over one day. On the day following the repayment due date, we will initiate our loan collection process by making phone calls to the respective borrowers to request repayment. If the overdue loan is then paid on that day, it is excluded from overdue loans as we do not believe they are indicative of our loan collection ability.
- (2) Calculated by loans which became overdue loans during the period minus overdue loans recovered and reclassified during the period.
- (3) Includes loans which were written-off from the non-performing loans which accounted for a portion of our overdue loans.

## ASSETS AND LIABILITIES

The movement of our non-performing loans and overdue loans are mainly subject to, among others, (i) the amount of the newly disbursed loans during the period; (ii) the amount of non-performing loans written-off during the period and our write-off policies; (iii) efforts of our debt collection; (iv) creditworthiness of our customers; and (v) macroeconomic conditions and the condition of the auto financing industry in China.

### *Allowance for Impairment Losses on Loans and Advances to Customers*

Our loans and advances to customers are reported net of the allowance for impairment losses on our statement of financial position. The carrying amounts are reviewed by us on a regular basis to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment in financial assets represents events that occur after the initial recognition of the financial assets and have impact on the estimated future cash flows of the assets, which can be reliably estimated.

Loans and advances to customers which are assessed collectively for impairment include: (i) individually assessed loans and advances to customers with no objective evidence of impairment on an individual basis and (ii) homogeneous groups of loans and advances to customers which are not considered individually significant and not assessed individually. The collective impairment loss is assessed after taking into account: (i) historical loss experience in portfolios of similar risk characteristics, (ii) emergence period between a loss occurring and that loss being identified, and (iii) the current economic and credit environments and the judgment on inherent loss based on our historical experience.

### *Allowance for Impairment Losses by Business*

The following table sets forth the distribution of our allowance for impairment losses by business segment as of the dates indicated:

	As of December 31,								
	2016			2017			2018		
	Amount	% of total	Provision for impairment losses ratio <sup>(1)</sup>	Amount	% of total	Provision for impairment losses ratio <sup>(1)</sup>	Amount	% of total	Provision for impairment losses ratio <sup>(1)</sup>
	(RMB in thousands, except percentages)								
Retail loans . . . . .	35,428	95.2%	1.04%	54,536	92.3%	1.09%	129,429	95.2%	1.69%
Dealer loans . . . . .	1,778	4.8%	0.50%	4,580	7.7%	0.50%	6,550	4.8%	0.74%
<b>Total allowance . . . . .</b>	<b>37,206</b>	<b>100.0%</b>	<b>0.99%</b>	<b>59,116</b>	<b>100.0%</b>	<b>1.00%</b>	<b>135,979</b>	<b>100.0%</b>	<b>1.59%</b>

*Note:*

(1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans and advances in that category.

## ASSETS AND LIABILITIES

The allowance for our retail loans increased from RMB35.4 million as of December 31, 2016, to RMB54.5 million as of December 31, 2017, which is in line with the growth in our retail loan business. In 2016, we changed certain criteria under our five-category loan classification system so as to classify loans overdue for over 60 days as substandard loans. Previously, a loan would not become substandard unless it was more than 90 days overdue. The allowance for our retail loans was RMB129.4 million as of December 31, 2018, as we have adopted HKFRS 9 since 2018 which introduces a new impairment model for financial assets. HKFRS 9 superseded HKAS 39 *Financial Instruments: Recognition and Measurement* where provisions for credit losses are measured in accordance with an incurred loss model that requires the recording of credit losses that have been incurred as of the balance sheet date, rather than of probable future losses. HKFRS 9 applies the expected credit losses model which is a more forward-looking approach that emphasises shifts to the probability of future credit losses and takes into account all relevant reasonable and supportable information. Our provision for impairment losses ratio for retail loans increased to 1.69% as of December 31, 2018 from 1.09% as of December 31, 2017, as a result of the increase in our impairment losses due to our overall business expansion.

The allowance for our dealer loans increased from RMB1.8 million as of December 31, 2016 to RMB4.6 million as of December 31, 2017, and then increased to RMB6.6 million as of December 31, 2018. Changes in our provision for impairment losses ratio during the Track Record Period resulted primarily from the fluctuation in the outstanding balance of dealer loans as of the end of each accounting period.

### *Allowance for Impairment Losses by Loan Classification*

The following table sets forth the distribution of our allowance for impairment losses by five-category loan classification as of the dates indicated:

As of December 31,									
2016			2017			2018			
		Provision for impairment losses ratio <sup>(1)</sup>			Provision for impairment losses ratio <sup>(1)</sup>			Provision for impairment losses ratio <sup>(1)</sup>	
Amount	% of total		Amount	% of total		Amount	% of total		
(RMB in millions, except percentages)									
Normal . . . . .	16.7	44.8%	0.4%	25.1	42.5%	0.4%	89.1	65.5%	1.1%
Special mention . . . . .	8.1	21.8%	85.1%	17.9	30.2%	62.3%	26.7	19.6%	32.8%
Substandard. . . . .	2.0	5.7%	98.7%	2.8	4.7%	86.6%	4.1	3.0%	90.4%
Doubtful. . . . .	1.5	3.9%	94.4%	2.0	3.4%	97.6%	6.5	4.8%	81.2%
Loss . . . . .	8.9	23.8%	85.4%	11.3	19.2%	99.1%	9.6	7.1%	88.5%
<b>Total allowance . . . . .</b>	<b><u>37.2</u></b>	<b><u>100.0%</u></b>		<b><u>59.1</u></b>	<b><u>100.0%</u></b>		<b><u>136.0</u></b>	<b><u>100.0%</u></b>	

*Note:*

(1) Calculated by dividing the amount of the allowance for impairment losses on loans in each category by the total amount of loans and advances in that category.



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## ASSETS AND LIABILITIES

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### *Movements of the Allowance for Impairment Losses*

The following table sets forth the movements of the allowance for impairment losses on loans and advances to customers between the dates indicated:

	Amount (RMB'000)
<b>As of December 31, 2016</b> .....	<b>37,206</b>
Charge of the year. ....	43,129
Write-offs .....	(21,848)
Recoveries of loans written-off in previous years. ....	629
<b>As of December 31, 2017</b> .....	<b>59,116</b>
<b>Adjustment on initial application of HKFRS 9</b> .....	<b>39,220</b>
<b>Adjusted balance at January 1, 2018</b> .....	<b>98,336</b>
Charge of the period .....	73,211
Write-offs .....	(36,364)
Recoveries of loans written-off in previous years. ....	796
<b>As of December 31, 2018</b> .....	<b>135,979</b>

### **Other Components of Assets**

Other components of our assets consist primarily of (i) deposits with banks and other financial institutions, (ii) cash and deposits with central bank, (iii) finance lease receivables, (iv) property and equipment, (v) intangible assets, (vi) deferred tax assets, and (vii) other assets.

### *Deposits with Banks and Other Financial Institutions*

Deposits with banks and other financial institutions primarily consist of our cash and cash equivalents. Our operations are primarily conducted with Renminbi. Our deposits with banks and other financial institutions were not pledged or restricted during the Track Record Period. The movement of our deposits with banks and other financial institutions was mainly affected by cash used in and from our financing and operation activities. As of December 31, 2016, 2017 and 2018, our deposits with banks and other financial institutions were RMB239.9 million, RMB270.5 million and RMB781.0 million, respectively. The recent increase in our deposits with banks and other financial institutions was due to increased amount of placements from banks and other financial institutions, which was influenced by the recent increase of overall liquidity in the market.

As of the Indebtedness Date, our deposits with banks and other financial institutions amounted to RMB575.9 million.

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## ASSETS AND LIABILITIES

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### *Cash and Deposits with Central Bank*

As required by PBOC, we deposit statutory deposit reserves with PBOC at a reserve ratio, which is decided and published by PBOC from time to time, of our eligible deposits denominated in RMB. The applicable reserve ratio was 7% as of December 31, 2018 and 7% as of the Indebtedness Date. Such statutory deposit reserves are not available for use by us for day-to-day operations. We significantly increased our cash and deposits with central bank to RMB35.2 million as of December 31, 2018 by 402.8% from RMB7.0 million as of December 31, 2017, to meet our liquidity requirement as a result of the increase in the deposits from shareholders in 2018. As of the Indebtedness Date, we had cash and deposits with central bank of RMB23.2 million.

### *Finance Lease Receivables*

Finance lease receivables primarily comprise receivables arising from our direct lease business launched in the fourth quarter of 2017. Our finance lease receivables were nil, RMB19.9 million and RMB103.0 million as of December 31, 2016, 2017 and 2018, respectively, in line with the overall growth of our finance lease business in 2018.

### *Property and Equipment*

Property and equipment primarily comprise office and electronic equipment. The balance of property and equipment decreased by 22.4% from RMB5.9 million as of December 31, 2016 to RMB4.6 million as of December 31, 2017 and increased by 12.2% to RMB5.1 million as of December 31, 2018, attributable to the purchase of additional office equipment in 2018.

### *Intangible Assets*

Intangible assets primarily comprise software and software under development. Our intangible assets increased by 39.8% from RMB12.5 million as of December 31, 2016 to RMB17.4 million as of December 31, 2017, primarily due to investment in software development, and slightly decreased by 11.8% to RMB15.4 million as of December 31, 2018, because the value of the additional softwares and IT systems we purchased in 2018 was lower than the accumulated amortization in the same period.

### *Deferred Tax Asset*

Deferred tax asset primarily comprises deferred tax arising from our provisions for impairment losses and deferred income. Our deferred tax asset was RMB20.6 million, RMB62.2 million and RMB73.8 million as of December 31, 2016, 2017 and 2018, respectively, primarily due to the temporary differences between the carrying amounts of assets and liabilities in its financial statements and the corresponding tax base used in the computation of taxable profit.

### *Other Assets*

Other assets primarily comprise interest receivables and other receivables that arise in our operations. Our interest receivables were RMB31.0 million, RMB33.4 million and RMB35.6 million as of December 31, 2016, 2017 and 2018, respectively. This increase was primarily due to the increase

## ASSETS AND LIABILITIES

in loans and advances to customers as we expanded our business operations during the Track Record Period. Our other receivables was RMB4.0 million, RMB6.8 million and RMB22.6 million as of December 31, 2016, 2017 and 2018. The increase from December 31, 2017 to 2018 was primarily due to an increase in commission receivables of our joint retail loans from RMB1.4 million as of December 31, 2017 to RMB16.1 million as of December 31, 2018. As of December 31, 2018, our other assets was RMB92.6 million.

As of the Indebtedness Date, our other assets amounted to RMB91.1 million.

### LIABILITIES AND SOURCES OF FUNDS

Our total liabilities was RMB7,049.1 million as of December 31, 2018, representing an increase of 66.6% from RMB4,232.4 million as of December 31, 2017. As of December 31, 2017, our total liabilities was RMB4,232.4 million, representing an increase by 26.1% from RMB3,355.7 million as of December 31, 2016. The overall increase in our total liabilities during the Track Record Period was primarily due to an increase in placements from banks and other financial institutions in response to the capital requirements of our business growth. Placements from banks and other financial institutions have been our primary source of funding and represented 96.4%, 95.0% and 86.3% of our total liabilities as of December 31, 2016 and 2017 and 2018, respectively. Our Directors confirm that our Company did not experience any difficulty in obtaining placements from banks and other financial institutions during the Track Record Period and up to the Latest Practicable Date.

The following table sets forth a summary of our liabilities as of the dates indicated:

	As of December 31,						As of Indebtedness Date,	
	2016		2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in thousands, except percentage)						(Unaudited)	
<b>Liabilities</b>								
Placements from banks and other financial institutions . . . . .	3,232,885	96.4%	4,020,000	95.0%	6,085,347	86.3%	6,786,056	92.5%
Guarantee deposits . . . . .	27,642	0.8%	78,894	1.9%	79,632	1.1%	84,121	1.1%
Other liabilities . . . . .	40,754	1.2%	56,598	1.3%	224,611	3.2%	234,170	3.2%
Current taxation . . . . .	54,392	1.6%	76,884	1.8%	59,478	0.9%	27,345	0.4%
Deposits from shareholders . . . . .	—	—	—	—	600,000	8.5%	202,280	2.8%
<b>Total Liabilities . . . . .</b>	<b><u>3,355,673</u></b>	<b><u>100.0%</u></b>	<b><u>4,232,376</u></b>	<b><u>100.0%</u></b>	<b><u>7,049,068</u></b>	<b><u>100.0%</u></b>	<b><u>7,333,972</u></b>	<b><u>100.0%</u></b>

## ASSETS AND LIABILITIES

### Placements from Banks and Other Financial Institutions

#### *Placements from Banks and Other Financial Institutions by Granting Institution*

The following table sets forth the distribution of our placements from banks and other financial institutions by granting institution as of the dates indicated:

	As of December 31,						As of Indebtedness Date,	
	2016		2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(RMB in thousands, except percentages)								
(Unaudited)								
Placements from banks . . . . .	3,160,000	97.7%	4,020,000	100.0%	6,085,347	100.0%	6,786,056	100.0%
Placements from other financial institutions . . . . .	72,885	2.3%	—	—	—	—	—	—
<b>Total . . . . .</b>	<b><u>3,232,885</u></b>	<b>100.0%</b>	<b><u>4,020,000</u></b>	<b>100.0%</b>	<b><u>6,085,347</u></b>	<b>100.0%</b>	<b><u>6,786,056</u></b>	<b>100.0%</b>

Our placements from banks increased by 27.2% from RMB3,160.0 million as of December 31, 2016 to RMB4,020.0 million as of December 31, 2017, and further increased by 51.4% to RMB6,085.3 million as of December 31, 2018. As of the Indebtedness Date, our placements from banks amounted to RMB6,786.1 million. The increase in our placements from banks was in line with our overall business growth.

Our amounts due from other financial institutions, namely, a trust financing company, was RMB72.9 million as of December 31, 2016, and nil as of December 31, 2017 and 2018, respectively. As of the Indebtedness Date, we did not have amounts due from financial institutions other than banks.

The agreement for our placements from banks and other financial institutions contain standard terms, conditions and covenants that are customary for commercial loans in China. Such covenants primarily include requirements for us to obtain the lending institutions' prior consent for certain transactions which may adversely impact our ability to repay the loan, such as disposal of material assets, merger and consolidation, and notify the lending institutions of occurrence of certain events, such as liquidation and winding up. During the Track Record Period, we complied with the covenants of our placements from banks and financial institutions in all material respects. In addition, there were no material covenants that limited our ability to undertake additional debt or equity financing during the Track Record Period.

## ASSETS AND LIABILITIES

### *Interest Range*

The following table sets forth the interest range of our placements from banks and financial institutions as of the dates:

	For the year ended or as of December 31,		For the period from January 1 to or as of December 31,	For the period from January 1 to or as of Indebtedness Date,
	2016	2017	2018	2019
	Placements from banks <sup>(1)</sup> . . . . .	4.00%-6.31%	5.00%-8.00%	5.20%-8.50%
Placements from other financial institutions <sup>(2)</sup> . . . . .	6.03%	N/A	N/A	N/A

The average interest rate of our placements from banks and other financial institutions was 5.08%, 5.45% and 6.80% in 2016, 2017 and 2018, respectively.

*Notes:*

- (1) Includes our short-term and long-term placements from banks.
- (2) Includes the placements from other financial institution, namely, a third-party trust institution.

### **Guarantee Deposits**

Guarantee deposits represent cash deposits that we receive from customers of our dealer loans and finance lease businesses to secure the loans we provide. In 2016, we fixed the rate of guarantee deposit at 5% of the principal amount of dealer loans we disbursed. Before that, the rates of guarantee deposits ranged from 5% to 20%. Guarantee deposits increased by 185.4% from RMB27.6 million as of December 31, 2016 to RMB78.9 million as of December 31, 2017, primarily due to the overall expansion of our business operations and increased credit and loans that we disbursed to dealers, primarily as a result of a relaxation of our policies relating to the guarantee we requested for dealer loans. As of December 31, 2018, our balance of guarantee deposits was relatively stable with an amount of RMB79.6 million. As of the Indebtedness Date, our guarantee deposits amounted to RMB84.1 million.

The following table sets forth our guarantee deposits by type of guarantor as of the dates indicated:

	As of December 31,						As of Indebtedness Date,	
	2016		2017		2018		2019	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(RMB in thousands, except percentages)								
(Unaudited)								
Deposits provided by dealers for dealer loans . . . . .	18,242	66.0%	70,435	89.3%	56,047	70.4%	60,186	71.6%
Deposits provided by dealers for retail loans . . . . .	9,400	34.0%	5,980	7.6%	6,892	8.7%	7,242	8.6%
Deposits from finance lease clients . . . . .	—	—	2,479	3.1%	16,693	20.9%	16,693	19.8%
<b>Total</b> . . . . .	<b>27,642</b>	<b>100.0%</b>	<b>78,894</b>	<b>100.0%</b>	<b>79,632</b>	<b>100.0%</b>	<b>84,121</b>	<b>100.0%</b>

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## ASSETS AND LIABILITIES

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### Other Liabilities

Other liabilities primarily consist of other interest payables, deferred incomes, and other payables. Substantially all of our other liabilities were incurred during the normal course of our business operations. Other liabilities increased from RMB40.8 million as of December 31, 2016 to RMB56.6 million as of December 31, 2017 and further to RMB224.6 million as of December 31, 2018, primarily due to the recent increase in our cost of funding.

	As of December 31,		
	2016	2017	2018
	(RMB in thousands)		
Interest payable. . . . .	16,879	20,088	49,315
Advance receipts. . . . .	341	190	33,648
Other payables . . . . .	23,534	36,320	141,648
<b>Total.</b> . . . . .	<u>40,754</u>	<u>56,598</u>	<u>224,611</u>

As of the Indebtedness Date, our other liabilities amounted to RMB234.2 million.

### Current Taxation

Current taxation primarily consist of enterprise income tax. Current taxation increased from RMB54.4 million as of December 31, 2016 to RMB76.9 million as of December 31, 2017, primarily due to the expansion of our business operations. We had current taxation of RMB59.5 million as of December 31, 2018.

As of the Indebtedness Date, our current tax liability amounted to RMB27.3 million.

### Deposits from Shareholders

We had deposits from shareholders of nil, nil, and RMB600.0 million as of December 31, 2016, 2017 and 2018, respectively. We take deposits from our shareholders from time to time. As of December 31, 2018, we had deposits from Wuhan ZhengTong United Industrial Investment Group Co., Ltd. (武漢正通聯合實業投資集團) with a term of three months and a fixed interest rate of 1.10% per annum.

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

See “Business — Our Strategies” for a detailed description of our Company’s future plans.

### USE OF PROCEEDS

Assuming an Offer Price of HK\$5.25 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$4.20 and HK\$6.30 per H Share), we estimate that we will receive net proceeds (after deducting the underwriting commissions and other estimated expenses payable by us) of approximately HK\$2,672.2 million from the Global Offering (assuming the Over-allotment Option is not exercised), or approximately HK\$3,081.6 million (assuming the Over-allotment Option is exercised in full), from the Global Offering.

If the Offer Price is fixed at HK\$6.30 per H Share, being the high end of the stated Offer Price range, our net proceeds will be (i) increased by approximately HK\$546.0 million, assuming the Over-allotment Option is not exercised; and (ii) increased by approximately HK\$627.9 million, assuming the Over-allotment Option is exercised in full. If the Offer Price is fixed at HK\$4.20 per H Share, being the low end of the stated Offer Price range, our net proceeds will be (i) decreased by approximately HK\$546.0 million, assuming the Over-allotment Option is not exercised; and (ii) decreased by approximately HK\$627.9 million, assuming the Over-allotment Option is exercised in full.

We expect to use the net proceeds from the Global Offering to strengthen our capital base to support the ongoing growth of our business. Specifically:

- (A) 70% of the net proceeds (approximately HK\$1,870.5 million) will be used to support the development of our business with External Customers, of which:
  - 65% of the net proceeds (approximately HK\$1,736.9 million) will be used to fund the self-operated retail loans to be disbursed to External Customers;
  - 5% of the net proceeds (approximately HK\$133.6 million) will be used to develop the network of the external dealers;
- (B) 15% of the net proceeds (approximately HK\$400.8 million) will be used to fund self-operated retail loans to be disbursed to ZhengTong Customers;
- (C) 5% of the net proceeds (approximately HK\$133.6 million) will be used to develop our technological, operational and risk management capabilities; and
- (D) 10% of the net proceeds (approximately HK\$267.2 million) will be used for general working capital.

In the event that the Offer Price is set at the high point or the low point of the indicative Offer Price range, the net proceeds of the Global Offering will increase or decrease by approximately HK\$546.0 million, respectively. Under such circumstances, we will increase or decrease the allocation

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## FUTURE PLANS AND USE OF PROCEEDS

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of the net proceeds to the above purposes on a pro-rata basis. If the Over-allotment Option is exercised in full, the additional net proceeds that we will receive will be approximately HK\$409.5 million, assuming an Offer Price of HK\$5.25 per Share, being the mid-point of the proposed Offer Price range. If the Over-allotment Option is exercised, we intend to apply such additional net proceeds for the above uses on a pro-rata basis.

To the extent that the net proceeds of the Global Offering are not immediately used for the above purpose, our Directors currently intend that such proceeds will be placed in short-term interest-bearing instruments such as bank deposits or money market funds with licensed banks or financial institutions in Hong Kong or the PRC.



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## UNDERWRITING

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### HONG KONG UNDERWRITERS

China International Capital Corporation Hong Kong Securities Limited

Credit Suisse (Hong Kong) Limited

Morgan Stanley Asia Limited

### UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and the Company, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 53,334,000 Hong Kong Offer Shares and the International Offering of initially 480,002,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in “Structure of the Global Offering” as well as to the Over-allotment Option (in the case of the International Offering).

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

#### *Hong Kong Underwriting Agreement*

Pursuant to the Hong Kong Underwriting Agreement, we are initially offering 53,334,000 H Shares (subject to reallocation) for subscription by the public in Hong Kong on, and subject to the terms and conditions set out in this prospectus and the Application Forms.

Subject to:

- Listing Approval having occurred and become effective on or before the Listing Date and Listing Approval not subsequently having been revoked prior to the commencement of trading of the H Shares on the Main Board of the Stock Exchange;
- the Offer Price having been fixed, and the Price Determination Agreement having been duly executed by the Company and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters), on the Price Determination Date and such agreement not subsequently having been terminated; and
- certain other conditions set out in the Hong Kong Underwriting Agreement,

the Hong Kong Underwriters have agreed to severally (and not jointly or jointly and severally) underwrite the Hong Kong Public Offering upon and subject to the terms and conditions in the Hong Kong Underwriting Agreement.

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## UNDERWRITING

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The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been executed and delivered and becoming unconditional and not having been terminated in accordance with its terms.

### *Grounds for Termination*

The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) shall be entitled by notice to the Company to terminate the Hong Kong Underwriting Agreement with immediate effect if, prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into effect:
  - (i) any event or series of events, in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, large scale outbreaks of disease (including, without limitation, SARS, swine or avian flu, H5N1, H1N1, H7N9 and such related/mutated forms), economic sanctions, strikes, labour disputes, lock-outs, fire, explosion, flooding, earthquake, tsunami, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism (whether or not responsibility has been claimed) or interruption or delay in transportation) in or affecting Hong Kong, the PRC, the United States, the United Kingdom or the European Union (or any member thereof) (collectively, the “**Relevant Jurisdictions**”);
  - (ii) any change or development involving a prospective change, or any event or circumstances or series of events likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, legal, fiscal, regulatory, currency, credit or market matters or conditions, equity securities or exchange control or any monetary or trading settlement system or other financial markets (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any of the Relevant Jurisdictions;
  - (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange;
  - (iv) any general moratorium on commercial banking activities in or affecting Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at the U.S. Federal or New York State level or by any other competent authority), London, the PRC, the European Union (or any

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## UNDERWRITING

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- member thereof) or any of the other Relevant Jurisdictions (declared by the relevant authorities), or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in or affecting any of the Relevant Jurisdictions;
- (v) any new law or regulation, or any change or development involving a prospective change, in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or any authority, in each case, in or affecting any of the Relevant Jurisdictions;
  - (vi) the imposition of economic sanctions, or the withdrawal of the trading privileges in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions;
  - (vii) any valid demand by any creditor for repayment or payment of any indebtedness of the Company or in respect of which the Company is liable prior to its stated maturity;
  - (viii) any change or development involving a prospective change or amendment in or affecting taxation or foreign exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or RMB against any foreign currencies, a change in the system under which the value of the Hong Kong dollar is linked to that of the United States dollar or RMB is linked to any foreign currency or currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions or affecting an investment in the Offer Shares;
  - (ix) other than with the prior written consent of the Joint Global Coordinators, the issue by the Company of a supplement or amendment to this prospectus, any Application Forms or other documents in connection with the offer and sale of the Offer Shares pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or upon any requirement or request of the Stock Exchange and/or the SFC;
  - (x) any demand by creditors for repayment of indebtedness or an order or petition for the winding up or liquidation of the Company or any composition or arrangement made by the Company with its creditors or a scheme of arrangement entered into by the Company or any resolution for the winding-up of the Company or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of the Company or anything analogous thereto occurring in respect of the Company;
  - (xi) any litigation, dispute, legal action or claim being threatened or instigated against the Company or any of the Controlling Shareholders or any director or senior management of the Company or any of the Controlling Shareholders;
  - (xii) any contravention by the Company, or any Director of any applicable laws and regulations or the Listing Rules;

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## UNDERWRITING

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- (xiii) any non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws and regulations;
- (xiv) any change or prospective change or development, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (xv) there is the commencement by any governmental, political or regulatory body of any investigation or other action against the Company, any of the Controlling Shareholders, any director or member of senior management of the Company or any of the Controlling Shareholders in his or her capacity as such or an announcement by any governmental, political or regulatory body that it intends to commence any such investigation or take any such action;

which, individually or in the aggregate, in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters): (i) has or will or may have a material adverse change of the assets, liabilities, general affairs, business, management, prospects, shareholders’ equity, profits, losses, earnings, results of operations, performance, position or condition, financial or otherwise of the Company or on any present or prospective shareholder of the Company in his, her or its capacity as such; or (ii) has or will have or may have a material adverse effect on the success or marketability or pricing of the Global Offering or the level of applications or the distribution of the Offer Shares under the Hong Kong Public Offering or the level of interest under the International Offering; or (iii) makes or will make or is likely to make it inadvisable or inexpedient, impracticable, incapable for any part of the Global Offering to proceed or to market the Global Offering or the delivery or distribution of the Offer Shares on the terms and in the manner contemplated by the offer-related documents, including but not limited to this prospectus; or (iv) has or will or may have effect of making any material part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (b) there has come to the notice of the Joint Global Coordinators that:
  - (i) any statement contained in any of this prospectus, the Application Forms, the formal notice and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto (the “**Offer-Related Documents**”)) but excluding information relating to the Underwriters) was, when it was issued, or has become, untrue, incorrect inaccurate, incomplete in any material respects or misleading or deceptive, or that any estimate, forecast, expression of opinion, intention or expectation contained in any of the aforesaid is not fair and honest and based on reasonable grounds or reasonable assumptions;

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## UNDERWRITING

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- (ii) any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from, or misstatement in any of the Offer Related Documents;
- (iii) there is a material breach of any of the obligations imposed upon or to be imposed upon the Company or Controlling Shareholders under the Hong Kong Underwriting Agreement or the International Underwriting Agreement;
- (iv) there is an event, act or omission which gives or is likely to give rise to any liability of the Company or the Controlling Shareholders pursuant to the indemnities given by any of them under the Hong Kong Underwriting Agreement or the International Underwriting Agreement as applicable;
- (v) there is any adverse change or development or likely to be any prospective adverse change or development in the assets, liabilities, general affairs, business, management, prospects, shareholders' equity, profits, losses, earnings, results of operations, performance, position or condition, financial, trading or otherwise of the Company or any of the Controlling Shareholders as a whole, including but not limited to any litigation or claim of any third party being threatened or instigated against the Company or any of the Controlling Shareholders;
- (vi) there is a breach of, or any event or circumstances rendering untrue, incorrect, incomplete or misleading in any respect, any of the warranties given by the Company and the Controlling Shareholders in the Hong Kong Underwriting Agreements or the International Underwriting Agreement, as applicable;
- (vii) any person (other than any of the Joint Sponsors) has withdrawn its consent to the issue of this prospectus with the inclusion of its reports, letters and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears;
- (viii) the Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering;
- (ix) there is a prohibition on the Company for whatever reason from offering, allotting, issuing or selling any of the Offer Shares pursuant to the terms of the Global Offering;
- (x) the Chairman, the Chief Executive Officer, any other Director or any other member of senior management of the Company is vacating his or her office;
- (xi) any Director or member of senior management of the Company or any of the Controlling Shareholders is being charged with an indictable offence or is prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

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## UNDERWRITING

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- (xii) any order or petition for the winding-up of the Company or any composition or arrangement made by the Company with its creditors or a scheme of arrangement entered into by the Company or any resolution for the winding-up of the Company or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of the Company or anything analogous thereto occurring in respect of the Company.

### *Undertakings to the Stock Exchange pursuant to the Listing Rules*

#### *Undertakings by the Company*

Pursuant to Rule 10.08 of the Listing Rules, no further Shares or securities convertible into equity securities of the Company (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing), except:

- (a) in certain circumstances prescribed by Rule 10.08 of the Listing Rules; or
- (b) pursuant to the Global Offering (including the Over-allotment Option).

#### *Undertaking by the Controlling Shareholders*

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has irrevocably and unconditionally undertaken to the Stock Exchange and to the Company that, except pursuant to the Global Offering (including the Over-allotment Option), it/he/she will not and shall procure that the relevant registered holder(s) controlled by it/him/her will not, without the prior written consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules:

- (a) in the period commencing on the date by reference to which disclosure of its/his/her shareholdings in the Company is made in the prospectus and ending on the date which is six months from the date on which dealings in the H Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of the Company in respect of which it/he/she is shown by this prospectus to be the beneficial owners; and
- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he/she would then cease to be a controlling shareholder of the Company for the purposes of the Listing Rules.

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## UNDERWRITING

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In addition, in accordance with Note 3 to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has further irrevocably and unconditionally undertaken to the Stock Exchange and us that, within the period commencing on the date by reference to which disclosure of its/his shareholdings is made in the prospectus and ending on the date which is 12 months from the Listing Date, it/he/she will, when it/he/she pledges or charges any securities of the Company or interests therein beneficially owned by it/him/her in favor of any authorized institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform the Company of such pledge or charge together with the number of securities so pledged or charged and when it/he/she receives indications, either verbal or written, from the pledgee or chargee that any of the securities of the Company pledged or charged will be disposed of, immediately inform the Company of such indications.

We will also, as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders, inform the Stock Exchange and disclose such matters as soon as possible by way of an announcement as required under the Listing Rules.

### *Undertakings to the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement*

#### *Undertakings by our Company*

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to each of the Joint Global Coordinators, the Hong Kong Underwriters and the Joint Sponsors that, except for the issue, offer or sale of the Offer Shares by the Company pursuant to the Global Offering (including pursuant to the Over-allotment Option) during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including the date that is six months after the Listing Date (the “**First Six-Month Period**”), the Company will not, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of Listing Rules:

- (a) offer, allot, issue, sell, accept subscription for, contract to allot, issue or sell, contract or agree to allot, issue or sell, assign, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, right or contract to purchase, purchase any option or contract to sell, agree to grant or purchase any option right or warrant to purchase or subscribe for, or otherwise transfer or dispose of, or agree to transfer or dispose of or create any encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in any Shares or other securities of the Company or any interests in any of the foregoing (including, but not limited to, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase any Shares or other securities of the Company), or deposit any Shares or other securities of the Company with a depository in connection with the issue of depository receipts;
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership (legal or beneficial) of any

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## UNDERWRITING

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Shares or other securities of the Company or any interest in any of the foregoing (including, without limitation, any securities of which are convertible into or exchangeable or exercisable for or represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of the Company);

- (c) enter into any transaction with the same economic effect as any transaction described in paragraphs (a) or (b) above;
- (d) offer to or contract to or agree to announce any intention or publicly disclose that the Company will or may enter into any transaction described in (a), (b) or (c) above,

in each case, whether any of the foregoing transactions is to be settled by delivery of such equity securities of the Company, in cash or otherwise (whether or not the issue of such Shares or other securities of the Company will be completed within the First-Six Month Period).

The Company further agrees that, in the event that, during the period of six months commencing on the date on which the First Six-month Period expires (the “**Second Six-Month Period**”), the Company enters into any of the transactions specified in paragraphs (a), (b) or (c) above or offers to or agrees to or contracts to or announces, or publicly discloses, any intention to, enter into any such transaction, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company and will not cause the Controlling Shareholders to cease to be a controlling shareholder of the Company.

### *Undertakings by our Controlling Shareholders*

Pursuant to the Hong Kong Underwriting Agreement, each of the Controlling Shareholders has irrevocably undertaken to each of the Company, the Joint Global Coordinators, the Hong Kong Underwriters and the Joint Sponsors that without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) during the First Six-Month Period, it/he will not, and will procure that the relevant registered holder(s), any nominee or trustee holding on trust for it/him and the companies controlled by it/him (together the “**Controlled Entities**”) will not:
  - (i) offer, pledge, charge, sell, contract or agree to sell, assign, mortgage, charge, pledge (other than any charge or pledge of the Company’s registered share capital after the consummation of the Global Offering in favour of an authorised institution as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan in compliance with Rule 10.07 of the Listing Rules), hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant, or purchase any option, warrant, contract or right to sell, grant, or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of or



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## UNDERWRITING

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create any other encumbrance over, or agree to transfer or dispose of or create any encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of the Company) beneficially owned by it/him/her directly or indirectly through its/his/her Controlled Entities as of the Listing Date (the “**Locked-up Securities**”), or

- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Locked-up Securities, or
- (iii) enter into or effect any transaction with the same economic effect as any transaction specified in paragraphs (i) or (ii) above, or
- (iv) offer to or contract to or agree to or publicly disclose that he/she/it will or may enter into any transaction specified in paragraphs (i), (ii) or (iii) above,

whether any of the transactions specified in paragraphs (i), (ii) or (iii) above is to be settled by delivery of such Shares or other securities of the Company, in cash or otherwise (whether or not the settlement or delivery of such Shares or other securities will be completed within the First Six-Month Period);

- (b) until the expiry of the Second Six-Month period, in the event that he/it or the relevant registered holder(s) and other Controlled Entities enters into any of the transactions specified in paragraphs (i), (ii) or (iii) above or offer to or agrees to or contracts to, or publicly announces any intention to enter into any such transaction, he/it will take all reasonable steps to ensure that he/it will not create a disorderly or false market in the securities of the Company and that all restrictions and requirements under the Listing Rules on the sale, transfer or disposal of the Locked-up Securities are complied with by him/it or the relevant registered holder(s) and other Controlled Entities; and
- (c) the Controlling Shareholders will not, during the Second Six-Month Period, enter into any of the transactions specified in paragraphs (i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction such that the Controlling Shareholders, directly or indirectly, will cease to be a group of controlling shareholder of the Company.

For the avoidance of doubt, this subsection headed “Undertakings by our Controlling Shareholders” shall not prevent Mr. Wang Muqing, Mr. Wang Weize or Joy Capital from applying any shares or securities in ZhengTong as security (including a charge or a pledge) in favour of a bank for a bona fide commercial loan.

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## UNDERWRITING

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We undertake to the Joint Global Coordinators, the Joint Sponsors and the Hong Kong Underwriters that upon receiving such information in writing from the Controlling Shareholders, we will, as soon as practicable and if required pursuant to the Listing Rules and/or the SFO, notify the Stock Exchange and make a public disclosure in relation to such information by way of an announcement.

### *Hong Kong Underwriters' Interest in our Company*

Save for its obligations under the Hong Kong Underwriting Agreement and as disclosed in this prospectus, none of the Hong Kong Underwriters has any shareholding interests in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their obligations under the Underwriting Agreements.

### **International Offering**

#### *International Underwriting Agreement*

In connection with the International Offering, the Company expects to enter into the International Underwriting Agreement with the International Underwriters on the Price Determination Date. Under the International Underwriting Agreement and subject to the Over-allotment Option, the International Underwriters would, subject to certain conditions set out therein, agree severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the International Offer Shares initially being offered pursuant to the International Offering. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. See “Structure of the Global Offering — The International offering.”

#### *Over-allotment Option*

The Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at any time and from time to time on or before the expiration of the period of thirty (30) calendar days after the last day for lodging applications under the Hong Kong Public Offering, pursuant to which the Company may be required to issue and allot up to an aggregate of 80,000,400 H Shares, representing not more than 15% of the Offer Shares, at the Offer Price, to, among other things, cover over-allocations in the International Offering, if any. See “Structure of the Global Offering — Over-allotment Option.”

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## UNDERWRITING

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### **Restrictions on the Offer Shares**

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make an offer or invitation. In particular, the Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in the PRC.

### **Commission and Expenses**

The Hong Kong Underwriters will receive an underwriting commission of 2.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the relevant International Underwriters (but not the Hong Kong Underwriters). The Company may also in its sole and absolute discretion to pay to the Joint Global Coordinators for their respective accounts an additional incentive fee up to 1% of the Offer Price for each Offer Share.

Assuming an Offer Price of HK\$5.25 per Offer Share (being the mid-point of the indicative Offer Price Range), the aggregate commissions and fees (assuming the full payment discretionary incentive fee and no exercise of the Over-allotment Option), together with Stock Exchange listing fees, SFC transaction levy, Stock Exchange trading fees, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated to amount in aggregate to approximately HK\$128 million in total. Such commissions, fees and expenses are payable by the Company.

The commission and expenses were determined after arm's length negotiation between the Company and the Hong Kong Underwriters or other parties by reference to the current market conditions.

### **Indemnity**

We have agreed to indemnify, among others, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including, among other matters, losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement as the case may be.

### **INDEPENDENCE OF THE JOINT SPONSORS**

China International Capital Corporation Hong Kong Securities Limited satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

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## UNDERWRITING

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Credit Suisse Trust Limited, an affiliate of Credit Suisse (Hong Kong) Limited, is the trustee of the Wang Family Trusts, and the Wang family members are the discretionary beneficiaries of the Wang Family Trusts. As such, Credit Suisse Trust Limited, acting in its capacity as trustee, is regarded as a close associate of the Wang Family Trusts Founders and a core connected person of the Company (as defined under the Listing Rules). Credit Suisse (Hong Kong) Limited is not an independent sponsor according to the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

### ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of the Company and/or persons and entities with relationships with the Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Company’s loans and other debt.

In relation to the H Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the H Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the H Shares (which financing may be secured by the H Shares) in the Global Offering, proprietary trading in the H Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the H Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the H Shares, which may have a negative impact on the trading price of the H Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the H Shares, in baskets of securities or indices including the H Shares, in units of funds that may purchase the H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the H Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the H Shares in most cases.

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## UNDERWRITING

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All such activities may occur both during and after the end of the stabilizing period described in “Structure of the Global Offering.” Such activities may affect the market price or value of the H Shares, the liquidity or trading volume in the H Shares and the volatility of the price of the H Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Share, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Share), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Share at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to the Company and its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering.

533,336,000 Offer Shares will be made available under the Global Offering comprising:

- (a) the Hong Kong Public Offering of 53,334,000 H Shares (subject to reallocation) in Hong Kong as described in “— The Hong Kong Public Offering” below; and
- (b) the International Offering of an aggregate of initially 480,002,000 H Shares (subject to reallocation and the Over-allotment Option) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S and in the United States to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements under the U.S. Securities Act, as described in “— The International Offering” below.

Of the 480,002,000 Offer Shares initially being offered under the International Offering, 26,675,462 Offer Shares will be offered under the Preferential Offering to the Qualifying ZhengTong Shareholders as an Assured Entitlement as described in “— The Preferential Offering” below.

Investors may either:

- (a) apply for Offer Shares under the Hong Kong Public Offering; or
- (b) apply for or indicate an interest for Offer Shares under the International Offering,

but may not do both (except that Qualifying ZhengTong Shareholders who are eligible to apply for the Reserved Shares in the Preferential Offering may also either (i) apply for Hong Kong Offer Shares under the Hong Kong Public Offering, if eligible; or (ii) indicate an interest for International Offer Shares under the International Offering, if qualified to do so).

The Offer Shares will represent approximately 25% of the total Shares in issue immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.71% of the total Shares in issue immediately following the completion of the Global Offering and the exercise of the Over-allotment Option.

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## STRUCTURE OF THE GLOBAL OFFERING

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### THE HONG KONG PUBLIC OFFERING

#### Number of Offer Shares initially offered

The Company is initially offering 53,334,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10% of the total number of Offer Shares initially available under the Global Offering. The number of Shares offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 2.5% of the total Shares in issue immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in “— Conditions of the Global Offering” below.

#### Allocation

Allocation of the Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of the Offer Shares initially available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided equally (to the nearest board lot) into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable) and up to the total value in pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are undersubscribed, such unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for the Offer Shares means the price payable on application therefore (without regard to the Offer Price as finally determined).

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## STRUCTURE OF THE GLOBAL OFFERING

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Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 26,667,000 Hong Kong Offer Shares being 50% of the 53,334,000 Hong Kong Offer Shares initially available under the Hong Kong Public Offering are liable to be rejected.

### **Reallocation and clawback**

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 to the Listing Rules requires a clawback mechanism to put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached as further described below:

If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more of the total number of H Shares initially available under the Hong Kong Public Offering, then the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 160,002,000 Offer Shares (in the case of (i)), 213,336,000 Offer Shares (in the case of (ii)) and 266,668,000 Offer Shares (in the case of (iii)), representing approximately 30%, 40% and 50% of the total number of Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). Such reallocation is referred to in this prospectus as “**Mandatory Reallocation**”.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate. In addition, the Joint Global Coordinators may reallocate the Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Global Coordinators.

If the Hong Kong Public Offering is not fully subscribed for, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

In addition to any Mandatory Reallocation which may be required, the Joint Global Coordinators and the Joint Sponsors may, at their discretion, reallocate H Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy valid applications in pool A and pool B under the Hong Kong Public Offering, regardless of whether the Mandatory Reallocation is triggered. In the event that (i) the International Offer Shares are not fully subscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed; or (ii) the International Offer Shares are



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## STRUCTURE OF THE GLOBAL OFFERING

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fully subscribed or oversubscribed and the Hong Kong Offer Shares are oversubscribed with the Hong Kong Public Offering over-subscription representing less than 15 times of the number of H Shares initially available for subscription under the Hong Kong Public Offering, the Joint Global Coordinators, in their sole and absolute discretion, may (but shall have no obligation to) reallocate up to 53,334,000 Offer Shares to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offer will be increased to 106,668,000 Offer Shares, representing approximately 20% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). If the above event takes place, the Offer Price shall be fixed at the low end of the indicative Offer Price range (i.e. HK\$4.20 per Share) stated in this prospectus.

The Reserved Shares which are offered under the Preferential Offering to Qualifying ZhengTong Shareholders out of the Offer Shares being offered under the International Offering will not be subject to reallocation between the Hong Kong Public Offering and the International Offering.

### **Applications**

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or it has been or will be placed or allocated International Offer Shares under the International Offering.

The listing of the H Shares on the Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the Maximum Offer Price of HK\$6.30 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in "— Pricing of the Global Offering" below, is less than the Maximum Offer Price of HK\$6.30 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in "How to Apply for Hong Kong Offer Shares and Reserved Shares" in this prospectus.

## **THE PREFERENTIAL OFFERING**

### **Basis of the Assured Entitlement**

In order to enable ZhengTong Shareholders to participate in the Global Offering on a preferential basis as to allocation only, subject to the Stock Exchange granting approval for the listing of, and permission to deal in, the H Shares on the Main Board and such approval not having been withdrawn and the Global Offering becoming unconditional, Qualifying ZhengTong Shareholders are being invited to apply for an aggregate of 26,675,462 Reserved Shares in the Preferential Offering, representing approximately 5.56% and 5.00% of the Offer Shares initially available under the International Offering and the Global Offering (assuming that the Over-allotment Option is not

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## STRUCTURE OF THE GLOBAL OFFERING

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exercised), respectively, as an Assured Entitlement. The Reserved Shares are being offered out of the International Offer Shares under the International Offering and are not subject to reallocation as described in “— The Hong Kong Public Offering — Reallocation and clawback” above. In the event the Over-allotment Option is exercised, the number of Reserved Shares will not change.

**The basis of the Assured Entitlement is one Reserved Share for every 92 ZhengTong Shares held by Qualifying ZhengTong Shareholders as at 4:30 p.m. on the Record Date.**

Qualifying ZhengTong Shareholders should note that their Assured Entitlement to the Reserved Shares may not represent a full board lot of 1,000 H Shares. No odd lot matching services will be provided and dealings in odd lots of the H Shares may be at a price below the prevailing market price for full board lots.

**The Assured Entitlements of Qualifying ZhengTong Shareholders to Reserved Shares are not transferrable. There will be no trading in nil-paid entitlements on the Stock Exchange.**

Qualifying ZhengTong Shareholders who hold less than 92 ZhengTong Shares on the Record Date and therefore will not have an Assured Entitlement to the Reserved Shares will still be entitled to participate in the Preferential Offering by applying only for excess Reserved Shares as further described below.

### **Basis of Allocation for Applications for Reserved Shares**

Qualifying ZhengTong Shareholders may apply for a number of Reserved Shares which is greater than, less than or equal to their Assured Entitlement or may apply only for excess Reserved Shares under the Preferential Offering.

A valid application for a number of Reserved Shares which is less than or equal to a Qualifying ZhengTong Shareholder's Assured Entitlement under the Preferential Offering will be accepted in full, subject to the terms and conditions set out in the **BLUE** Application Forms or the **Blue Form eIPO** service via [www.eipo.com.hk](http://www.eipo.com.hk) and assuming the conditions of the Preferential Offering are satisfied.

Where a Qualifying ZhengTong Shareholder applies for a number of Reserved Shares which is greater than the Qualifying ZhengTong Shareholder's Assured Entitlement under the Preferential Offering, the relevant Assured Entitlement will be satisfied in full, subject as mentioned above, but the excess portion of such application will only be satisfied to the extent that there are sufficient Available Reserved Shares as described below.

Where a Qualifying ZhengTong Shareholder applies for excess Reserved Shares only under the Preferential Offering, such application will only be satisfied to the extent that there are sufficient Available Reserved Shares as described below.

Qualifying ZhengTong Shareholders (other than HKSCC Nominees) who intend to apply for less than their Assured Entitlement using the **BLUE** Application Forms for Assured Entitlement or who intend to apply for excess Reserved Shares using the **BLUE** Application Forms for excess Reserved Shares, should apply for a number which is one of the numbers set out in the table of numbers and

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## STRUCTURE OF THE GLOBAL OFFERING

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payments in the **BLUE** Application Form and make a payment of the corresponding amount. If you intend to apply for a number of Assured Entitlement or excess Reserved Shares which is not one of the numbers set out in the table in the **BLUE** Application Form for Assured Entitlement and excess Reserved Shares, you **MUST** apply by using **Blue Form eIPO** only. If you are a Qualifying ZhengTong Shareholder and wish to apply for excess Reserved Shares in addition to your Assured Entitlement, you should complete and sign the **BLUE** Application Form for excess Reserved Shares and lodge it, together with a separate remittance for the full amount payable on application in respect of the excess Reserved Shares applied for or apply for through the **Blue Form eIPO** service via [www.eipo.com.hk](http://www.eipo.com.hk).

To the extent that excess applications for the Reserved Shares are:

- (a) less than the Assured Entitlement not taken up by the Qualifying ZhengTong Shareholders (the “**Available Reserved Shares**”), the Available Reserved Shares will first be allocated to satisfy such excess applications for the Reserved Shares in full and thereafter will be allocated, at the discretion of the Joint Global Coordinators, to the International Offering;
- (b) equal to the Available Reserved Shares, the Available Reserved Shares will be allocated to satisfy such excess applications for the Reserved Shares in full; or
- (c) more than the Available Reserved Shares, the Available Reserved Shares will be allocated on an allocation basis which will be consistent with the allocation basis commonly used in the case of over-subscriptions in public offerings in Hong Kong, where a higher allocation percentage will be applied in respect of smaller applications. If there are any H Shares remaining after satisfying the excess applications, such H Shares will be reallocated, at the discretion of the Joint Global Coordinators, to the International Offering. No preference will be given to any excess applications made to top up odd lot holdings to whole lot holdings of H Shares.

Save for the above, the Preferential Offering will not be subject to the clawback arrangement between the International Offering and the Hong Kong Public Offering.

Beneficial ZhengTong Shareholders whose ZhengTong Shares are held by a nominee company should note that the Company will regard the nominee company as a single ZhengTong Shareholder according to the register of members of ZhengTong. Accordingly, such Beneficial ZhengTong Shareholders whose ZhengTong Shares are held by a nominee company should note that the arrangement under paragraph (c) above will not apply to them individually. Any Beneficial ZhengTong Shareholders whose ZhengTong Shares are registered in the name of a nominee, trustee or registered holder in any other capacity should make arrangements with such nominee, trustee or registered holder in relation to applications for Reserved Shares under the Preferential Offering. Any such person is advised to consider whether it wishes to arrange for the registration of the relevant ZhengTong Shares in the name of the beneficial owner prior to the Record Date.

### **Applications by Qualifying ZhengTong Shareholders for Hong Kong Offer Shares**

In addition to any application for Reserved Shares made either through the **Blue Form eIPO** service via [www.eipo.com.hk](http://www.eipo.com.hk) or on a **BLUE** Application Form, Qualifying ZhengTong Shareholders

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## STRUCTURE OF THE GLOBAL OFFERING

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will be entitled to make one application for Hong Kong Offer Shares on **WHITE** or **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC via CCASS or by applying through the **White Form eIPO** service. Qualifying ZhengTong Shareholders will receive no preference as to entitlement or allocation in respect of applications for Hong Kong Offer Shares made on **WHITE** or **YELLOW** Application Forms or by giving **electronic application instructions to HKSCC or through the White Form eIPO** service under the Hong Kong Public Offering.

### **Beneficial ZhengTong Shareholders who hold ZhengTong Shares through Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect**

Pursuant to Article 23 of the Implementation Rules for Registration, Depository and Clearing Services under the Mainland China-Hong Kong Stock Markets Connect Program (《內地與香港股票市場交易互聯互通機制登記、存管、結算業務實施細則》), CSDCC does not provide services relating to the subscription of newly issued shares. Accordingly, Beneficial ZhengTong Shareholders who hold ZhengTong Shares through Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect cannot participate in the Preferential Offering and will not be able to take up their respective Assured Entitlement to the Reserved Shares under the Preferential Offering through the trading mechanism of Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect.

### **Distribution of This Prospectus and the BLUE Application Forms**

**BLUE** Application Forms have been despatched to all Qualifying ZhengTong Shareholders. In addition, Qualifying ZhengTong Shareholders will receive a copy of this prospectus. For further details, see section entitled “How to Apply for Hong Kong Offer Shares and Reserved Shares” in this prospectus.

An electronic version of this prospectus (which is identical to the printed prospectus) can be accessed and downloaded from the websites of the Company and the Stock Exchange at [www.dongzhengafc.com](http://www.dongzhengafc.com) and [www.hkexnews.hk](http://www.hkexnews.hk), respectively.

Qualifying ZhengTong Shareholders may also obtain a printed copy of this prospectus, free of charge, during normal business hours from any of the designated branches of the receiving banks and the designated offices of each of the Joint Global Coordinators as set out in “How to Apply for Hong Kong Offer Shares and Reserved Shares.”

Distribution of this prospectus and/or the **BLUE** Application Form(s) into any jurisdiction other than Hong Kong may be restricted by law. Persons who come into possession this prospectus and/or the **BLUE** Application Form(s) (including, without limitation, agents, custodians, nominees and trustees) should inform themselves of, and observe, any such restriction. Any failure to comply with such restriction may constitute a violation of the securities laws of any such jurisdiction.

Receipt of this prospectus and/or the **BLUE** Application Form(s) does not and will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this prospectus and/or the **BLUE** Application Form(s) must be treated as sent for information only and should not be copied or redistributed.

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## STRUCTURE OF THE GLOBAL OFFERING

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### **Application Procedures**

The procedures for application under and the terms and conditions of the Preferential Offering are set out in “How to Apply for Hong Kong Offer Shares and Reserved Shares” in this prospectus and on the **BLUE** Application Forms.

**The documents to be issued in connection with the Hong Kong Public Offering and the Preferential Offering will not be registered or filed under applicable securities or equivalent legislation of any jurisdiction other than Hong Kong. No action has been taken to permit an offering of the Hong Kong Offer Shares and the Reserved Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation.**

### **THE INTERNATIONAL OFFERING**

#### **Number of Offer Shares initially offered**

Subject to reallocation as described above, the International Offering will consist of an offering of initially 480,002,000 Offer Shares, representing approximately 90% of the total number of Offer Shares initially available under the Global Offering. The Reserved Shares being offered pursuant to the Preferential Offering are being offered out of the International Offer Shares.

#### **Allocation**

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in “— Pricing of the Global Offering” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the Listing. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Company and the Shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application of Offer Shares under the Hong Kong Public Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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### **Reallocation and clawback**

The total number of Offer Shares to be issued pursuant to the International Offering may change as a result of the clawback arrangement described in “— The Hong Kong Public Offering” above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

### **Over-allotment Option**

In connection with the Global Offering, the Company is expected to grant an Over-allotment Option to the International Underwriters exercisable by the Joint Global Coordinators on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) at any time and from time to time on or before the expiration of their period of thirty (30) calendar days after the last day for the lodging of applications under the Hong Kong Public Offering, to require the Company to issue and allot up to 80,000,400 additional Offer Shares, representing 15% of the Offer Shares, at the Offer Share under the International Offering to cover, among other things, over-allocation in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.61% of the total Shares in issue immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made.

### **STABILIZATION**

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time inter alia, to retard and, if possible, prevent, a decline in the market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager or any person acting for it, on behalf of the Underwriters, may make purchases, over-allocate or effect transactions in the market or otherwise take such stabilizing action(s) with a view to stabilizing or maintaining the market price of the H Shares for a limited period after the Listing Date at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of H Shares than the Underwriters are required to purchase in the Global Offering. “Covered” short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional H Shares or purchasing H Shares in the open market. In determining the source of the H Shares to close out the covered short position, the Stabilizing Manager will consider, among others, the price of H Shares in the open market as compared to the price at which they may purchase additional H Shares pursuant to the Over-allotment Option. Stabilizing transactions consist

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## STRUCTURE OF THE GLOBAL OFFERING

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of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the H Shares while the Global Offering is in progress. Any market purchases of the H Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing action, which if taken, (a) will be conducted at the absolute discretion of the Stabilizing Manager or any person acting for it, (b) may be discontinued at any time, and (c) is required to be brought to an end within thirty (30) calendar days after the last day for the lodging of applications under the Hong Kong Public Offering. The number of the Shares that may be over-allocated will not exceed the number of the H Shares that may be issued under the Over-allotment Option, namely, 80,000,400 Offer Shares, which is approximately 15% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

- (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the H Shares;
- (b) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimizing any deduction in the market price of the H Shares;
- (c) subscribing, or agreeing to subscribe, for the H Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, any of the H Shares for the sole purpose of preventing or minimizing any reduction in the market price of the H Shares;
- (e) selling or agreeing to sell any H Shares to liquidate any position established as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

Prospective applications for investors in the Offer Shares should note that:

- (a) as a result of effecting transactions to stabilize or maintain the market price of the H Shares, the Stabilizing Manager, or any person acting for it, may maintain a long position in the H Shares;

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## STRUCTURE OF THE GLOBAL OFFERING

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- (b) the size of the long position, and the period for which the Stabilizing Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain;
- (c) liquidation of any such long position by the Stabilizing Manager and selling in the open market may lead to a decline in the market price of the H Shares;
- (d) no stabilizing action can be taken to support the price of the H Shares for longer than the stabilizing period, which begins on the Listing Date, and is expected to expire on Thursday, April 18, 2019, being the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the H Shares, and their market price, could fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the H Shares. As a result, the price of the H Shares may be higher than the price that otherwise may exist in the open market;
- (e) any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of the H Shares staying at or above the Offer Price either during or after the stabilizing period; and
- (f) stabilizing bids or transactions effected in the course of the stabilizing action may be made at a price at or below the Offer Price and therefore at or below the price paid by applicants for, or investors in, the Offer Shares.

In effecting stabilizing actions, the Stabilizing Manager will arrange cover up to an aggregate of 80,000,400 Offer Shares, which is approximately 15% of the number of Offer Shares initially available under the Global Offering. Both the size of such cover and the extent to which the Over-allotment Option can be exercised will depend on whether sufficient number of H Shares will be made available under delayed settlement or deferred settlement arrangements. There will be no stabilization actions and no exercise of the Over-allotment Option should no investors be willing to enter into such delayed delivery or deferred settlement arrangements.

An announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

## PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors' indications of interests in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.



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## STRUCTURE OF THE GLOBAL OFFERING

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Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Tuesday, March 19, 2019 and in any event on or before Monday, March 25, 2019 by agreement between the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and the Company and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$6.30 per H Share and is expected to be not less than HK\$4.20 per H Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the Minimum Offer Price stated in this prospectus.**

The Joint Global Coordinators, for themselves and on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of the Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price Range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering and the Preferential Offering, cause to be published in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and on the website of the Company ([www.dongzhengaf.com](http://www.dongzhengaf.com)) notices of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised Offer Price Range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and the Company, will be fixed within such revised Offer Price Range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price Range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced and the Offer Price, if agreed upon with the Company and the Joint Global Coordinators, will under no circumstances be set outside the Offer Price Range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Joint Global Coordinators may at their discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of H Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares in the Global Offering. The Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

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## STRUCTURE OF THE GLOBAL OFFERING

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The Offer Price for H Shares under the Global Offering, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the Preferential Offering, the basis of allocations of the Hong Kong Offer Shares and the Reserved Shares and the results of allocation in the Hong Kong Public Offering and the Preferential Offering are expected to be announced on Monday, March 25, 2019, through a variety of channels in the manner described in “How to Apply for Hong Kong Offer Shares and Reserved Shares — E. Publication of Results” in this prospectus.

### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on:

- (i) the Listing Committee granting approval for the listing of, and permission to deal in, the H Shares to be offered pursuant to the Global Offering as mentioned herein (including any additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option) and such approval not having been withdrawn;
- (ii) the Offer Price having been duly agreed between the Company and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) on the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements.

In each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between the Company and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) on or before Monday, March 25, 2019, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by the Company in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company ([www.dongzhengaf.com](http://www.dongzhengaf.com)) on the next day following such lapse. In such event, all application monies will be returned, without interest, on the

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## STRUCTURE OF THE GLOBAL OFFERING

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terms set out in section entitled “How to Apply for Hong Kong Offer Shares and Reserved Shares” in this prospectus. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving bankers or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

H Share certificates for the Offer Shares are expected to be issued on Monday, March 25, 2019 but will only become valid certificates of title at 8:00 a.m. on Tuesday, March 26, 2019, provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in “Underwriting — Grounds for Termination” in this prospectus has not been exercised at or before that time.

### DEALING IN THE H SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, March 26, 2019, it is expected that dealings in the H Shares on the Stock Exchange will commence at 9:00 a.m. on Tuesday, March 26, 2019. The H Shares will be traded in board lots of 1,000 H Shares each and the stock code of the H Shares will be 2718.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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### A. APPLICATIONS FOR HONG KONG OFFER SHARES

#### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares (except in respect of Reserved Shares applied for pursuant to the Preferential Offering).

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

#### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States (as defined in Regulation S) and are not a U.S. person (as defined in Regulation S); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you apply for Hong Kong Offer Shares online through the **White Form eIPO** service, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorized officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Company and the Joint Global Coordinators, as the Company's agent, may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if:

- you are an existing beneficial owner of Shares in the Company; or
- you are a Director or chief executive officer of the Company; or
- you are an associate of any of the above persons; or
- you are a connected person of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; or
- you have been allocated or have applied for or indicated an interest in any International Offer Shares or otherwise participated in the International Offering (except in respect of Reserved Shares applied for pursuant to the Preferential Offering).

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, March 14, 2019 until 12:00 noon on Tuesday, March 19, 2019 from:

- (i) any of the following addresses of the Joint Global Coordinators:

**China International Capital Corporation Hong Kong Securities Limited**

29th Floor, One International Finance Centre  
1 Harbour View Street  
Central, Hong Kong

**Credit Suisse (Hong Kong) Limited**

Level 88 International Commerce Centre  
1 Austin Road West  
Kowloon, Hong Kong

**Morgan Stanley Asia Limited**

46/F, International Commerce Centre  
1 Austin Road West  
Kowloon, Hong Kong

- (ii) or any of the following branches of the receiving banks of the Hong Kong Public Offering:

**DBS Bank (Hong Kong) Limited**

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Head Office	G/F, The Center, 99 Queen's Road Central
	Queen's Road East — DBS Treasures Centre	Shop A, G/F, Jonsim Place, 228 Queen's Road East, Wanchai
	North Point Branch	G/F, 391 King's Road, North Point
	Happy Valley Branch	G/F, 18A-22 King Kwong Street, Happy Valley
Kowloon	Amoy Plaza Branch	Shops G193-195, Amoy Plaza, 77 Ngau Tau Kok Road, Ngau Tau Kok
	Mei Foo Branch	Shops N26A & N26B, Stage V, Mei Foo Sun Chuen, 10 & 12 Nassau Street

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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	<u>Branch Name</u>	<u>Address</u>
	Nathan Road — SME Banking Centre	2/F, Wofoo Commercial Building, 574-576 Nathan Road, Mongkok
	Kowloon Bay — SME Banking Centre	Shop 6, G/F, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay
New Territories	Tuen Mun Town Plaza — SME Banking Centre	Shop 23, G/F, Tuen Mun Town Plaza (II), 3 Tuen Lung Street, Tuen Mun
	Yuen Long Branch	G/F, 1-5 Tai Tong Road, Yuen Long

### **CMB Wing Lung Bank Limited**

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Head Office	45 Des Voeux Road Central
	Johnston Road Branch	118 Johnston Road
	Central District Branch	189 Des Voeux Road Central
Kowloon	Tsim Sha Tsui Branch	4 Carnarvon Road
	Prince Edward Branch	17 Lai Chi Kok Road
New Territories	Tsuen Wan Branch	251 Sha Tsui Road

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, March 14, 2019 until 12:00 noon on Tuesday, March 19, 2019 from:

- the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- your stockbroker.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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### Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a check or a banker's cashier order attached and marked payable to "**Ting Hong Nominees Limited — Dongzheng AFC Public Offer**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

**Thursday, March 14, 2019 — 9:00 a.m. to 5:00 p.m.**

**Friday, March 15, 2019 — 9:00 a.m. to 5:00 p.m.**

**Saturday, March 16, 2019 — 9:00 a.m. to 1:00 p.m.**

**Monday, March 18, 2019 — 9:00 a.m. to 5:00 p.m.**

**Tuesday, March 19, 2019 — 9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, March 19, 2019, the last application day or such later time as described in "— D. Effect of Bad Weather on the Opening and Closing of the Application Lists" in this section.

### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the **WHITE** or **YELLOW** Application Form carefully; otherwise, your application may be rejected.

By submitting a **WHITE** or **YELLOW** Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the PRC Company Law, the Special Regulations and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have relied only on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering set out in this prospectus;



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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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- (vi) agree that none of the Company, the Relevant Persons and the **White Form eIPO** Service Provider is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering (except in respect of Reserved Shares pursuant to the Preferential Offering);
- (viii) agree to disclose to the Company, the H Share Registrar, the receiving banks and the Relevant Persons any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company nor the Relevant Persons will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) and are not a U.S. person (as defined in Regulation S);
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated to you under the application;
- (xv) authorize the Company to place your name(s) or the name of HKSCC Nominees on the Company's H Share register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any H Share certificate(s) and/or any e-Refund payment instructions and/or any refund check(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the H Share certificate(s) and/or refund check(s) in person;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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- (xvi) declare and represent that except for an application made by a Qualifying ZhengTong Shareholder under the Preferential Offering, this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through the **White Form eIPO** service by you or by any one as your agent or by any other person (except in respect of application for Reserved Shares pursuant to the Preferential Offering); and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC (except in respect of application for Reserved Shares pursuant to the Preferential Offering); and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional Instructions for YELLOW Application Forms**

You may refer to the **YELLOW** Application Form for details.

## **5. APPLYING THROUGH THE WHITE FORM eIPO SERVICE**

### **General**

Individuals who meet the criteria in “— 2. Who Can Apply” above, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

### **Time for Submitting Applications under the White Form eIPO**

You may submit your application through the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk) (24 hours daily, except on the last day for applications) from 9:00 a.m. on Thursday, March 14, 2019 until 11:30 a.m. on Tuesday, March 19, 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, March 19, 2019, the last day for applications, or such later time under “— D. Effect of Bad Weather on the Opening and Closing of the Application Lists” below.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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### No Multiple Applications

If you apply by means of the **White Form eIPO** service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

### Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “Shanghai Dongzheng Automotive Finance Co., Ltd.\*” **White Form eIPO** application submitted via the website [www.eipo.com.hk](http://www.eipo.com.hk) to support the funding of “Dongjiang River Source Tree Planting” project initiated by Friends of the Earth (HK).

## 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

### General

CCASS Participants may give electronic application instructions to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**

Customer Service Center  
1/F, One & Two Exchange Square  
8 Connaught Place, Central  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and the H Share Registrar.

### **Giving Electronic Application Instructions to HKSCC via CCASS**

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
  - (if the electronic application instruction are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application** instructions for the other person's benefit and are duly authorized to give those instructions as their agent;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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- confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorize the Company to place HKSCC Nominees name on the Company's H Share register of members as the holder of the Hong Kong Offer Shares allocated to you and to send H Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company or the Relevant Persons is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose to the Company, the H Share Registrar, the receiving banks and the Relevant Persons any personal data which they may require about you;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with the Company, and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the results of the Hong Kong Public Offering;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the PRC Company Law, the Special Regulations and the Articles of Association;
- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong;
- agree with the Company, for itself and for the benefit of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company (and so that the Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company, with each CCASS Participant giving **electronic application instructions**):
  - (a) to refer all differences and claims arising from the Articles of Association of the Company or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association of the Company;
  - (b) that any award made in such arbitration shall be final and conclusive; and
  - (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;
- agree with the Company (for the Company itself and for the benefit of each shareholder of the Company) that H Shares in the Company are freely transferable by their holders; and
- authorize the Company to enter into a contract on its behalf with each director and officer of the Company whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association of the Company.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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### Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

### Time for Inputting Electronic Application Instructions<sup>(1)</sup>

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

**Thursday, March 14, 2019 — 9:00 a.m. to 8:30 p.m.**

**Friday, March 15, 2019 — 8:00 a.m. to 8:30 p.m.**

**Monday, March 18, 2019 — 8:00 a.m. to 8:30 p.m.**

**Tuesday, March 19, 2019 — 8:00 a.m. to 12:00 noon**

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*Note:*

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, March 14, 2019 until 12:00 noon on Tuesday, March 19, 2019 (24 hours daily, except on the last day for applications).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, March 19, 2019, the last day for applications or such later time as described in “— D. Effect of Bad Weather on the Opening and Closing of the Application Lists” in this section.

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

### Personal Data

The section of the Application Form entitled “Personal Data” applies to any personal data held by the Company, the H Share Registrar, the receiving banks and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## 7. WARNING FOR ELECTRONIC APPLICATIONS

The application for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for applications to make your electronic applications. The Company, the Relevant Persons and the **White Form eIPO** Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allocated any Hong Kong Offer Shares.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, March 19, 2019, the last day for applications, or such later time as described in “— D. Effect of Bad Weather on the Opening and Closing of the Application Lists” below.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

If you are a Qualifying ZhengTong Shareholder applying for Reserved Shares under the Preferential Offering either through **Blue Form eIPO** service via [www.eipo.com.hk](http://www.eipo.com.hk) or on the **BLUE** Application Form, you may also make one application for Hong Kong Offer Shares either on a **WHITE** or **YELLOW** Application Form or electronically to HKSCC through CCASS (if you are a CCASS Investor Participant or act through a CCASS Clearing or Custodian Participant) or submit an application through the **White Form eIPO** service through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk). However, in respect of any application for Hong Kong Offer Shares using the above methods, you will not enjoy the preferential treatment accorded to you under the Preferential Offering as described “Structure of the Global Offering — The Preferential Offering.”

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC through CCASS or through the **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**).

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### B. APPLICATIONS FOR RESERVED SHARES

#### 1. WHO CAN APPLY

Only ZhengTong Shareholders whose names appeared on the register of members of ZhengTong on the Record Date are entitled to subscribe for the Reserved Shares under the Preferential Offering.

Qualifying ZhengTong Shareholders are entitled to apply on the basis of an Assured Entitlement of one Reserved Share for every 92 ZhengTong Shares held by them on the Record Date.

Qualifying ZhengTong Shareholders who hold less than 92 ZhengTong Shares on the Record Date will not have an Assured Entitlement to the Reserved Shares, but they will still be entitled to participate in the Preferential Offering by applying for excess Reserved Shares.

If the applicant is a firm, the application must be in the individual members’ names, but not in the name of the firm. If the applicant is a body corporate, the **BLUE** Application Form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with the corporation’s chop.

If an application is made by a duly authorized person under a valid power of attorney, the Company and the Joint Global Coordinators, as the Company’s agents, may accept it at their discretion, and on any conditions they think fit, including requiring evidence of the attorney’s authority. The Company and the Joint Global Coordinators, as the Company’s agents, will have full discretion to reject or accept any application, in full or in part, without giving any reason.

You cannot apply for any Reserved Shares if you are:

- an existing beneficial owner of Shares in the Company;
- a Director or chief executive officer of the Company;
- an associate of any of the above persons; or
- a connected person of the Company or will become a connected person of the Company immediately upon completion of the Global Offering.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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### 2. HOW TO APPLY

An application for Reserved Shares under the Preferential Offering may only be made by Qualifying ZhengTong Shareholders either through the **Blue Form eIPO** service via [www.eipo.com.hk](http://www.eipo.com.hk) or using **BLUE** Application Forms which have been despatched to Qualifying ZhengTong Shareholders by the Company.

Qualifying ZhengTong Shareholders may apply for a number of Reserved Shares which is greater than, less than or equal to their Assured Entitlement or may apply only for excess Reserved Shares under the Preferential Offering. Qualifying ZhengTong Shareholders who hold less than 92 ZhengTong Shares on the Record Date and therefore will not have an Assured Entitlement to the Reserved Shares but will still be entitled to participate in the Preferential Offering by applying only for excess Reserved Shares.

A valid application for a number of Reserved Shares which is less than or equal to a Qualifying ZhengTong Shareholder's Assured Entitlement under the Preferential Offering will be accepted in full, subject to the terms and conditions set out in the **BLUE** Application Forms or the **Blue Form eIPO** service assuming the conditions of the Preferential Offering are satisfied.

Where a Qualifying ZhengTong Shareholder applies for a number of Reserved Shares which is greater than the Qualifying ZhengTong Shareholder's Assured Entitlement under the Preferential Offering, the relevant Assured Entitlement will be satisfied in full, subject as mentioned above, but the excess portion of such application will only be satisfied to the extent that there are sufficient Available Reserved Shares as described below.

Where a Qualifying ZhengTong Shareholder applies for excess Reserved Shares only under the Preferential Offering, such application will only be satisfied to the extent that there are sufficient Available Reserved Shares as described below.

Qualifying ZhengTong Shareholders (other than HKSCC Nominees) who intend to apply for less than their Assured Entitlement using the **BLUE** Application Forms for Assured Entitlement or who intend to apply for excess Reserved Shares using the **BLUE** Application Forms for excess Reserved Shares, should apply for a number which is one of the numbers set out in the table of numbers and payments in the **BLUE** Application Form and make a payment of the corresponding amount. If you intend to apply for a number of Assured Entitlement or excess Reserved Shares which is not one of the numbers set out in the table in the **BLUE** Application Form for Assured Entitlement and excess Reserved Shares, you **MUST** apply by using **Blue Form eIPO** only. If you are a Qualifying ZhengTong Shareholder and wish to apply for excess Reserved Shares in addition to your Assured Entitlement, you should complete and sign the **BLUE** Application Form for excess Reserved Shares and lodge it, together with a separate remittance for the full amount payable on application in respect of the excess Reserved Shares applied for or apply for through the **Blue Form eIPO** service via [www.eipo.com.hk](http://www.eipo.com.hk).

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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To the extent that excess applications for the Reserved Shares are:

- (a) less than the Available Reserved Shares, the Available Reserved Shares will first be allocated to satisfy such excess applications for the Reserved Shares in full and thereafter will be allocated, at the discretion of the Joint Global Coordinators, to the International Offering;
- (b) equal to the Available Reserved Shares, the Available Reserved Shares will be allocated to satisfy such excess applications for the Reserved Shares in full; or
- (c) more than the Available Reserved Shares, the Available Reserved Shares will be allocated on an allocation basis which will be consistent with the allocation basis commonly used in the case of over-subscription in public offerings in Hong Kong, where a higher allocation percentage will be applied in respect of smaller applications. If there are any H Shares remaining after satisfying the excess applications, such H Shares will be reallocated, at the discretion of the Joint Global Coordinators, to the International Offering. No preference will be given to any excess applications made to top up odd lot holdings to whole lot holdings of H Shares.

Save for the above, the Preferential Offering will not be subject to the clawback arrangement between the International Offering and the Hong Kong Public Offering.

Qualifying ZhengTong Shareholders who have applied for Reserved Shares under the Preferential Offering either through the **Blue Form eIPO** service via [www.eipo.com.hk](http://www.eipo.com.hk) or on the **BLUE** Application Form, may also make one application either on a **WHITE** or **YELLOW** Application Form, or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or act through a CCASS Clearing or Custodian Participant) or through the **White Form eIPO** service for the Hong Kong Offer Shares in the Hong Kong Public Offering. However, Qualifying ZhengTong Shareholders will receive no preference as to entitlement or allocation in respect of applications for Hong Kong Offer Shares made on **WHITE** or **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service under the Hong Kong Public Offering.

Persons who held their ZhengTong Shares on the Record Date in CCASS indirectly through a broker/custodian, and wish to participate in the Preferential Offering, should instruct their broker or custodian to apply for the Reserved Shares on their behalf by no later than the deadline set by HKSCC or HKSCC Nominees. In order to meet the deadline set by HKSCC, such persons should check with their broker/custodian for the timing on the processing of their instructions, and submit their instructions to their broker/custodian as required by them. Persons who held their ZhengTong Shares on the Record Date in CCASS directly as a CCASS Investor Participant, and wish to participate in the Preferential Offering, should give their instruction to HKSCC via the CCASS Phone System or CCASS Internet System by no later than the deadline set by HKSCC or HKSCC Nominees.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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### 3. DISTRIBUTION OF THIS PROSPECTUS AND THE BLUE APPLICATION FORMS

**BLUE** Application Forms have been despatched to all Qualifying ZhengTong Shareholders. In addition, Qualifying ZhengTong Shareholders will receive a copy of this prospectus to their address recorded on the register of member of ZhengTong on the Record Date.

Qualifying ZhengTong Shareholders may also obtain a printed copy of this prospectus, free of charge, during normal business hours from any of the designated branches of the receiving banks and the designated offices of each of the Joint Global Coordinators as set out in “— A. Applications for Hong Kong Offer Shares — 3. Applying for Hong Kong Offer Shares — Where to Collect the Application Forms.”

Qualifying ZhengTong Shareholders who require a replacement **BLUE** Application Form should contact Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong or on its hotline 2862 8555.

Distribution of this prospectus and/or the **BLUE** Application Forms into any jurisdiction other than Hong Kong may be restricted by law. Persons who come into possession of this prospectus and/or the **BLUE** Application Forms (including, without limitation, agents, custodians, nominees and trustees) should inform themselves of, and observe, any such restrictions. Any failure to comply with such restrictions may constitute a violation of the securities laws of any such jurisdiction.

Receipt of this prospectus and/or the **BLUE** Application Forms does not and will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this prospectus and/or the **BLUE** Application Forms must be treated as sent for information only and should not be copied or redistributed.

### 4. APPLYING THROUGH THE BLUE FORM eIPO SERVICE

If you apply for Reserved Shares online through the **Blue Form eIPO** service:

- (a) detailed instructions for application through the **Blue Form eIPO** service are set out on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk). You should read those instructions carefully. If you do not follow the instructions, your application may be rejected by the **Blue Form eIPO** Service Provider and may not be submitted to the Company;
- (b) you must provide a valid e-mail address; and
- (c) once payment is completed via **electronic application instructions** given by you or for your benefit, an actual application is deemed to have been made. If you submit applications both via the **Blue Form eIPO** service and by using the **BLUE** Application Form, only the application submitted via the **Blue Form eIPO** service will be accepted and the other application will be rejected.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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The application for Reserved Shares through the **Blue Form eIPO** service is only a facility provided by the **Blue Form eIPO** Service Provider to Qualifying ZhengTong Shareholders for application for Reserved Shares. Such facility is subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for application to make your electronic application. The Company, the Relevant Persons and the **Blue Form eIPO** Service Provider take no responsibility for such applications.

### 5. APPLYING BY USING BLUE APPLICATION FORMS

(a) The **BLUE** Application Form will be rejected by the Company if:

- the **BLUE** Application Form is not completed in accordance with the instructions as stated in the **BLUE** Application Form;
- the **BLUE** Application Form has not been duly signed (only written signatures are acceptable) (or in the case of a joint application, not all applicants have signed);
- in respect of applicants who are corporate entities, the **BLUE** Application Form has not been duly signed (only written signature is acceptable) by an authorized officer or affixed with a company chop;
- the check/banker's cashier order/**BLUE** Application Form is defective;
- the **BLUE** Application Form for either Reserved Shares pursuant to the Assured Entitlement or excess Reserved Shares is not accompanied with a check/banker's cashier order or is accompanied by more than one check/banker's cashier order for each of the application for Assured Entitlement and excess application for Reserved Shares;
- the account name on the check/banker's cashier order is not pre-printed or certified by the issuing bank;
- the banker's cashier order was not issued by a licensed bank in Hong Kong, or did not have the applicant's name certified on the back by a person authorised by the bank;
- the check/banker's cashier order is not drawn on a Hong Kong dollar bank account in Hong Kong;
- the name of the payee indicated on the check/banker's cashier order is not "**Ting Hong Nominees Limited — DongZheng AFC Preferential Offer**";
- the check has not been crossed "Account Payee Only";
- the check was post-dated;

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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- the applicant's payment is not made correctly or if the applicant pays by check or banker's cashier order the check or banker's cashier order is dishonored on its first presentation;
  - the applicant's name/the first applicant's name on the joint application is not the same as the name pre-printed or certified/endorsed by the drawee bank on the check/banker's cashier order;
  - any alteration(s) to the application details on the **BLUE** Application Form has or have not been authorized by the signature(s) of the applicant(s);
  - the application is completed by pencil;
  - the applicant does not fill in all the boxes in the option he/she/it chooses;
  - the Company believes that by accepting the application, the Company would violate the applicable securities or other laws, rules or regulations of the jurisdiction where the **BLUE** Application Form is received or where the applicant's address is located; or
  - the Company and the Joint Global Coordinators, and their respective agents or nominees, exercise their discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.
- (b) If you are applying by using the **BLUE** Application Form for Assured Entitlement, you may apply for a number of Reserved Shares pursuant to your Assured Entitlement that is equal to or less than the number stated in Box B. If you intend to apply for a number of Reserved Shares that is less than your Assured Entitlement, you **MUST** apply for a number which is one of the numbers set out in the table in the **BLUE** Application Form and make a payment of the corresponding amount (other than HKSCC Nominees). If you intend to apply for a number of Assured Entitlement which is not one of the numbers set out in the table in the **BLUE** Application Form for Assured Entitlement, you **MUST** apply by using Blue Form eIPO only (other than HKSCC Nominees). You need to complete and sign the **BLUE** Application Form for Assured Entitlement and submit one cheque (or banker's cashier order) for the exact amount of remittance printed in Box B or the corresponding amount payable as set out in the table in the **BLUE** Application Form.
- (c) If you are applying by using the **BLUE** Application Form for excess Reserved Shares, you **MUST** apply for a number which is one of the numbers set out in the table in the **BLUE** Application Form and make a payment of the corresponding amount (other than HKSCC Nominees). If you intend to apply for a number of excess Reserved Shares which is not one of the numbers set out in the table in the **BLUE** Application Form for excess Reserved Shares, you **MUST** apply by using Blue Form eIPO only (other than HKSCC Nominees). You need to complete and sign the **BLUE** Application Form for excess Reserved Shares and submit one separate cheque (or banker's cashier order) for the exact amount of remittance.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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- (d) If you intend to apply for both Reserved Shares pursuant to your Assured Entitlement and excess Reserved Shares, you must submit both the **BLUE** Application Form for Assured Entitlement and the **BLUE** Application Form for excess Reserved Shares. Each **BLUE** Application Form must be accompanied by a separate cheque (or banker's cashier order) for the exact amount of remittance. Instead of using the **BLUE** Application Form, you may apply for Reserved Shares through the Blue Form eIPO service at [www.eipo.com.hk](http://www.eipo.com.hk).

### 6. WHEN MAY APPLICATIONS BE MADE

#### (a) Application through the Blue Form eIPO service

You may submit your application via the **Blue Form eIPO** service through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) from 9:00 a.m. on Thursday, March 14, 2019 until 11:30 a.m. on Tuesday, March 19, 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, March 19, 2019, the last day for applications, or such later time as described in the paragraph headed “— D. Effect of Bad Weather on the Opening and Closing of the Application Lists” below.

If you do not complete payment of the application monies (including any related fees) in time, the **Blue Form eIPO** Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

#### (b) Applications on BLUE Application Form(s)

Your completed **BLUE** Application Form, together with a check or a banker's cashier order attached and marked payable to “**Ting Hong Nominees Limited — Dongzheng AFC Preferential Offer**” for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

**Thursday, March 14, 2019 — 9:00 a.m. to 5:00 p.m.**  
**Friday, March 15, 2019 — 9:00 a.m. to 5:00 p.m.**  
**Saturday, March 16, 2019 — 9:00 a.m. to 1:00 p.m.**  
**Monday, March 18, 2019 — 9:00 a.m. to 5:00 p.m.**  
**Tuesday, March 19, 2019 — 9:00 a.m. to 12:00 noon**

Completed **BLUE** Application Forms, together with payment attached, must be lodged by 12:00 noon on Tuesday, March 19, 2019, the last day for applications, or such later time as described in “— D. Effect of Bad Weather on the Opening and Closing of the Application Lists” below.

#### (b) Application Lists

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, March 19, 2019, the last day for applications, or such later time as described in “— D. Effect of Bad Weather on the Opening and Closing of the Application Lists” below.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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### 7. HOW MANY APPLICATIONS MAY BE MADE

You should refer to “— A. Applications for Hong Kong Offer Shares — 8. How Many Applications Can You Make” above for the situations where you may make an application for Hong Kong Offer Shares under the Hong Kong Public Offering in addition to application(s) for Reserved Shares under the Preferential Offering.

### 8. ADDITIONAL TERMS AND CONDITIONS AND INSTRUCTIONS

You should refer to the **BLUE** Application Form for details of the additional terms and conditions and instructions which apply to applications for Reserved Shares.

### C. HOW MUCH ARE THE HONG KONG OFFER SHARES AND THE RESERVED SHARES

The Maximum Offer Price is HK\$6.30 per Offer Share. You must pay the Maximum Offer Price, brokerage of 1.0%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee 0.005% in full upon application for the Hong Kong Offer Shares or Reserved Shares under the terms set out in the Application Forms. This means that for one board lot of 1,000 Hong Kong Offer Shares or one board lot of 1,000 Reserved Shares, you will pay HK\$6,363.49.

The Application Forms have tables showing the exact amount payable for the number of Offer Shares that may be applied for.

You may submit an application using a **WHITE**, **YELLOW** or **BLUE** Application Form or through the **White Form eIPO** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each application or electronic **application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk).

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee will be paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see “Structure of the Global Offering — Pricing of the Global Offering.”

### D. EFFECT OF BAD WEATHER ON THE OPENING AND CLOSING OF THE APPLICATION LISTS

The application lists will not open or close if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, March 19, 2019. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, March 19, 2019 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in “Expected Timetable,” an announcement will be made in such event.

### E. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the Preferential Offering and the basis of allocations of the Hong Kong Offer Shares and Reserved Shares on Monday, March 25, 2019 in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese) and on the Company’s website at [www.dongzhengafc.com](http://www.dongzhengafc.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

- The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering and the Preferential Offering will be available at the times and date and in the manner specified below:
- in the announcement to be posted on the Company’s website at [www.dongzhengafc.com](http://www.dongzhengafc.com) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 9:00 a.m. on Monday, March 25, 2019;
- from the designated results of allocations website at [www.iporesults.com.hk](http://www.iporesults.com.hk) (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Monday, March 25, 2019 to 12:00 midnight on Sunday, March 31, 2019;
- from the allocation results telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Monday, March 25, 2019 to Thursday, March 28, 2019; and
- in the special allocation results booklets which will be available for inspection during opening hours on Monday, March 25, 2019 to Wednesday, March 27, 2019 at the receiving bank’s designated branches referred to above.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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and/or Reserved Shares (as the case may be) if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in “Structure of the Global Offering.”

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### **F. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES AND/OR RESERVED SHARES**

You should note the following situations in which the Hong Kong Offer Shares and/or Reserved Shares will not be allocated to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If the Company or its agents exercise their discretion to reject your application:**

The Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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(iii) **If the allocation of Hong Kong Offer Shares and/or Reserved Shares is void:**

The allocation of Hong Kong Offer Shares and/or Reserved Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) **If:**

- you make multiple applications or are suspected of making multiple applications (other than an application (if any) made on the **BLUE** Application Form in your capacity as a Qualifying ZhengTong Shareholder);
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares (except in respect for Reserved Shares applied for pursuant to the Preferential Offering);
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at [www.eipo.com.hk](http://www.eipo.com.hk);
- your payment is not made correctly or the check or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators believes or believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

### G. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the Maximum Offer Price of HK\$6.30 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon) paid on application, or if the conditions of the Global Offering as set out in "Structure of the Global Offering — Conditions of the

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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Global Offering” are not satisfied or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the check or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Monday, March 25, 2019.

### H. DESPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND MONIES

You will receive one H Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the H Share certificates will be deposited into CCASS as described below) and one H Share certificate for all Reserved Shares allocated to you under the Preferential Offering.

No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE**, **YELLOW** or **BLUE** Application Form(s), subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- H Share certificate(s) for all the Hong Kong Offer Shares and/or Reserved Shares allotted to you (for **YELLOW** Application Forms, H Share certificates will be deposited into CCASS as described below); and
- refund check(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares and/or Reserved Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the Maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the Maximum Offer Price (including brokerage of 1.0%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005% but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund check, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund check(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund check(s).

Subject to arrangement on despatch/collection of H Share certificates and refund monies as mentioned below, any refund checks and H Share certificates are expected to be posted on or before Monday, March 25, 2019. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of check(s) or banker’s cashier’s order(s).

H Share certificates will only become valid at 8:00 a.m. on Tuesday, March 26, 2019, provided that the Global Offering has become unconditional in all respects at or before that time and the right of termination described in the section entitled “Underwriting” has not been exercised. Investors who trade shares prior to the receipt of H Share certificates or the H Share certificates becoming valid do so entirely at their own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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### Personal Collection

#### (i) If you apply using a **WHITE** or **BLUE** Application Form

If you apply for (i) 1,000,000 or more Hong Kong Offer Shares on a **WHITE** Application Form or (ii) 1,000,000 or more Reserved Shares on a **BLUE** Application Form and have provided all information required by your Application Form, you may collect your refund check(s) and/or H Share certificate(s) (where applicable) from the H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, March 25, 2019 or such other place or date as notified by us in the newspaper.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must provide a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund check(s) and/or H Share certificate(s) (where applicable) personally within the time specified for collection, it/they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for (i) less than 1,000,000 Hong Kong Offer Shares on a **WHITE** Application Form or (ii) less than 1,000,000 Reserved Shares on a **BLUE** Application Form, your refund check(s) and/or H Share certificate(s) (where applicable) will be sent to the address specified in your Application Form on or before Monday, March 25, 2019, by ordinary post and at your own risk.

#### (ii) If you apply using a **YELLOW** Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, please follow the same instructions as described above for collection of your refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund check(s) will be sent to the address specified in the Application Form on or before Monday, March 25, 2019, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Monday, March 25, 2019, or in the event of a contingency, on any other date determined by HKSCC or HKSCC Nominees.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Hong Kong Offer Shares credited to your designated CCASS Participant stock account (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

The Company expects to publish the results of CCASS Investor Participants applications together with the results of the Hong Kong Public Offering on Monday, March 25, 2019 in the manner described in “— E. Publication of Results” above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, March 25, 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System. HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account.

### (iii) **If you apply through the White Form eIPO service or Blue Form eIPO service**

If you apply for (i) 1,000,000 or more Hong Kong Offer Shares through the **White Form eIPO** service, or (ii) 1,000,000 or more Reserved Shares through the **Blue Form eIPO** service, and your application is wholly or partially successful, you may collect your H Share certificate(s) (where applicable) in person from the H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, March 25, 2019, or such other date as notified by the Company in the newspaper as the date of despatch/collection of H Share certificates/e-Refund payment instructions/refund checks.

If you do not collect your H Share certificate(s) personally within the time specified for collection, it/they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for (i) less than 1,000,000 Hong Kong Offer Shares through the **White Form eIPO** service, or (ii) less than 1,000,000 Reserved Shares through the **Blue Form eIPO** service your H Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, March 25, 2019 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund check(s) by ordinary post at your own risk.

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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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### (iv) If you apply via Electronic Application Instructions to HKSCC

#### *Allocation of Hong Kong Offer Shares*

- For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

#### *Deposit of H Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, March 25, 2019, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allocations of the Hong Kong Public Offering in the manner specified in “— E. Publication of Results” above on Monday, March 25, 2019. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, March 25, 2019 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's “An Operating Guide for Investor Participants” in effect from time to time) on Monday, March 25, 2019. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, March 25, 2019.



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## HOW TO APPLY FOR HONG KONG OFFER SHARES AND RESERVED SHARES

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### I. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

*The following is the text of a report set out on pages I-3 to I-73, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SHANGHAI DONGZHENG AUTOMOTIVE FINANCE CO., LTD. AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED AND CREDIT SUISSE (HONG KONG) LIMITED**

**Introduction**

We report on the historical financial information of Shanghai Dongzheng Automotive Finance Co., Ltd. (the "Company") set out on pages I-3 to I-73, which comprises the statements of financial position of the Company as at 31 December 2016, 2017 and 2018 and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the cash flow statements, for the years ended 31 December 2016, 2017 and 2018 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-73 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 14 March 2019 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

**Directors' responsibility for Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Company's financial position as at 31 December 2016, 2017 and 2018 and of the Company's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance*****Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

***Dividends***

No dividends have been paid by the Company in respect of the Relevant Periods.

**KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

14 March 2019

## HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Company for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

## Statements of profit or loss and other comprehensive income

	Note	Year ended 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
Interest income		280,340	424,600	759,035
Interest expenses		(121,148)	(169,768)	(320,485)
<b>Net interest income</b>	5	<u>159,192</u>	<u>254,832</u>	<u>438,550</u>
Fee and commission income		170,226	205,323	331,554
Fee and commission expenses		(912)	(905)	(1,425)
<b>Net fee and commission income</b>	6	<u>169,314</u>	<u>204,418</u>	<u>330,129</u>
Other net income	7	<u>3,913</u>	<u>2,710</u>	<u>47,098</u>
<b>Operating income</b>		<u>332,419</u>	<u>461,960</u>	<u>815,777</u>
Operating expenses		(67,879)	(70,042)	(127,955)
Impairment losses		(31,795)	(43,395)	(84,343)
<b>Profit before taxation</b>	8	<u>232,745</u>	<u>348,523</u>	<u>603,479</u>
Income tax	9	<u>(58,260)</u>	<u>(87,750)</u>	<u>(150,962)</u>
<b>Profit and total comprehensive income for the year</b>		<u><u>174,485</u></u>	<u><u>260,773</u></u>	<u><u>452,517</u></u>
<b>Earnings per share</b>				
Basic and diluted (RMB)	12	<u><u>0.35</u></u>	<u><u>0.30</u></u>	<u><u>0.28</u></u>

The accompanying notes form part of the Historical Financial Information.

## Statements of financial position

	Note	At 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
<b>Assets</b>				
Cash and deposits with central bank	13	4,280	7,003	35,213
Deposits with banks and other financial institutions	14	239,879	270,494	780,960
Loans and advances to customers	15	3,736,577	5,869,004	8,426,177
Finance lease receivables	16	—	19,898	102,980
Property and equipment	17	5,874	4,558	5,113
Intangible assets	18	12,460	17,413	15,357
Deferred tax assets	23(b)	20,587	62,193	73,804
Other assets	19	35,283	41,853	92,557
<b>Total assets</b>		<u>4,054,940</u>	<u>6,292,416</u>	<u>9,532,161</u>
<b>Liabilities</b>				
Placements from banks and other financial institutions	20	3,232,885	4,020,000	6,085,347
Guarantee deposits	21	27,642	78,894	79,632
Deposits from shareholders	22	—	—	600,000
Current taxation	23(a)	54,392	76,884	59,478
Other liabilities	24	40,754	56,598	224,611
<b>Total liabilities</b>		<u>3,355,673</u>	<u>4,232,376</u>	<u>7,049,068</u>
<b>NET ASSETS</b>		<u>699,267</u>	<u>2,060,040</u>	<u>2,483,093</u>
<b>CAPITAL AND RESERVES</b>				
Paid-in / share capital	25	500,000	1,600,000	1,600,000
Reserves		199,267	460,040	883,093
<b>TOTAL EQUITY</b>		<u>699,267</u>	<u>2,060,040</u>	<u>2,483,093</u>

The accompanying notes form part of the Historical Financial Information.

## Statements of changes in equity

	Paid-in / share capital	Capital reserve	Surplus reserve	General risk reserve	Retained earnings	Total Equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance at 1 January 2016</b>	500,000	—	2,478	5,340	16,964	524,782
<b>Changes in equity for the year:</b>						
1. Profit and total comprehensive income for the year	—	—	—	—	174,485	174,485
2. Appropriation of profits						
- Appropriation for surplus reserve	—	—	17,449	—	(17,449)	—
- Appropriation for general risk reserve	—	—	—	17,824	(17,824)	—
<b>Balance at 31 December 2016</b>	500,000	—	19,927	23,164	156,176	699,267
<b>Changes in equity for the year:</b>						
1. Profit and total comprehensive income for the year	—	—	—	—	260,773	260,773
2. Capital injection	1,100,000	—	—	—	—	1,100,000
3. Appropriation of profits						
- Appropriation for surplus reserve	—	—	26,077	—	(26,077)	—
- Appropriation for general risk reserve	—	—	—	32,536	(32,536)	—
<b>Balance at 31 December 2017</b>	1,600,000	—	46,004	55,700	358,336	2,060,040
Adjustment on initial application of HKFRS 9 (Note)	—	—	—	—	(29,464)	(29,464)
Adjusted balance at 1 January 2018	1,600,000	—	46,004	55,700	328,872	2,030,576
<b>Changes in equity for the year:</b>						
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	—	—	45,252	—	(45,252)	—
- Appropriation for general risk reserve	—	—	—	51,341	(51,341)	—
<b>Balance at 31 December 2018</b>	<u>1,600,000</u>	<u>404,340</u>	<u>45,252</u>	<u>107,041</u>	<u>326,460</u>	<u>2,483,093</u>

*Note:* Upon the adoption of HKFRS 9 “Financial Instruments” on 1 January 2018, the accumulated impact was recorded as a deduction to the retained earnings of RMB29,464 thousand from impairment loss allowance as at 1 January 2018.

The accompanying notes form part of the Historical Financial Information.

## Cash flow statements

	Note	Year ended 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
<b>Operating activities</b>				
Profit before taxation		232,745	348,523	603,479
Adjustments for:				
Impairment losses	8(b)	31,795	43,395	84,343
Depreciation and amortisation	8(c)	5,002	5,879	7,741
Listing expenses	8(c)	—	—	2,268
Changes in operating assets				
Net decrease / (increase) in deposits with central bank		2,228	(3,350)	(9,581)
Net decrease in deposits with banks and other financial institutions		—	3,040	—
Net increase in loans and advances to customers		(1,995,287)	(2,175,556)	(2,669,604)
Net increase in finance lease receivables		—	(20,029)	(94,414)
Net increase in other assets		(22,380)	(6,570)	(20,064)
Changes in operating liabilities				
Net increase in placements from banks and other financial institutions		1,875,385	787,115	2,065,347
Net (decrease) / increase in guarantee deposits		(25,903)	51,252	738
Net increase in deposits from shareholders		—	—	600,000
Net increase in other liabilities		28,665	10,394	140,540
<b>Cash generated from / (used in) operations</b>		132,250	(955,907)	710,793
Income tax paid		(32,795)	(106,864)	(170,158)
<b>Net cash generated from / (used in) operating activities</b>		99,455	(1,062,771)	540,635
Proceeds from disposal of property and equipment		—	4	—
Payments for purchase of property and equipment and intangible assets		(6,537)	(4,070)	(8,738)
<b>Net cash used in investing activities</b>		(6,537)	(4,066)	(8,738)
<b>Financing activities</b>				
Proceeds from capital injection		—	1,100,000	—
Payments for listing expenses		—	—	(2,937)
<b>Net cash generated from / (used in) financing activities</b>		—	1,100,000	(2,937)
<b>Net increase in cash and cash equivalents</b>		92,918	33,163	528,960
<b>Cash and cash equivalents at 1 January</b>		145,956	238,874	272,037
<b>Cash and cash equivalents at 31 December</b>	26	238,874	272,037	800,997

The accompanying notes form part of the Historical Financial Information.

## NOTES TO THE HISTORICAL FINANCIAL INFORMATION

**1 Basis of preparation and presentation of Historical Financial Information**

Shanghai Dongzheng Automotive Finance Co., Ltd. (the “Company”) was incorporated in Shanghai, the People’s Republic of China (the “PRC”) on 11 March 2015 (date of establishment) as an exempted company with limited liability under the Company Law of PRC. The parent company and the ultimate holding company of the Company is China Zheng Tong Auto Services Holdings Limited.

The principal activities of the Company are to take time deposits of three months or more from its shareholders and wholly-owned subsidiaries of its shareholders onshore, to accept deposit from auto dealers for auto loan and from lessees for auto leasing, to issue financial bonds upon approval, to engage in inter-bank borrowing, to borrow from financial institutions, to provide auto loan, to provide loan to auto dealers for purchasing auto, operation equipment, spare and accessory parts, exhibition hall construction, and equipment maintenance, to provide auto finance leasing (except sale-leaseback), to sell or repurchase accounts receivable related to auto loan and auto finance leasing from finance institutions, to sell off rental cars, to provide auto financing consulting services and agent services and to engage in financial institution equity investment related to auto finance.

On 26 May 2018, the Company’s shareholders approved the resolutions in relation to the Company’s conversion into a joint stock company with limited liability with a registered capital of RMB1.6 billion, through the conversion of the Company’s then net assets value of approximately RMB2.06 billion as of 31 December 2017 into 1.6 billion Domestic Shares with a nominal value of RMB1.00 per Domestic Share. On 25 July 2018, the Company got the approval from Shanghai Branch of China Banking and Insurance Regulatory Commission (the “CBIRC”) (File huyinjianfu [2018] No. 384) to convert into a joint stock limited company with a registered capital of RMB1,600,000,000, divided into domestic shares of a par value of RMB1.00 each. On 4 September 2018, the above conversion was eventually approved by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC (the “SASAC”).

The Historical Financial Information has 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 and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and accounting principles generally accepted in Hong Kong. Further details of the significant accounting policies adopted are set out below.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, the Company has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting year ended 31 December 2018. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning on 1 January 2018 are set out in Note 31.

The Company has adopted HKFRS 15 Revenue from contracts with customers, which is effective for the accounting year beginning 1 January 2018, consistently throughout the Relevant Periods.



The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, the Company has consistently applied HKFRSs, which are effective for the accounting year beginning on 1 January 2018 throughout the Relevant Periods except that the Company adopted HKFRS 9 “*Financial Instruments*” on 1 January 2018. The accounting policies for financial instruments under HKFRS 9 are set out in Note 2(h) below.

## **2 Significant accounting policies**

### **(a) *Basis of measurement***

Items included in the financial statements of the Company are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the “Functional Currency”). The financial statements are presented in RMB, rounded to the nearest thousands, which is the presentation currency. The measurement basis used in the preparation of the financial statements is the historical cost basis.

### **(b) *Use of estimates and judgements***

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 recognized 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 3.

### **(c) *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 Relevant Periods. The resulting exchange differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rates ruling at the transaction dates.

(d) *Property and equipment*

Property and equipment, other than construction in progress, are stated in the statements of financial position at cost less accumulated depreciation and impairment losses (see Note 2(i)).

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 recognized 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:

	<u>Estimated useful lives</u>
Office furniture	5 years
Electronic equipment	5 years
Improvement to leasehold property	3 - 5 years

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.

(e) *Lease*

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) *Classification of assets leased to the Company*

Assets that are held by the Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases.

(ii) *Operating lease charges*

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

(iii) *Finance leases*

When the Company is a lessor under finance leases, an amount representing the minimum lease payment receivables and initial direct costs is included in the statements of financial position as finance lease receivables. Any unguaranteed residual value is also recognised at the inception of the lease. The difference between the sum of the minimum lease payment receivables, initial direct costs, the unguaranteed residual value and their present value is recognised as unearned finance lease income. Unearned finance lease income is recognised over the period of the lease using the effective interest rate method.

(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 2(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 amortized from the date they are available for use and their estimated useful lives are as follows:

	<u>Estimated useful lives</u>
Computer software	5 years

Both the period and method of amortisation are reviewed annually.

(g) *Financial instruments (before the adoption of HKFRS 9 as at 1 January 2018)*

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

A financial asset or financial liability is recognized 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 27(f). The financial instruments are subsequently accounted for as follows, depending on their classification.

The Company classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, derivative financial instruments and other financial liabilities.

Financial assets and financial liabilities are categorized as follows:

Loans and receivables

Loans and receivables, the Company possessed of, mainly comprise loans and advances to customers, deposits with banks and other financial institutions and finance lease receivables.

Loans and receivables are non-derivative financial assets held by the Company with fixed or determinable recoverable amounts that are not quoted in an active market, other than

- those that the Company intends to sell immediately or in the near-term, which will be classified as held for trading;
- those that the Company, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or
- those where the Company may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Subsequent to initial recognition, loans and receivables are stated at amortized cost using the effective interest method.

Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

(ii) *Impairment of financial assets*

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed at the end of the Relevant Periods to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial asset and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence includes the following loss event:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the debtor will enter into bankruptcy or other financial reorganization;
- disappearance of an active market for financial assets because of financial difficulties of the issuer;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognized as follows:

Loans and receivables

The Company uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

— Individual assessment

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows, discounted at the original effective interest rate, where the effect of discounting is material. The impairment losses are recognized in profit or loss.

Cash flows relating to short-term loans and receivables are not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value is immaterial.

— Collective assessment

Loans and receivables, which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

The Company periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the allowances for impairment losses.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized.

When the Company determines that a loan has no reasonable prospect of recovery after the Company has completed all the necessary legal or other claim proceedings, the loan is written off against its allowances for impairment losses upon necessary approval.

(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 Relevant Periods. Where other pricing models are used, inputs are based on market data at the end of the Relevant Periods.

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.

(iv) *Derecognition of financial assets and financial liabilities*

Financial assets (or a part of a financial asset or group of financial assets) are derecognized 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 recognize 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 derecognized 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 derecognized financial liability and the consideration paid is recognized in profit or loss.

(v) *Offsetting*

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

(h) *Financial instruments (under HKFRS 9)*

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

A financial asset or financial liability is recognized 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 27(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:

- amortized 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 2(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 recognized 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 derecognized, 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 amortized cost or FVOCI (recycling). Changes in the fair value of the financial instrument (including interest) are recognized in profit or loss.

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 recognized 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 amortized 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 amortized 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 amortized 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.

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 recognized 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 amortized 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 amortized cost using the effective interest method.

#### (ii) *Impairment of financial assets*

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

- financial assets measured at amortized 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.

#### *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 recognizes 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.

#### 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 of credit-impairment includes observable data about the following 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 debtor;

- 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 amortized 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 amortized cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

#### 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);
- 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 amortized 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 foregoing, 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 recognized as an impairment gain or loss in profit or loss. The Company recognizes an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

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 amortized 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 recognized 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 Relevant Periods. Where other pricing models are used, inputs are based on market data at the end of the Relevant Periods.

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.

(iv) *Derecognition of financial assets and financial liabilities*

Financial assets (or a part of a financial asset or group of financial assets) are derecognized 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 recognize 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 derecognized 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 derecognized financial liability and the consideration paid is recognized in profit or loss.

(v) *Offsetting*

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Company has a legally enforceable right to set off the recognized 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 the Relevant Periods to identify indications that the following assets may be impaired or, an impairment loss previously recognized no longer exists or may have decreased.

- Property and equipment
- Intangible assets

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

— *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 recognized 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 recognized 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 recognized in the Relevant Periods. Reversals of impairment losses are credited to profit or loss in the Relevant Periods in which the reversals are recognized.



(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.

(k) *Interest-bearing borrowings*

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized 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 other financial institutions, 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 nine months of maturity at acquisition.

(m) *Employee benefits*

(i) *Short-term employee benefits*

Salaries and annual bonuses are accrued in the Relevant Periods 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 recognized at the earlier of when the Company can no longer withdraw the offer of those benefits and when it recognizes 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 recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized 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 Relevant Periods, and any adjustment to tax payable in respect of previous years.

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 recognized. 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 recognized 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 Relevant Periods. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of the Relevant 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.

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.

(o) ***Provisions and contingent liabilities***

Provisions are recognized for liabilities of uncertain timing or amount 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 recognized 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: Recognize revenue when (or as) the entity satisfies a performance obligation.

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

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

(i) *Interest income*

Interest income is recognized as it accrues using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the carrying amount of the financial asset. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment) but does not consider future credit losses. The calculation includes all fees and points or discounts that are an integral part of the effective interest rate.

(ii) *Fee and commission income*

Fee and commission income is recognized 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 recognized as an adjustment to the effective interest rate. If the commitment expires without making a loan, the fee is recognized as fee and commission income upon its expiry.

(q) ***Government grants***

Government grants are recognized in the statements 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 recognized 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 recognized as deferred income and consequently are recognized in profit or loss on a systematic basis over the useful life of the asset.

(r) ***Borrowing costs***

Borrowing costs are recognized in profit or loss when the corresponding service is provided.

(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 company (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 company 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.

**3 Significant accounting judgement and estimates**

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.

(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 recognized in respect of deductible temporary differences. As those deferred tax assets can only be recognized 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 recognized if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(b) *Sources of estimation uncertainty*

Notes 14, 15 and 16 contain information about the assumptions and their risk factors relating to impairment of financial assets. Notes 2(d) and 2(f) contain information about the assumptions and their risk factors relating to depreciation and amortisation. Note 27(f) contains information about the assumptions and their risk factors relating to fair value of financial instruments.

4 **Changes in significant accounting policies***HKFRS 9 Financial Instruments*

The Company has initially adopted HKFRS 9 Financial Instruments from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Company's financial statements.

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Company has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Company has recognized the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact, net of tax, of transition to HKFRS 9 on the opening balance of reserves and retained earnings.

Retained earnings	Impact of adopting HKFRS9 on opening balance
	RMB'000
Recognition of expected credit losses on financial assets measured at amortized cost	39,285
Related tax	<u>(9,821)</u>
Net decrease in retained earnings at 1 January 2018	<u><u>29,464</u></u>

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

(a) *Classification of financial assets and financial liabilities*

HKFRS 9 categories financial assets into three principal classification categories: measured at amortized cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The

classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Company's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

		<b>HKAS 39</b>		<b>HKFRS 9</b>
		<b>carrying amount at</b>	<b>Remeasurement</b>	<b>carrying amount</b>
	<b>Note</b>	<b>31 December 2017</b>		<b>at 1 January 2018</b>
		<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Financial assets carried at amortized cost</b>				
Cash and deposits with central bank	13	7,003	—	7,003
Deposits with banks and other financial institutions	14	270,494	—	270,494
Loans and advances to customers	15	5,869,004	(39,220)	5,829,784
Interest receivables	19	33,357	—	33,357
Other receivables	19	<u>6,801</u>	<u>—</u>	<u>6,801</u>
<b>Sub-total</b>		6,186,659	(39,220)	6,147,439
<b>Finance lease receivables</b>	16	<u>19,898</u>	<u>(65)</u>	<u>19,833</u>
<b>Total</b>		<u>6,206,557</u>	<u>(39,285)</u>	<u>6,167,272</u>

For an explanation of how the Company classifies and measures financial assets and recognizes related gains and losses under HKFRS 9, see respective accounting policy notes in Note 2(h).

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial adoption of HKFRS 9.

(b) *Impairment of financial assets*

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the “expected credit loss” (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognizes ECLs earlier than under the “incurred loss” accounting model in HKAS 39.



The Company applies the new ECL model to the following items:

- financial assets carried at amortized 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);
- finance lease receivables.

For further details on the Company's accounting policy for accounting for credit losses, see Note 2(h)(ii).

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	<u>RMB'000</u>
Loss allowance at 31 December 2017 under HKAS 39	59,382
Additional credit loss recognized at 1 January 2018 on:	
— Deposits with banks and other financial institutions	—
— Loans and advances to customers	39,220
— Finance lease receivables	65
— Other receivables	—
Loss allowance at 1 January 2018 under HKFRS 9	<u>98,667</u>

(c) *Transition*

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.
- The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Company):
  - the determination of the business model within which a financial asset is held; and
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognized for that financial instrument.

## 5 Net interest income

	Year ended 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
<b>Interest income arising from</b>			
Loans and advances to customers	274,787	418,973	745,070
Deposits with central bank, banks and other financial institutions	5,553	5,411	3,876
Finance leases	—	216	10,089
	<u>280,340</u>	<u>424,600</u>	<u>759,035</u>
<b>Interest expenses arising from</b>			
Placements from banks and other financial institutions	(121,148)	(169,766)	(315,230)
Deposits from shareholders	—	(2)	(5,255)
	<u>(121,148)</u>	<u>(169,768)</u>	<u>(320,485)</u>
<b>Net interest income</b>	<u>159,192</u>	<u>254,832</u>	<u>438,550</u>

## 6 Net fee and commission income

	Year ended 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
<b>Fee and commission income arising from</b>			
Consulting services	168,213	195,920	281,739
Joint loan services	621	8,233	46,990
Others	1,392	1,170	2,825
<b>Sub-total</b>	<u>170,226</u>	<u>205,323</u>	<u>331,554</u>
<b>Fee and commission expenses arising from</b>			
Commission fees	(538)	(568)	(740)
Others	(374)	(337)	(685)
<b>Sub-total</b>	<u>(912)</u>	<u>(905)</u>	<u>(1,425)</u>
<b>Net fee and commission income</b>	<u>169,314</u>	<u>204,418</u>	<u>330,129</u>

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.

## 7 Other net income

	Note	Year ended 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
Government grants	(a)	3,876	4,573	48,405
Others		37	(1,863)	(1,307)
<b>Other net income</b>		<u>3,913</u>	<u>2,710</u>	<u>47,098</u>

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

## 8 Profit before taxation

Profit before taxation is arrived at after charging:

## (a) Staff costs

	Year ended 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Salaries, bonuses and allowances	22,989	28,300	63,177
Contributions to pension schemes	2,607	3,481	6,844
Other social welfare	2,361	3,062	6,235
<b>Total</b>	<u>27,957</u>	<u>34,843</u>	<u>76,256</u>

## (b) Impairment losses

	Note	Year ended 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
Loans and advances to customers	15(e)	31,795	43,129	73,211
Deposits with banks and other financial institutions	14	—	135	(135)
Finance lease receivables	16(b)	—	131	11,267
<b>Total</b>		<u>31,795</u>	<u>43,395</u>	<u>84,343</u>

(c) *Other items*

	Year ended 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Rental and property management expenses	13,073	11,997	12,928
Tax and surcharges	11,752	6,609	6,295
Depreciation and amortisation	5,002	5,879	7,741
Office expenses	2,280	2,046	2,934
Maintenance fees	1,804	1,621	3,288
Travel expenses	1,243	1,121	3,996
Legal consultancy	699	1,529	2,096
Auditor's remuneration	358	434	500
Listing expenses	—	—	2,268
Others	3,711	3,963	9,653
<b>Total</b>	<b>39,922</b>	<b>35,199</b>	<b>51,699</b>

9 **Income tax in the statements of profit or loss and other comprehensive income**(a) *Taxation in the statements of profit or loss and other comprehensive income represents:*

	Note	Year ended 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
<b>Current tax</b>				
Provision for current income tax for the year	23(a)	78,847	129,356	152,752
<b>Deferred tax</b>				
Origination and reversal of temporary differences	23(b)	(20,587)	(41,606)	(1,790)
<b>Total</b>		<b>58,260</b>	<b>87,750</b>	<b>150,962</b>

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

	Note	Year ended 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
<b>Profit before taxation:</b>		<u>232,745</u>	<u>348,523</u>	<u>603,479</u>
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned	(i)	58,186	87,131	150,870
Effect of non-deductible expenses		74	619	126
Others		—	—	(34)
<b>Actual income tax expense</b>		<u>58,260</u>	<u>87,750</u>	<u>150,962</u>

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

## 10 Directors' and supervisors' remuneration

Directors' and supervisors' remuneration during the Relevant Periods is as follows:

*Year ended 31 December 2016*

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive director</b>					
Mr. Shao Yongjun	—	—	—	—	—
<b>Non-executive directors</b>					
Mr. Li Wei	—	—	—	—	—
Mr. Lu Feng	—	—	—	—	—
<b>Supervisor</b>					
Mr. Li Huihua	—	—	—	—	—

*Year ended 31 December 2017*

	Note	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors</b>						
Mr. Lin Fan	(1)	—	1,333	—	—	1,333
Mr. Shao Yongjun		—	—	—	—	—
<b>Non-executive directors</b>						
Mr. Li Wei	(2)	—	—	—	—	—
Mr. Lu Feng		—	—	—	—	—
<b>Supervisor</b>						
Mr. Li Huihua		—	—	—	—	—

*Year ended 31 December 2018*

	Note	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors</b>						
Mr. Lin Fan		—	1,600	—	—	1,600
Mr. Shao Yongjun		—	—	—	—	—
<b>Non-executive directors</b>						
Mr. Lu Feng	(3)	—	—	—	—	—
Mr. Yin Yaoliang	(4)	—	—	—	—	—
Mr. Koh Tee Choong	(5)	—	—	—	—	—
<b>Independent non-executive directors</b>						
Mr. Lin Zheyang	(6)	108	—	—	—	108
Ms. Bao Xiaoli	(6)	108	—	—	—	108
Ms. Liang Yanjun	(6)	108	—	—	—	108
<b>Supervisors</b>						
Mr. Li Huihua		—	—	—	—	—
Mr. Li Tao	(7)	—	—	—	—	—
Ms. Wang Qing	(8)	—	174	17	—	191

- (1) Mr. Lin Fan was appointed as executive director on 28 February 2017.
- (2) Mr. Li Wei resigned as non-executive director on 28 February 2017.
- (3) Mr. Lu Feng resigned as non-executive director on 19 July 2018.
- (4) Mr. Yin Yaoliang was appointed as non-executive director on 19 July 2018.
- (5) Mr. Koh Tee Choong was appointed as non-executive director on 9 August 2018.
- (6) Mr. Lin Zheyang, Ms. Bao Xiaoli and Ms. Liang Yanjun were appointed as independent non-executive directors on 9 August 2018.
- (7) Mr. Li Tao was appointed as supervisor on 26 May 2018.
- (8) Ms. Wang Qing was appointed as supervisor on 25 May 2018.

None of the directors or supervisors (except Lin Fan, Lin Zheyang, Bao Xiaoli, Liang Yanjun and Wang Qing) received any fees or emoluments in respect of their services to the Company during the Relevant 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 Relevant Periods. Under the arrangement currently in force as of the date of this Prospectus, there was no arrangement under which a Director or Supervisor has waived or agreed to waive any emoluments during the Relevant Periods.

#### 11 Individuals with highest emoluments

The five highest paid individuals of the Company for the year ended 31 December 2016 include no directors or supervisors and for the year ended 31 December 2017 and 2018 include 1 director, whose emoluments are reflected in Note 10 presented above.

	Year ended 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	5,562	5,118	6,496
Discretionary bonuses	589	43	166
	<u>6,151</u>	<u>5,161</u>	<u>6,662</u>

The emoluments of the above individuals with the highest emoluments are within the following band:

	Year ended 31 December		
	2016	2017	2018
	individuals	individuals	individuals
Nil — HKD 1,000,000	—	2	—
HKD 1,000,001 — HKD 1,500,000	3	1	2
HKD 1,500,001 — HKD 2,000,000	2	—	1
HKD 2,000,001 — HKD 2,500,000	—	—	—
HKD 2,500,001 — HKD 3,000,000	—	—	1
HKD 3,000,001 — HKD 3,500,000	—	1	—
	<u>5</u>	<u>4</u>	<u>4</u>

## 12 Basic and diluted earnings per share

	Year ended 31 December		
	2016	2017	2018
Profit attributable to shareholders of the Company (RMB'000)	174,485	260,773	452,517
Weighted average number of ordinary shares issued (in thousands)	500,000	863,750	1,600,000
Basic and diluted earnings per share attributable to shareholders (RMB)	<u>0.35</u>	<u>0.30</u>	<u>0.28</u>

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue or deemed to be in issue during the Relevant Periods. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential shares. The fully diluted earnings per share for the Relevant Periods is the same as the basic earnings per share as there is no dilutive potential share during the Relevant Periods.



## 13 Cash and deposits with central bank

	Note	At 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
Deposits with central bank				
— Statutory deposit reserves	(a)	2,245	5,595	15,176
— Surplus deposit reserves	(b)	2,035	1,408	20,037
<b>Total</b>		<b>4,280</b>	<b>7,003</b>	<b>35,213</b>

(a) The Company places statutory deposit reserves with the PBOC in accordance with relevant regulations.

As at the end of the Relevant Periods, the statutory deposit reserve ratios applicable to the Company were as follows:

	At 31 December		
	2016	2017	2018
Reserve ratio for deposits	7.0%	7.0%	7.0%

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

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

## 14 Deposits with banks and other financial institutions

	At 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Deposits with banks	236,839	270,629	780,960
Deposits with other financial institutions	3,040	—	—
Less: Allowances for impairment losses	—	(135)	—
<b>Total</b>	<b>239,879</b>	<b>270,494</b>	<b>780,960</b>

	Note	Allowances for impairment losses
		RMB'000
At 1 January 2016		—
Charge for the year		—
At 31 December 2016		—
Charge for the year	8(b)	135
At 31 December 2017		135
Reversal for the year	8(b)	(135)
At 31 December 2018		—

## 15 Loans and advances to customers

### (a) *Analysed by nature*

	At 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Retail loans	3,418,216	5,012,153	7,671,650
Dealer's loans	355,567	915,967	890,506
Gross loans and advances to customers	3,773,783	5,928,120	8,562,156
Less: Allowances for impairment losses	(37,206)	(59,116)	(135,979)
Net loans and advances to customers	<u>3,736,577</u>	<u>5,869,004</u>	<u>8,426,177</u>

### (b) *Analysed by type of collateral*

	At 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Collateralized loans	3,418,216	5,012,153	7,671,650
Guaranteed loans	355,567	915,967	890,506
Gross loans and advances to customers	3,773,783	5,928,120	8,562,156
Less: Allowances for impairment losses	(37,206)	(59,116)	(135,979)
Net loans and advances to customers	<u>3,736,577</u>	<u>5,869,004</u>	<u>8,426,177</u>

(c) *Overdue loans analysed by type of collateral and overdue period*

	31 December 2016				
	Overdue within 3 months (inclusive)	Overdue more than 3 months to 6 months (inclusive)	Overdue more than 6 months to one year (inclusive)	Overdue more than one year	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Collateralized loans	<u>11,660</u>	<u>6,178</u>	<u>5,628</u>	<u>132</u>	<u>23,598</u>
	31 December 2017				
	Overdue within 3 months (inclusive)	Overdue more than 3 months to 6 months (inclusive)	Overdue more than 6 months to one year (inclusive)	Overdue more than one year	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Collateralized loans	<u>31,867</u>	<u>6,367</u>	<u>7,123</u>	<u>—</u>	<u>45,357</u>
	31 December 2018				
	Overdue within 3 months (inclusive)	Overdue more than 3 months to 6 months (inclusive)	Overdue more than 6 months to one year (inclusive)	Overdue more than one year	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Collateralized loans	<u>85,932</u>	<u>15,897</u>	<u>2,037</u>	<u>932</u>	<u>104,798</u>

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.

(d) *Analysed by methods for assessing allowances for impairment loss**Before adoption of HKFRS 9 as at 1 January 2018*

	At 31 December	
	2016	2017
	RMB'000	RMB'000
Loans and advances for which allowances are collectively assessed:		
Gross loans and advances to customers	3,773,783	5,928,120
Less: Allowances for impairment losses	<u>(37,206)</u>	<u>(59,116)</u>
Net loans and advances to customers	<u>3,736,577</u>	<u>5,869,004</u>

*After adoption of HKFRS 9 as at 1 January 2018*

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

(e) *Movements of allowances for impairment losses**Before adoption of HKFRS 9 as at 1 January 2018*

	Note	At 31 December	
		2016	2017
		RMB'000	RMB'000
Allowances for impairment losses which is collectively assessed:			
At 1 January		11,819	37,206
Charge for the year	8(b)	31,795	43,129
Write-off for the year		(6,408)	(21,848)
Recovery after write-off		<u>—</u>	<u>629</u>
At 31 December		<u>37,206</u>	<u>59,116</u>

After adoption of HKFRS 9 as at 1 January 2018

	Note	Year ended 31 December 2018			Total
		12-month ECL	Lifetime ECL for not credit- impaired	Lifetime ECL for credit- impaired	
		RMB'000	RMB'000	RMB'000	
At 31 December 2017		25,148	17,878	16,090	59,116
Adjustment on initial application of HKFRS 9		47,659	(7,171)	(1,268)	39,220
Adjusted balance at 1 January 2018		72,807	10,707	14,822	98,336
Transferred to:					
- to 12-month ECL		4,234	(3,981)	(253)	—
- to lifetime ECL for not credit-impaired		(572)	572	—	—
- to lifetime ECL for credit-impaired		(178)	(315)	493	—
Charge for the year	8(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

## 16 Finance lease receivables

	At 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Minimum finance lease receivables	—	23,275	126,287
Less: Unearned finance lease income	—	(3,246)	(11,844)
Present value of finance lease receivables	—	20,029	114,443
Less: Allowances for impairment losses	—	(131)	(11,463)
<b>Total</b>	—	19,898	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 2017			31 December 2018		
	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables	Minimum finance lease receivables	Unearned finance lease income	Present value of finance lease receivables
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Less than 1 year	7,071	(1,584)	5,487	66,547	(8,153)	58,394
1 year to 2 years	7,071	(1,118)	5,953	45,486	(3,106)	42,380
2 years to 3 years	8,800	(542)	8,258	13,917	(542)	13,375
More than 3 years	333	(2)	331	337	(43)	294
Sub-total	<u>23,275</u>	<u>(3,246)</u>	20,029	<u>126,287</u>	<u>(11,844)</u>	114,443
Less: Allowances for impairment losses			(131)			(11,463)
<b>Total</b>			<u>19,898</u>			<u>102,980</u>

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

*Before adoption of HKFRS 9 as at 1 January 2018*

	Note	Allowances for impairment losses RMB'000
At 1 January 2016		—
Charge for the year		—
Write-off		—
At 31 December 2016		—
Charge for the year	8(b)	131
Write-off		—
At 31 December 2017		<u>131</u>

After adoption of HKFRS 9 as at 1 January 2018

	Year ended 31 December 2018				
	Note	12-month ECL	Lifetime ECL for not credit- impaired	Lifetime ECL for credit- impaired	Total
		RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017		131	—	—	131
Adjustment on initial application of HKFRS 9		65	—	—	65
Adjusted balance at 1 January 2018		196	—	—	196
Transferred to:					
- to lifetime ECL for credit-impaired		(75)	—	75	—
Charge for the year	8(b)	523	4,159	6,585	11,267
At 31 December 2018		644	4,159	6,660	11,463

## 17 Property and equipment

	Electronic equipment	Office furniture	Improvement to leasehold property	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Cost:</b>				
At 1 January 2016	1,153	734	2,816	4,703
Additions	<u>1,070</u>	<u>104</u>	<u>2,404</u>	<u>3,578</u>
At 31 December 2016	2,223	838	5,220	8,281
Additions	389	2	271	662
Disposals	<u>(4)</u>	<u>—</u>	<u>—</u>	<u>(4)</u>
At 31 December 2017	2,608	840	5,491	8,939
Additions	<u>989</u>	<u>192</u>	<u>1,569</u>	<u>2,750</u>
At 31 December 2018	<u>3,597</u>	<u>1,032</u>	<u>7,060</u>	<u>11,689</u>
<b>Accumulated depreciation:</b>				
At 1 January 2016	(115)	(83)	(423)	(621)
Charge for the year	<u>(321)</u>	<u>(154)</u>	<u>(1,311)</u>	<u>(1,786)</u>
At 31 December 2016	(436)	(237)	(1,734)	(2,407)
Charge for the year	<u>(431)</u>	<u>(161)</u>	<u>(1,382)</u>	<u>(1,974)</u>
At 31 December 2017	(867)	(398)	(3,116)	(4,381)
Charge for the year	<u>(575)</u>	<u>(159)</u>	<u>(1,461)</u>	<u>(2,195)</u>
At 31 December 2018	<u>(1,442)</u>	<u>(557)</u>	<u>(4,577)</u>	<u>(6,576)</u>
<b>Net book value:</b>				
<b>At 31 December 2016</b>	<u>1,787</u>	<u>601</u>	<u>3,486</u>	<u>5,874</u>
<b>At 31 December 2017</b>	<u>1,741</u>	<u>442</u>	<u>2,375</u>	<u>4,558</u>
<b>At 31 December 2018</b>	<u>2,155</u>	<u>475</u>	<u>2,483</u>	<u>5,113</u>



## 18 Intangible assets

	<b>Computer software</b>
	<b>RMB'000</b>
<b>Cost:</b>	
At 1 January 2016	14,878
Additions	<u>2,959</u>
At 31 December 2016	17,837
Additions	<u>8,858</u>
At 31 December 2017	26,695
Additions	<u>3,490</u>
At 31 December 2018	----- 30,185
<b>Accumulated amortisation:</b>	
At 1 January 2016	(2,161)
Charge for the year	<u>(3,216)</u>
At 31 December 2016	(5,377)
Charge for the year	<u>(3,905)</u>
At 31 December 2017	(9,282)
Charge for the year	<u>(5,546)</u>
At 31 December 2018	----- (14,828)
<b>Net book value:</b>	
<b>At 31 December 2016</b>	<u><u>12,460</u></u>
<b>At 31 December 2017</b>	<u><u>17,413</u></u>
<b>At 31 December 2018</b>	<u><u>15,357</u></u>

## 19 Other assets

	Note	At 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
Interest receivables		30,955	33,357	35,607
Long-term deferred expenses		250	—	—
Other receivables	(a)	4,026	6,801	22,577
IPO service fees		—	—	30,640
Prepayments		23	1,237	3,719
Others		29	458	14
<b>Total</b>		<b>35,283</b>	<b>41,853</b>	<b>92,557</b>

## (a) Other receivables

	At 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Deposits	3,266	3,260	4,806
Consulting fees	724	2,132	1,698
Commission receivables of joint loans	—	1,409	16,073
Others	36	—	—
<b>Total</b>	<b>4,026</b>	<b>6,801</b>	<b>22,577</b>

## 20 Placements from banks and other financial institutions

	At 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Placements from banks	3,160,000	4,020,000	6,085,347
Placements from other financial institutions	72,885	—	—
<b>Total</b>	<b>3,232,885</b>	<b>4,020,000</b>	<b>6,085,347</b>

## 21 Guarantee deposits

	At 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Deposits provided by dealers for dealer's loans	18,242	70,435	56,047
Deposits provided by dealers for retail business	9,400	5,980	6,892
Deposits from finance lease clients	—	2,479	16,693
Total	<u>27,642</u>	<u>78,894</u>	<u>79,632</u>

## 22 Deposits from shareholders

	At 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Deposits from shareholders	<u>—</u>	<u>—</u>	<u>600,000</u>

As at the 31 December 2018, the deposits from shareholders carried fixed interest rate at 1.10% per annum and the term of the deposits was 3 months.

## 23 Income tax in the statements of financial position

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

	Note	At 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
Balance at the beginning of the year		8,340	54,392	76,884
Provision for current income tax for the year	9(a)	78,847	129,356	152,752
Payment during the year		<u>(32,795)</u>	<u>(106,864)</u>	<u>(170,158)</u>
Balance at the end of the year		<u>54,392</u>	<u>76,884</u>	<u>59,478</u>

(b) *Deferred tax assets recognized:*

The components of deferred tax assets recognized in the statements of financial position and the movements during the Relevant Periods are as follows:

Deferred tax arising from:	Allowances for impairment losses	Subsidies for retail loans	Total
	RMB'000	RMB'000	RMB'000
Balance at 1 January 2016	—	—	—
Credited to profit or loss	—	20,587	20,587
Balance at 31 December 2016	—	20,587	20,587
Credited to profit or loss	—	41,606	41,606
Balance at 31 December 2017	—	62,193	62,193
Adoption of HKFRS 9	9,821	—	9,821
Adjusted balance at January 1, 2018	9,821	62,193	72,014
Credited to profit or loss	5,348	(3,558)	1,790
Balance at 31 December 2018	<u>15,169</u>	<u>58,635</u>	<u>73,804</u>

24 **Other liabilities**

	Note	At 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
Interest payable		16,879	20,088	49,315
Advance receipts		341	190	33,648
Other payables	(a)	<u>23,534</u>	<u>36,320</u>	<u>141,648</u>
<b>Total</b>		<u>40,754</u>	<u>56,598</u>	<u>224,611</u>

(a) *Other payables*

	At 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Employee benefits payables	4,193	3,622	10,609
Tax and surcharges and other taxation payable	16,083	21,459	17,064
Accruals	2,360	7,601	5,083
Payables of joint loans	—	2,372	77,294
IPO service fees payable	—	—	29,971
Others	898	1,266	1,627
<b>Total</b>	<u>23,534</u>	<u>36,320</u>	<u>141,648</u>

25 **Capital and reserves**(a) *Movement in components of equity*

The reconciliation between the opening and closing of each component of the Company's equity for the Relevant Periods is set out in the statements of changes in equity.

(b) *Paid-in / share capital*

The capital injections from equity holders of the Company are RMB25.0 million, HKD599.7 million (equivalent to RMB475.0 million), RMB200.0 million, RMB465.0 million and RMB435.0 million on 17 November 2014, 4 December 2014, 16 June 2017, 10 August 2017 and 5 September 2017, respectively. Pursuant to a conversion on 26 May 2018 as detailed in the section headed "History and Corporate Structure" in this Prospectus, the Company was converted into a joint stock limited company from a limited liability company. As at 31 December 2018, the share capital represented 1,600,000,000 ordinary shares of the Company at RMB1 each, which were allotted and issued at par.

(c) *Nature and purpose of reserve*(i) *Capital reserve*

The capital reserve mainly comprises capital / share premium, which represents the difference between the par value of the shares of the Company and capital injection / proceeds received from the issuance of the shares of the Company.

(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 Bank, 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.

(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.

(d) *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 for shareholders and benefits for other stakeholders, 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 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 Relevant Periods.

The Company calculates the capital adequacy ratios as at the end of the Relevant Periods 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 (“CBRC”) in 2012 and relevant requirements promulgated by the CBIRC as follows:

	At 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Core tier-one capital			
— Paid-in / share capital	500,000	1,600,000	1,600,000
— Capital reserve	—	—	404,340
— Surplus reserve	19,927	46,004	45,252
— General risk reserve	23,164	55,700	107,041
— Retained earnings	156,176	358,336	326,460
Total core tier-one capital	699,267	2,060,040	2,483,093
Core tier-one capital deductions			
— Net value of intangible asset after deduction of related deferred income tax liabilities	(12,460)	(17,413)	(15,357)
Net core tier-one capital	686,807	2,042,627	2,467,736
Net tier-one capital	686,807	2,042,627	2,467,736
Tier-two capital			
— Surplus provision for loan impairment	23,117	42,579	88,561
Net tier-two capital	23,117	42,579	88,561
Net capital base	709,924	2,085,206	2,556,297
Credit risk-weighted assets	3,049,792	4,957,883	7,173,419
Operational risk-weighted assets	386,849	545,141	1,003,235
Total risk-weighted assets	3,436,641	5,503,024	8,176,654
Core tier-one capital adequacy ratio	19.98%	37.12%	30.18%
Tier-one capital adequacy ratio	19.98%	37.12%	30.18%
Capital adequacy ratio	20.66%	37.89%	31.26%

## 26 Notes to cash flow statements

*Cash and cash equivalents comprise*

	Note	At 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
Deposit reserves with central bank	13	2,035	1,408	20,037
Deposits with banks within original maturity of three months or less	14	<u>236,839</u>	<u>270,629</u>	<u>780,960</u>
Cash and cash equivalents in the cash flow statements		<u>238,874</u>	<u>272,037</u>	<u>800,997</u>

## 27 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*

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.

In accordance with the requirements of external regulatory and related system, the Company has formulated operation rules of Five-tier 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.



The core definitions of the five categories of loans and advances to customers and finance lease receivables are set out below:

Normal:	Borrowers can perform the contract and repay the principal and interest normally. There are no negative factors that may affect the full repayment of principal and interest in time, and it is fully grasped that all borrowers can repay principal and interest in full on a timely basis.
Special Mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors. If these factors continue, the borrower's ability to repay will be affected.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest, repayment can be made by disposing assets or external financing and even implementing mortgage guarantees.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognized even when collateral or guarantees are invoked. It is only because there are factors such as borrowers' reorganization, merger, consolidation, collateral disposal and pending litigation.
Loss:	After the adoption of all possible measures or all necessary legal proceedings, the principal and interest of a loan cannot be recovered, or only a very small part of it can be recovered, but its value is negligible.

*Overview of the Company's exposure to credit risk before adoption of HKFRS 9 as at 1 January 2018*

The Company's credit risk is primarily attributable to its loans and advances to customers and finance lease receivables. An allowance for loans and advances to customers and finance lease receivables is made when there is an identified loss event which, based on previous experience and management's assessment of the current economic environment and the financial condition of counterparties, is evidence of a reduction in the recoverability of the cash flows.

With respect to the credit risk of the Company's treasury operations, management has established internal procedures to monitor the Company's cash and cash equivalents to be placed and entered into with financial institutions of good reputation. These internal procedures help minimize the Company's credit risk exposure.

The credit risk on cash and cash equivalents and term deposits with banks and other financial institutions is limited because the counterparties are banks with high credit ratings.

The Company writes off loans and advances to customers and finance lease receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. For the years ended 31 December 2016 and 2017, the Company has written off loans and advances to customers of RMB6,408 thousand and RMB21,848 thousand respectively, as the Company had identified the debtor has financial difficulty.

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of the Relevant Periods.

The Company's loans and advances to customers, deposits with banks and other financial institutions and finance lease receivables, are listed by credit quality as follows:

	31 December 2016			
	Loans and advances to customers	Deposits with banks and other financial institutions	Finance lease receivables	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Impaired</b>				
Collectively assessed				
Gross balance	14,089	—	—	14,089
Allowances for impairment losses	(12,460)	—	—	(12,460)
Net balance	1,629	—	—	1,629
<b>Overdue but not impaired</b>				
Within 3 months (inclusive)	9,509	—	—	9,509
Allowances for impairment losses	(8,095)	—	—	(8,095)
Net balance	1,414	—	—	1,414
<b>Neither overdue nor impaired</b>				
Gross balance	3,750,185	239,879	—	3,990,064
Allowances for impairment losses	(16,651)	—	—	(16,651)
Net balance	3,733,534	239,879	—	3,973,413
Book value	<u>3,736,577</u>	<u>239,879</u>	<u>—</u>	<u>3,976,456</u>

	31 December 2017			
	Loans and advances to customers	Deposits with banks and other financial institutions	Finance lease receivables	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Impaired</b>				
Collectively assessed				
Gross balance	16,667	—	—	16,667
Allowances for impairment losses	(16,090)	—	—	(16,090)
Net balance	577	—	—	577
<b>Overdue but not impaired</b>				
Within 3 months (inclusive)	28,690	—	—	28,690
Allowances for impairment losses	(17,876)	—	—	(17,876)
Net balance	10,814	—	—	10,814
<b>Neither overdue nor impaired</b>				
Gross balance	5,882,763	270,629	20,029	6,173,421
Allowances for impairment losses	(25,150)	(135)	(131)	(25,416)
Net balance	5,857,613	270,494	19,898	6,148,005
Book value	5,869,004	270,494	19,898	6,159,396

*Overview of the Company's exposure to credit risk after adoption of HKFRS 9 as at 1 January 2018*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. At 31 December 2018, 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 recognized financial assets as stated in the statements 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.

The Company's current credit risk grading framework in respect of financial assets comprises the following categories:

<b>Category</b>	<b>Description</b>	<b>Basis of recognizing ECL</b>
<i>Performing</i>	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
<i>Doubtful</i>	There has been a significant increase in credit risk since initial recognition	Lifetime ECL for not credit-impaired
<i>In default</i>	There is evidence indicating the asset is credit-impaired	Lifetime ECL for credit-impaired
<i>Write-off</i>	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 2018, the Company has written off loans and advances to customers of RMB36,364 thousand as the Company had identified the debtor has financial difficulty.

For other receivables, the Company has applied the simplified approach in HKFRS 9 to measure them. Other receivables are mainly 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 and other financial institutions, 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.

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 2018

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

(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 to 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 other financial institutions 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 and other financial institutions. The funds are mostly used to disburse loans and to maintain daily operations of the Company. The use of funds also includes due payment of placements from banks and other financial institutions and their related financing costs.

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 Relevant Periods.

## At 31 December 2016

	Repayable on demand/ terms undated	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	Total	Carrying amount
<b>Assets</b>							
Cash and deposits with central bank	4,280	—	—	—	—	4,280	4,280
Deposits with banks and other financial institutions	233,839	—	3,023	3,067	—	239,929	239,879
Loans and advances to customers	3,043	160,426	321,239	1,656,469	2,078,553	4,219,730	3,736,577
Other assets	4,100	30,881	—	—	—	34,981	34,981
Total	245,262	191,307	324,262	1,659,536	2,078,553	4,498,920	4,015,717
<b>Liabilities</b>							
Placements from banks and other financial institutions	—	(340,732)	(497,127)	(2,466,458)	—	(3,304,317)	(3,232,885)
Guarantee deposits	(27,642)	—	—	—	—	(27,642)	(27,642)
Other liabilities	(7,452)	(5,827)	(4,276)	(6,775)	—	(24,330)	(24,330)
Total	(35,094)	(346,559)	(501,403)	(2,473,233)	—	(3,356,289)	(3,284,857)
	210,168	(155,252)	(177,141)	(813,697)	2,078,553	1,142,631	730,860

## At 31 December 2017

	Repayable on demand/ terms undated	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	Total	Carrying amount
<b>Assets</b>							
Cash and deposits with central bank	7,003	—	—	—	—	7,003	7,003
Deposits with banks and other financial institutions	270,494	—	—	—	—	270,494	270,494
Loans and advances to customers	11,392	257,374	661,866	3,024,733	2,586,053	6,541,418	5,869,004
Finance lease receivables	—	585	1,171	5,268	16,098	23,122	19,898
Other assets	6,924	33,234	—	—	—	40,158	40,158
Total	295,813	291,193	663,037	3,030,001	2,602,151	6,882,195	6,206,557
<b>Liabilities</b>							
Placements from banks and other financial institutions	—	(351,230)	(754,188)	(3,071,953)	—	(4,177,371)	(4,020,000)
Guarantee deposits	(76,415)	—	—	—	(2,479)	(78,894)	(78,894)
Other liabilities	(14,862)	(5,959)	(5,008)	(9,120)	—	(34,949)	(34,949)
Total	(91,277)	(357,189)	(759,196)	(3,081,073)	(2,479)	(4,291,214)	(4,133,843)
	204,536	(65,996)	(96,159)	(51,072)	2,599,672	2,590,981	2,072,714

At 31 December 2018

	Repayable on demand/ terms undated	Within one month	Between		Total	Carrying amount
			Between one month and three months	three months and one year		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Assets</b>						
Cash and deposits with central bank	35,213	—	—	—	—	35,213
Deposits with banks and other financial institutions	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
Finance lease receivables	7,758	4,114	8,230	37,034	57,688	114,824
Other assets	22,791	35,393	—	—	—	58,184
<b>Total</b>	<b>904,654</b>	<b>409,906</b>	<b>1,019,994</b>	<b>3,830,379</b>	<b>4,222,420</b>	<b>10,387,353</b>
<b>Liabilities</b>						
Placements from banks and other financial institutions	—	(121,911)	(1,666,942)	(4,136,881)	(378,319)	(6,304,053)
Guarantee deposits	(62,939)	—	—	—	(16,693)	(79,632)
Deposits from shareholders	—	(568)	(600,990)	—	—	(601,558)
Other liabilities	(124,584)	(9,097)	(26,497)	(13,721)	—	(173,899)
<b>Total</b>	<b>(187,523)</b>	<b>(131,576)</b>	<b>(2,294,429)</b>	<b>(4,150,602)</b>	<b>(395,012)</b>	<b>(7,159,142)</b>
	<u>717,131</u>	<u>278,330</u>	<u>(1,274,435)</u>	<u>(320,223)</u>	<u>3,827,408</u>	<u>3,228,211</u>
						<u>2,464,636</u>

(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 make the Company face fair value interest rate risk and cash flow interest rate risk. The Company's risk management committee reviews and supervises market operational risks.

(i) *Interest rate profile*

The following tables detail the interest rate profile of the Company's assets and liabilities as at the end of the Relevant Periods.

	2016		2017		2018	
	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount
	%	RMB'000	%	RMB'000	%	RMB'000
<b>Fixed interest rate:</b>						
Financial assets						
Loans and advances to customers	6.00%-14.90%	3,736,577	6.50%-14.90%	5,869,004	7.60%-15.48%	8,426,177
Finance lease receivables	N/A	—	7.96%-11.00%	19,898	7.86%-18.71%	102,980
		<u>3,736,577</u>		<u>5,888,902</u>		<u>8,529,157</u>
Financial liabilities						
Placements from banks and other financial institutions	4.00%-6.31%	(3,232,885)	5.00%-8.00%	(4,020,000)	5.00%-8.50%	(6,085,347)
Deposits from shareholders	N/A	—	N/A	—	1.10%	(600,000)
		<u>(3,232,885)</u>		<u>(4,020,000)</u>		<u>(6,685,347)</u>
<b>Net</b>		<u><u>503,692</u></u>		<u><u>1,868,902</u></u>		<u><u>1,843,810</u></u>
<b>Variable interest rate:</b>						
Financial assets						
Cash and deposits with central bank	0.72%-1.62%	4,280	0.72%-1.62%	7,003	0.72%-1.62%	35,213
Deposits with banks and other financial institutions	0.35%-3.00%	239,879	0.30%-5.50%	270,494	0.30%-2.50%	780,960
		<u>244,159</u>		<u>277,497</u>		<u>816,173</u>

(ii) *Sensitivity analysis*

At the end of the Relevant Periods, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would have increased the Company's profit after tax and retained profits by approximately RMB2,121 thousand, RMB2,428 thousand and RMB7,142 thousand, respectively.

The sensitivity analysis above indicates the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Company at the end of the Relevant Periods.



(d) *Currency risk*

The Company's functional currency is RMB. As at the end of the Relevant Periods, the portion of recognized assets and liabilities that are denominated in currencies other than RMB is insignificant. Management does not consider there to be any significant currency risk associated with the Company.

(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 Relevant Periods, 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 amortized cost are not materially different from their fair values.

28 **Commitments**(a) *Operating lease commitments*

At the end of the Relevant Periods, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Within 1 year (inclusive)	8,239	11,674	7,925
More than 1 year but less than 2 years (inclusive)	11,301	3,492	5,249
More than 2 years but less than 3 years (inclusive)	3,484	—	5,415
More than 3 years	—	—	9,834
	<u>23,024</u>	<u>15,166</u>	<u>28,423</u>

The Company is the lessee in respect of a number of properties and items of buildings, automobile, and green plant held under operating leases. The leases typically run for an initial period of 1 to 3 years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased every 3 years to reflect market rentals. None of the leases includes contingent rentals.

(b) *Capital commitments*

As at the end of each of the Relevant Periods, the Company's authorised capital commitments are as follows:

	At 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Contracted but not pay for	—	—	32

29 **Material related party transactions**

The following significant transactions were carried out between the Company and its related parties during the Relevant Periods. 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 Relevant Periods.

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
Beijing Baozehang Automobile Sales Services Co., Ltd.	Fellow subsidiary
Beijing Dewanlong Trading 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
Foshan Aoze 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
Guangzhoushi Hengyuehang Automobile Sales Services Co., Ltd.	Fellow subsidiary
Hainan SCAS Automobile Sales Services Co., Ltd.	Fellow subsidiary
Henan Jintangsheng Automobile 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
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
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

<b>Company</b>	<b>Relationship</b>
Nanchang Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Qingdao Huacheng Automobile Services Co., Ltd.	Fellow subsidiary
Qingyuan Aoze 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 Qibao Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shanghai Zhengtong Dingze Financial Leasing Co., Ltd.	Fellow subsidiary
Shangrao Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shantou Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shengzhou Aoze 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 Mechanical & Electrical Equipment Co., Ltd.	Fellow subsidiary
Shenzhen SCAS Tenglong Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shenzhen SCAS Huawo Automobile Sales Services Co., Ltd.	Fellow subsidiary
Tianjin SCAS Automobile Sales Services Co., Ltd.	Fellow subsidiary
Wuhan Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Wuhan Luze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Wuhan Zhengtong United Industrial Investment Group Co., Ltd.	Fellow subsidiary
Xiangtan Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Yichun Baoze 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 Jieli Automobile Sales Services 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	Year ended 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
Subsidies receipt for retail loans		99,722	232,850	240,921
Interest income	(i)	42,558	126,828	271,426
Interest expenses		—	(2)	(5,255)
Operating expenses		—	—	(261)
Additions of deposits from shareholders		—	50,000	3,584,000
Decrease of deposits from shareholders		—	(50,000)	(2,984,000)

(i) Interest income included subsidies received from the automaker which are settled through related parties pursuant to the pass-through arrangement. The subsidies are amortised to the statements of profit or loss during the Relevant Periods.

(c) *Balances with related parties*

As at the end of the Relevant Periods, the Company had the following balances with related parties:

	Note	At 31 December		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
<b>Assets</b>				
Dealer's loans		213,383	716,401	683,069
Retail loans		—	69,578	13,230
Subsidies for retail loans	(i)	(71,495)	(203,298)	(184,014)
Mortgage service fees	(i)	2,197	6,225	7,027
Other assets		1,072	4,637	2,134
<b>Liabilities</b>				
Guarantee deposits		11,133	59,465	44,128
Deposits from shareholders		—	—	600,000
Other liabilities		916	940	1,133
<b>Off-balance sheet items</b>				
Guarantees received for dealer's loans	(ii)	213,383	716,401	683,069
Guarantees received for placements from banks and other financial institutions	(iii)	1,750,000	1,550,000	1,765,000

- (i) The subsidies for retail loans and mortgage service fees are initially recognized in loans and receivables at amortized 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 and other financial institutions mature and repayable.

All balances with related parties are related to major business of the Company except for other liabilities due to fellow subsidiaries amounting to RMB916 thousand, RMB940 thousand and RMB1,004 thousand as of 31 December 2016, 2017 and 2018, respectively.

**(d) Directors and key management personnel remuneration**

Remuneration for key management personnel of the Company, including amounts paid to the Company's director as disclosed in Note 10 and certain of the highest paid employee as disclosed in Note 11, is as follows:

	Year ended 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Remuneration of key management personnel	<u>2,782</u>	<u>6,352</u>	<u>8,454</u>

**30 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 we issue automobile retail loans to customers with our 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.
- Others: These represent any other business which cannot form a single reportable segment.

	Year ended 31 December 2016			
	Retail Business	Dealer's loan Business	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Net interest income	137,698	15,941	5,553	159,192
Net fee and commission income	169,314	—	—	169,314
Other net income	—	—	3,913	3,913
<b>Operating income</b>	<b>307,012</b>	<b>15,941</b>	<b>9,466</b>	<b>332,419</b>
Operating expenses	(63,530)	(4,349)	—	(67,879)
Impairment losses	(32,449)	654	—	(31,795)
<b>Profit before taxation</b>	<b>211,033</b>	<b>12,246</b>	<b>9,466</b>	<b>232,745</b>
<b>Other segment information</b>				
— Depreciation and amortisation	4,682	320	—	5,002
	At 31 December 2016			
	Retail Business	Dealer's loan Business	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment assets / total assets	3,412,459	355,723	286,758	4,054,940
Reportable segment liabilities / total liabilities	(2,757,250)	(522,198)	(76,225)	(3,355,673)
	Year ended 31 December 2017			
	Retail Business	Dealer's loan Business	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Net interest income	225,056	24,365	5,411	254,832
Net fee and commission income	204,418	—	—	204,418
Other net income	—	—	2,710	2,710
<b>Operating income</b>	<b>429,474</b>	<b>24,365</b>	<b>8,121</b>	<b>461,960</b>
Operating expenses	(65,449)	(4,593)	—	(70,042)
Impairment losses	(40,458)	(2,802)	(135)	(43,395)
<b>Profit before taxation</b>	<b>323,567</b>	<b>16,970</b>	<b>7,986</b>	<b>348,523</b>
<b>Other segment information</b>				
— Depreciation and amortisation	5,494	385	—	5,879

	At 31 December 2017			
	Retail Business	Dealer's loan Business	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Reportable segment assets / total assets	5,008,457	917,220	366,739	6,292,416
Reportable segment liabilities / total liabilities	(3,470,130)	(653,012)	(109,234)	(4,232,376)
	Year ended 31 December 2018			
	Retail Business	Dealer's loan Business	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
	Net interest income	414,272	20,402	3,876
Net fee and commission income	330,129	—	—	330,129
Other net income	—	—	47,098	47,098
<b>Operating income</b>	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)
<b>Profit before taxation</b>	<u>534,942</u>	<u>17,428</u>	<u>51,109</u>	<u>603,479</u>
<b>Other segment information</b>				
— Depreciation and amortisation	<u>7,489</u>	<u>252</u>	<u>—</u>	<u>7,741</u>
	At 31 December 2018			
	Retail Business	Dealer's loan Business	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
	Reportable segment assets / total assets	7,694,478	887,843	949,840
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 Shanghai of the PRC. The non-current assets are located in Shanghai as well.

(c) *Information about major customers*

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



### 31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Periods

Up to the issuance date of the Historical Financial Information, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2018 and which have not been adopted in the Historical Financial Information. These include the following which may be relevant to the Company:

	<u>Effective for accounting periods beginning on or after</u>
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKFRS 9, <i>Prepayment features with negative compensation</i>	1 January 2019
HKFRS 16, <i>Leases</i>	1 January 2019
HK(IFRIC) Interpretation 23, <i>Uncertainty over income tax treatments</i>	1 January 2019
Amendments to HKAS 28, <i>Long-term interest in associates and joint ventures</i>	1 January 2019
Amendments to HKAS 19, <i>Plan Amendments, Curtailment or Settlement</i>	1 January 2019
Amendments to HKFRS 10 and HKAS 28, <i>Sale or contribution of assets between an investor and its associate or joint venture</i>	To be determined
HKFRS 17, <i>Insurance contracts</i>	1 January 2021

The Company is in the process of making an assessment of what the impact of these amendments, new standards and interpretations 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 Company's results of operations and financial position. Specifically, the Company assesses the impact of HKFRS 16 as below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Company, and further impacts may be identified before the standard is initially applied in the Company's interim financial report for the six months ended 30 June 2019.

#### ***HKFRS 16, Leases***

As disclosed in Note 2(e), currently the Company classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Company enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial

recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Company's accounting as a lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statements of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Company plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Company will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Company plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Company plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in Note 28, at 31 December 2018 the Company's future minimum lease payments under non-cancellable operating leases amount to RMB28,423 thousand, the majority of which is payable between 1 and 5 years after the reporting date. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be RMB23,300 thousand and RMB24,520 thousand respectively, after taking account the effects of discounting, as at 1 January 2019.

Based on the preliminary assessment, the adoption of HKFRS 16 is not expected to have a material impact on its financial statements.

### **32 Contingencies**

The Company did not have any material contingent liabilities at the end of the Relevant Periods.

### **33 Subsequent events**

The Company had no material events for disclosure subsequent to 31 December 2018 and up to the date of Accountants' Report.

## **SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company in respect of any period subsequent to 31 December 2018.

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## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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*The information set forth in this appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purposes only.*

*The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the financial information included in the Accountants' Report set forth in Appendix I to this prospectus.*

### A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma statement of adjusted net tangible assets of Shanghai Dongzheng Automotive Finance Co., Ltd (the "Company") is prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and is set out below to illustrate the effect of the proposed offering by the Company of its shares (the "Global Offering") on the net tangible assets of the Company attributable to the shareholders of the Company as at 31 December 2018, as if the Global Offering had taken place on 31 December 2018.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Company had the Global Offering been completed as at 31 December 2018 or at any future date.

	Audited net tangible assets attributable to shareholders of the Company as at 31 December 2018	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per share	
	RMB'000 Note (1)	HK\$'000 Note (2)/(5)	RMB'000 Note (3)	RMB Note (4)	HK\$ Note (5)
Based on an offer price of HK\$4.20 per share	2,467,736	2,138,904	4,341,844	2.04	2.23
Based on an offer price of HK\$6.30 per share	2,467,736	3,230,824	5,298,584	2.48	2.83

*Notes:*

- (1) The net tangible assets attributable to shareholders of the Company as at 31 December 2018 is based on the net assets attributable to shareholders of the Company as at 31 December 2018 of RMB2,483,093 thousand less intangible assets of RMB15,357 thousand as at 31 December 2018, as set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$4.20 (being the minimum offer price) and HK\$6.30 per H Share (being the maximum offer price) and the assumption that there are 533,336,000 newly issued H Shares in the Global Offering, after deduction of the underwriting fees and other related expenses payable by the Company, assuming that the Over-allotment Option is not exercised and without taking into account any discretionary incentive fees.

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## **APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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- (3) The unaudited pro forma adjusted net tangible assets do not take into account the financial results or other transactions of the Company subsequent to 31 December 2018.
  
- (4) The unaudited pro forma adjusted net tangible assets per share is arrived on the basis of 2,133,336,000 shares in issue assuming that the Global Offering has been completed on 31 December 2018 and that the Over-allotment Option is not exercised.
  
- (5) The estimated net proceeds from the Global Offering and the unaudited pro forma adjusted net tangible assets per share are translated into Renminbi at the rate of RMB0.87620 to HK\$1.00, the exchange rate set by the PBOC prevailing on 28 December 2018. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rate.

**B.    REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group’s pro forma financial information for the purpose in this prospectus.*



8th Floor  
Prince’s Building  
10 Chater Road  
Central  
Hong Kong

14 March 2019

**INDEPENDENT REPORTING ACCOUNTANTS’ ASSURANCE REPORT ON THE  
COMPILATION OF PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF SHANGHAI DONGZHENG AUTOMOTIVE FINANCE CO., LTD**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Shanghai Dongzheng Automotive Finance Co., Ltd (the “Company”) by the directors of the Company (the “Directors”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at 31 December 2018 and related notes as set out in Part A of Appendix II to the prospectus dated 14 March 2019 (the “Prospectus”) issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the “Global Offering”) on the Company’s financial position as at 31 December 2018 as if the Global Offering had taken place at 31 December 2018. As part of this process, information about the Company’s financial position as at 31 December 2018 has been extracted by the Directors from the Company’s historical financial information included in the Accountants’ Report as set out in Appendix I to the Prospectus.

*Directors’ Responsibilities for the Pro Forma Financial Information*

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“AG 7”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

*Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

*Reporting Accountants’ Responsibilities*

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“HKSAE”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Company as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at 31 December 2018 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

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**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Company, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

*Opinion*

In our opinion:

- a) the pro forma financial information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Company, and
- c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**KPMG**

*Certified Public Accountants*

Hong Kong

14 March 2019

This appendix sets out summaries of certain aspects of the PRC legal and judicial system, its arbitration system and its company and securities regulations. It also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between the PRC Company Law and Hong Kong company law, certain requirements of the Listing Rules and the Mandatory Provisions. The principal objective of this summary is to provide potential investors with an overview of the principal laws and regulations applicable to us. This summary is with no intention to include all the information which is important to the potential investors.

## **TAXATION IN THE PRC**

### **TAXATION ON HOLDERS OF SECURITIES**

The following is a summary of certain PRC taxation consequences of the ownership of H Shares by an investor who purchases such H Shares in connection with the Global Offering and holds the H Shares as capital assets. This summary does not purport to address all material taxation consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investor, some of which may be subject to special rules. This summary is based on the PRC tax laws as in effect on the date as of the date of this prospectus, all of which are subject to change (or changes in interpretation) and may have retroactive effect. This section of this prospectus does not address any aspects of PRC taxation other than income tax, capital gains tax, stamp duty and estate duty. Prospective investors are urged to consult their respective tax advisors regarding the PRC taxation consequences arising from the ownership and disposal of H Shares.

#### **Dividend tax**

##### *Individual Investors*

According to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》) (“**IIT Law**”) issued on September 10, 1980 by the Fifth NPC Standing Committee, modified on August 31, 2018 and taking effect on January 1, 2019, and the Regulations for the Implementation of the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法實施條例》) modified by the Council on December 18, 2018 and taking effect on January 1, 2019, a 20% withholding tax shall be deducted from the dividend paid by a PRC company to individual investors.

According to the Notice of Temporarily Exempt Individuals From Personal Income Tax On Income From Stock Transfer (Caishui [1998] No. 61) (《財政部、國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》), since January 1, 1997, personal income from the transfer of shares in listed companies has been temporarily exempt from personal income tax. Later in Dec.31, 2009, the Issues Relating to Levying of Individual Income Tax on Income from Transfer of Moratorium Shares of Listed Companies by Individuals (Caishui [2009] No. 167) (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》) took into effect, which stipulates that individual income from the transfer of shares of listed companies on domestic related stock exchanges will continue to be exempted from personal income tax. However, the relevant restricted sale shares as defined in the Supplementary Notice on Issues Relating to Levying of Individual Income Tax on Income from Transfer of Moratorium Shares of Listed Companies by Individuals (Caishui [2010] No. 70) (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知》) are excepted.



Meanwhile, pursuant to the Notice on Implementing Differentiated Individual Income Tax Policy for Stock Dividends of Listed Companies (Caishui [2015] No. 101) (《關於上市公司股息紅利差別化個人所得稅政策有關問題的通知》) issued by the Ministry of Finance, the State Taxation Administration and the Securities Committee on September 7, 2015, for shares of listed companies obtained by individuals from listed shares or the market, where the holding period exceeds one year, the dividends shall be exempted from individual income tax; for shares of listed companies obtained by individuals from listed shares or the market, where the holding period is less than one month (including one month), the dividends shall be counted as taxable income in the full amount; where the holding period is more than one month and less than one year (including one year), 50% of the dividends shall be counted as taxable income on a provisional basis. The individual income tax rate of 20% shall be applicable for all incomes mentioned above.

For foreign individuals who are not PRC residents, a 20% individual income tax shall be deducted from the dividend got from a PRC company, unless there is special exempt approved by tax department of the State Council or special deduction permitted by applicable tax agreement.

According to the Circular on the Individual Income Tax Collection and Administration after the GSF [1993] No. 045 Document is Abolished (GSH [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) issued by the State Administration of Taxation on June 28, 2011, if a non-foreign-invested enterprise in PRC listed in Hong Kong, the individual investors of overseas resident can enjoy relevant tax preference according to the tax treaties signed by the country of these investors and PRC. The non-foreign-invested enterprises in PRC (“**relevant non-foreign invested enterprises in China**”) who has listed in Hong Kong shall pay a 10% individual income tax on the dividend paid to individual investors of overseas resident (“**relevant individual investors**”) without applying to PRC tax authority. If the tax rate of 10% is not applicable, relevant non-foreign-invested enterprises in PRC shall (i) if the country of relevant individual investors has entered an income tax treaty with PRC which provides a tax rate lower than 10%, relevant non-foreign-invested enterprises can apply for the preference on behalf of these investors, and the excess tax shall be returned in accordance with Measures for the Administration of Non-Resident Taxpayers’ Enjoyment of the Treatment under Tax Agreements (Announcement No. 60 [2015] of the State Administration of Taxation) (《非居民納稅人享受稅收協定待遇管理辦法》); (ii) if the country of relevant individual investors has entered an income tax treaty with PRC which provides a tax rate higher than 10% but lower than 20%, relevant non-foreign-invested enterprises shall pay tax based on the treaty without application; (iii) if the country of relevant individual investors has entered no income tax treaty with PRC or in other cases, relevant non-foreign-invested enterprises shall pay a 20% individual income tax.

### *Enterprise Investors*

According to the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) (“**EIT Law**”) issued on March 16, 2007 by the Tenth NPC Standing Committee, modified and taking effect on February 24, 2017 and Regulation on the Implementation of the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法實施條例》) issued on December 6, 2007 by the State Council and taking effect on January 1, 2008 and as amended on December 29, 2018, if the non-resident enterprise has no institution or operating site in PRC or their income is irrelevant to the institution or operating site, an enterprise income tax of 10% shall be paid on the income sourced from PRC. According to

the Circular of the State Administration of Taxation on the Withholding and Remitting of Enterprise Income Tax on the Dividend Distributed by PRC Resident Enterprise to Overseas H-Share Non-resident Enterprise (GSH [2008] No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) issued by the State Administration of Taxation and taking effect on November 6, 2008, a PRC resident enterprise shall pay an enterprise income tax of 10% when distributing dividend in and after 2008 to H-share holders of overseas non-resident enterprises. The withholding tax can be reduced according to the treaty on the avoidance of double taxation after applying and being approved. The Reply of the State Administration of Taxation on Imposition of Enterprise Income Tax on B-share and Other Dividends of Non-resident Enterprises (《國家稅務總局關於非居民企業取得B股等股票股息徵收企業所得稅問題的批復》) (GSH [2009]No. 394) issued by the State Administration of Taxation on July 24, 2009 further provides that any PRC-resident enterprise that is listed on overseas stock exchanges must withhold enterprise income tax at a rate of 10% on dividends that it distributes to Non-PRC Resident Enterprise shareholders. Such tax rate may be modified pursuant to the tax treaty or agreement that the PRC has concluded with a relevant jurisdiction, where applicable.

According to the Arrangement on the Avoidance of Double Taxation and Smuggling of Income Tax in Mainland and Hong Kong (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed by the PRC government and Hong Kong on August 21, 2006 in regard to income tax issues, and the second protocol, third protocol and fourth protocol signed on January 30, 2008, May 27, 2010, April 1, 2015 respectively, the PRC government can levy on the dividend payable by a PRC company to Hong Kong residents (including individuals and legal entities). If Hong Kong residents hold at least 25% stock rights in a PRC company, the tax rate cannot exceed 5% of the total dividend payable after applying to and being approved by PRC tax authority, while in other circumstances, the tax rate shall be equal to 10% of the total dividend.

#### *Taxation treaties*

Investors who are not PRC residents and reside in countries which have entered into avoidance of double taxation treaties with the PRC are entitled to a reduction of the withholding taxes imposed on the dividends received from PRC companies. The PRC currently has Avoidance of Double Taxation Treaties with a number of countries and regions including HK, Macau, Austria, Canada, France, Germany, Japan, Malaysia, Netherlands, Singapore, the United Kingdom and the United States. Non-PRC resident enterprises entitled to preferential tax rates in accordance with the relevant income tax treaties or arrangements are required to apply to the PRC tax authorities for a refund of the withholding tax in excess of the agreed tax rate, and the refund payment is subject to approval by the PRC tax authorities.

Based on the Notice of the State Administration of Taxation on Issues relating to the Implementation of the Dividend Terms of the Taxation Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) promulgated and came into effect on February 20, 2009, unless certain conditions are met, PRC companies are not entitled to special tax treatment for its distribution of dividends under the relevant taxation treaties. For instance, the recipient of dividends shall be eligible under relevant tax treaties and shall directly holds certain shares and shares with voting rights in the PRC company under pertinent tax treaties within 12 months prior to distribution of dividends. Further,

according to the Administrative Measures on Treatment under Tax Treaties of Non-Resident (Tentative) (《非居民納稅人享受稅收協定待遇管理規程(試行)》) promulgate on October 29, 2015 and came into effect on November 1, 2015, relevant tax treatment is available only after approval of competent local tax authorities.

### *Shanghai-Hong Kong Stock Connect Taxation Policy*

On October 31, 2014, the Ministry of Finance, the State Administration of Taxation, the China Securities Regulatory Commission jointly issued the Circular on the Relevant Taxation Policy regarding the Pilot Program that Links the Stock Markets in Shanghai and Hong Kong (《財政部、國家稅務總局、證監會關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》) (Cai Shui [2014] No. 81) (hereinafter as “**Shanghai-Hong Kong Stock Connect Taxation Policy**”) which clarified the relevant taxation policy under Shanghai-Hong Kong Stock Connect.

Pursuant to the Shanghai-Hong Kong Stock Connect Taxation Policy and the Circular on Continuing Implementation of Individual Income Tax Policy regarding the Pilot Program that Links the Stock Markets in Shanghai and Hong Kong (《關於繼續執行滬港股票市場交易互聯互通機制有關個人所得稅政策的通知》) (Cai Shui [2017] No.78) issued on November 1, 2017 and effective from November 11, 2017, individual income tax will be temporarily exempted for transfer spread income derived from investment by mainland individual investors in stocks listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect from November 17, 2014 to December 4, 2019. Business tax will be temporarily exempted in accordance with the current policy for spread income derived from dealing in stocks listed on the Stock Exchange by mainland individual investors through Shanghai-Hong Kong Stock Connect. For dividends obtained by mainland individual investors or mainland securities investment funds from investing in H shares listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect, individual income tax is withheld by H-share companies at the tax rate of 20%; for dividends obtained by mainland individual investors or mainland securities investment funds from investing in non-H shares listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect, individual income tax is withheld by China Securities Depository and Clearing Co., Ltd (“**CSDC**”) at the tax rate of 20%. Individual investors who have paid withholding tax overseas may apply for tax credit to the competent tax authority of CSDC by producing the tax credit document.

Pursuant to the Shanghai-Hong Kong Stock Connect Taxation Policy and the Circular on Continuing Implementation of Individual Income Tax Policy regarding the Pilot Program that Links the Stock Markets in Shanghai and Hong Kong (《關於繼續執行滬港股票市場交易互聯互通機制有關個人所得稅政策的通知》) (Cai Shui [2017] No. 78) issued on November 1, 2017 and effective from November 11, 2017, enterprise income tax will be levied according to law on transfer spread income (included in total income) derived from investment by mainland corporate investors in stocks listed on the Stock Exchange through Shanghai- Hong Kong Stock Connect. Business tax will be exempted in accordance with the current policy for spread income derived from dealing in stocks listed on the Stock Exchange by investors of mainland entities through Shanghai-Hong Kong Stock Connect. Enterprise income tax will be levied according to law on dividend income (included in total income) obtained by mainland corporate investors from investing in shares listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect. In particular, enterprise income tax will be exempted according to law for dividend income obtained by mainland resident enterprises which hold H shares

for at least 12 consecutive months. For dividend income obtained by mainland corporate investors, H-share companies will not withhold dividend income tax for mainland corporate investors. The tax payable shall be declared and paid by the enterprises themselves. Mainland corporate investors, when declaring and paying enterprise income tax themselves, may apply for tax credit according to law in respect of dividend income tax which has been withheld and paid by non-H share companies listed on the Stock Exchange.

Pursuant to the Shanghai-Hong Kong Stock Connect Taxation Policy, mainland investors who transfer shares listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect shall pay stamp duty in accordance with the current tax laws of Hong Kong. CSDC and HKSCC may collect the abovementioned stamp duty on each other's behalf.

#### *Shenzhen-Hong Kong Stock Connect Taxation Policy*

On November 5, 2016, the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission jointly issued the Circular on the Relevant Taxation Policy regarding the Pilot Program that Links the Stock Markets in Shenzhen and Hong Kong (《財政部、國家稅務總局、證監會關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》) (Cai Shui [2016] No. 127) (hereinafter as “Shenzhen-Hong Kong Stock Connect Taxation Policy”) which clarified the relevant taxation policy under Shenzhen-Hong Kong Stock Connect.

Pursuant to the Shenzhen-Hong Kong Stock Connect Taxation Policy, individual income tax will be temporarily exempted for transfer spread income derived from investment by mainland individual investors in stocks listed on the Stock Exchange through Shenzhen-Hong Kong Stock Connect from December 5, 2016 to December 4, 2019. VAT tax will be temporarily exempted in accordance with the current policy for spread income derived from dealing in stocks listed on the Stock Exchange by mainland individual investors through Shenzhen-Hong Kong Stock Connect. For dividends obtained by mainland individual investors or mainland securities investment funds from investing in H shares listed on the Stock Exchange through Shenzhen-Hong Kong Stock Connect, individual income tax is withheld by H-share companies at the tax rate of 20%; for dividends obtained by mainland individual investors or mainland securities investment funds from investing in non-H shares listed on the Stock Exchange through Shenzhen-Hong Kong Stock Connect, individual income tax is withheld by CSDC at the tax rate of 20%. Individual investors who have paid withholding tax overseas may apply for tax credit to the competent tax authority of CSDC by producing the tax credit document.

Pursuant to the Shenzhen-Hong Kong Stock Connect Taxation Policy, enterprise income tax will be levied according to law on transfer spread income (included in total income) derived from investment by mainland corporate investors in stocks listed on the Stock Exchange through Shenzhen-Hong Kong Stock Connect. VAT tax will be exempted in accordance with the current policy for spread income derived from dealing in stocks listed on the Stock Exchange by investors of mainland entities through Shenzhen-Hong Kong Stock Connect. Enterprise income tax will be levied according to law on dividend income (included in total income) obtained by mainland corporate investors from investing in shares listed on the Stock Exchange through Shenzhen-Hong Kong Stock Connect. In particular, enterprise income tax will be exempted according to law for dividend income obtained by mainland resident enterprises which hold H shares for at least 12 consecutive months. For dividend income obtained by mainland corporate investors, H-share companies will not withhold

dividend income tax for mainland corporate investors. The tax payable shall be declared and paid by the enterprises themselves. Mainland corporate investors, when declaring and paying enterprise income tax themselves, may apply for tax credit according to law in respect of dividend income tax which has been withheld and paid by non-H share companies listed on the Stock Exchange.

Pursuant to the Shenzhen-Hong Kong Stock Connect Taxation Policy, mainland investors who transfer shares listed on the Stock Exchange through Shenzhen-Hong Kong Stock Connect shall pay stamp duty in accordance with the current tax laws of Hong Kong. CSDC and HKSCC may collect the abovementioned stamp duty on each other's behalf.

### **Capital Gains Tax**

#### *Individual Investors*

According to the IIT Law and its implementation regulations, gains realized on the sale of equity interests in PRC resident enterprises are subject to the income tax at a rate of 20%, unless such tax is reduced or exempted under relevant double taxation treaties.

#### *Enterprise Investors*

In accordance with the EIT Law and its implementation regulations, a non-resident enterprise is generally subject to a 10% corporate income tax on PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or place in the PRC or has an establishment or premises in the PRC but the PRC-sourced income is not connected with such establishment or premise. Such income tax for non-resident enterprises are deducted at source, where the payer of the income are required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due. The withholding tax may be reduced pursuant to applicable treaties or agreements on avoidance of double taxation.

### **Other Tax Issues in China**

#### *PRC stamp duty*

According to the PRC Provisional Regulations on Stamp Tax (《中華人民共和國印花稅暫行條例》) amended on January 8, 2011, the PRC stamp duty levied on the transfer of stocks of PRC listing companies is not applicable to the H-share purchased and disposed overseas by non-Chinese investors. The Regulations on the Implementing on the PRC Provisional Regulations on Stamp Tax (《中華人民共和國印花稅暫行條例實施細則》) specifies that the PRC stamp duty is only applicable to documents signed or received in PRC, having legal effect in PRC protected by PRC laws.

#### *Estate duty*

As far as PRC laws concerned, there is no estate duty applicable to non-residents holding H-share.

## Main PRC Taxes of the Company

### *Income tax*

According to the EIT Law, enterprises and other organizations (excluding sole proprietorships and partnership enterprises) which generate income within the PRC shall pay enterprise income tax at the rate of 25%.

### *Value-added tax*

Pursuant to the Pilot Plan for Levying Value-added Tax in Lieu of Business Tax (Caishui [2011] No. 110) (《營業稅改徵增值稅試點方案》) promulgated by the Ministry of Finance and the State Administration of Taxation, effective on November 16, 2011, since January 1, 2012, the State started the pilot taxation reform of collecting value-added tax (“VAT”) in lieu of business tax in certain regions (including Shanghai and Beijing) and in certain pilot industries (including transportation and certain modern service industries). The Ministry of Finance and the State Administration of Taxation further notified that the aforesaid pilot scheme for the conversion of business tax to VAT will be implemented nationwide since August 1, 2013. Pursuant to the Notice on Implementing the Pilot Plan for Levying Value-added Tax in Lieu of Business Tax Nationwide (Caishui [2016] No. 36) (《關於全面推開營業稅改徵增值稅試點的通知》) promulgated by the Ministry of Finance and the State Administration of Taxation on March 23, 2016, starting from May 1, 2016, the pilot reform for the transition from business tax to VAT is implemented nationwide. Pursuant to the Implementation Measures for Transition from Business Tax to Value-added Tax (《營業稅改徵增值稅試點實施辦法》), unless otherwise provided in the implementation measures, the tax rate is generally 6% for tax payers who conducted taxable behaviors. On November 19, 2017, the State Council issued the Decision of the State Council on Abolishing the Interim Regulations of PRC on Business Tax and Amending the Interim Value-Added Tax Regulations of PRC (《國務院關於廢止〈中華人民共和國營業稅暫行條例〉和修改〈中華人民共和國增值稅暫行條例〉的決定》), which officially abolished business tax, and amended the Interim Value-Added Tax Regulations of PRC.

According to the Interim Value-Added Tax Regulations of PRC (amended in 2017), taxpayers that sell services or intangible assets shall be subject to a 6% tax rate unless otherwise stipulated thereof; taxpayers that sell goods, labor services or tangible personal property leasing services or import goods shall be subject to a 17% tax rate unless otherwise stipulated thereof; taxpayers that sell transport services, postal services, basic telecommunications services, construction services, or real property leasing services, sell real property, transfer the land use right, or sell or import the grain and other agricultural products, books and publications shall be subject to an 11% tax rate; taxpayers who export goods are subject to a zero tax rate unless otherwise specified by the State Council; domestic entities and individuals that sell services or intangible assets under the scope specified by the State Council across borders are subject to a zero tax rate.

According to the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (《財政部、稅務總局關於調整增值稅稅率的通知》) which was promulgated on April 4, 2018 and came into effect on May 1, 2018, the abovementioned tax rates of 17% and 11% originally applicable to any taxpayer’s VAT taxable sale or import of goods was adjusted to 16% and 10% respectively.

**TAXATION IN HONG KONG****Taxation on Dividends**

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

**Taxation on Capital Gains and Profits**

No tax is imposed in Hong Kong in respect of capital gains from the sale of the H shares held by the seller as a capital asset. Trading gains from the sale of H shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed on corporations at a rate of 16.5% and on unincorporated businesses at a rate of 15.0%. Gains from sales of the H shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares effected on the Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

**Stamp Duty**

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of the H shares. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the H shares transferred on each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of H shares. In addition, a fixed duty of HK\$5 is charged on each instrument of transfer (if required). Where a sale or purchase of H shares is effected by a person who is not a resident of Hong Kong and any stamp duty payable on the instrument of transfer is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the duty otherwise chargeable thereon, and the transferee shall be liable to pay such duty.

**Estate Duty**

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H shares whose deaths occur on or after February 11, 2006.

**FOREIGN EXCHANGE**

The lawful currency of the PRC is Renminbi (the “RMB”), which is subject to foreign exchange controls and is not freely convertible into foreign exchange. State Administration of Foreign Exchange (the “SAFE”), under the authority of the People’s Bank of China (the “PBOC”), is responsible for the administration of all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

According to the Regulation of Foreign Exchange of the People's Republic of China (《中華人民共和國外匯管理條例》) effective from April 1, 1996, as amended on January 14, 1997 and August 5, 2008, international payments and transfers are classified into current account items and capital account items. Current international payments and transfers are not subject to the approval from the SAFE while capital account items are.

The Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) effective from July 1, 1996 abolished the remaining restrictions on foreign exchange in respect of current account items while retaining the restrictions on foreign exchange transactions in respect of capital account items.

On July 21, 2005, PBOC announced that from the same date, the PRC would implement a managed floating exchange rate system based on market supply and demand and with reference to a basket of currencies. Therefore, the RMB exchange rate was no longer pegged to the U.S. dollar only. PBOC would announce the closing price of a foreign currency such as the U.S. dollar against the RMB in the inter-bank foreign exchange market after the closing of the market on each working day. This closing price will be used as the middle price for quoting the RMB exchange rate on the following working day. Since January 4, 2006, PBOC improved the method of generating the middle price for quoting the RMB exchange rate by introducing an enquiry system while keeping the match-making system in the interbank spot foreign exchange market. In addition, PBOC provided liquidity in the foreign exchange market by introducing the market-making system in the inter-bank foreign exchange market. After the introduction of the enquiry system, the generation of the middle price for quoting the RMB was transformed to a mechanism under which PBOC authorized the China Foreign Exchange Trading System to determine and announce the middle price for quoting the RMB against the U.S. dollar, based on the enquiry system, at 9:15 am on each business day.

On December 26, 2014, SAFE issued the Notice on Relevant Issues of Foreign Exchange Management of Overseas Listing (《關於境外上市外匯管理有關問題的通知》, "SAFE Circular 54"), which came into effect on the day of issuance. According to SAFE Circular 54, a domestic issuer shall, within 15 working days after its overseas IPO, register with SAFE's local branch at the place of its incorporation. For domestic companies whose shares are listed overseas, when the domestic shareholders increase or decrease their overseas shareholdings pursuant to the relevant regulations, these companies should complete the register of overseas shareholdings with the respective local foreign exchange authorities. The SAFE branch shall issue a certificate of overseas listing, based on which the domestic issuer can open a special account with a local bank to deposit proceeds from its overseas IPO. The proceeds from an overseas listing may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of the prospectus and other disclosure documents. According to the Circular of the State Administration of Foreign Exchange on Reforming and Regulating the Management Policies of Capital Items (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) promulgated by the SAFE on June 9, 2016, the settlement of foreign exchange income of capital items (including proceeds from overseas listing) can be made at banks based on the actual operation needs of domestic enterprises. The settlement ratio for foreign exchange income of capital items of domestic enterprises is temporarily 100% and is subject to adjustment by the SAFE according to the balance of international payments.



This appendix sets out summaries of certain aspects of the PRC legal and judicial system, its arbitration system and its company and securities regulations. It also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between the PRC Company Law and Hong Kong company law, certain requirements of the Listing Rules and the Mandatory Provisions. The principal objective of this summary is to provide potential investors with an overview of the principal laws and regulations applicable to us. This summary is with no intention to include all the information which is important to the potential investors.

## **PRC LEGAL SYSTEM**

The PRC legal system is composed of the constitution, laws, administrative regulations, local regulations, rules and regulations of departments of the State Council, rules and regulations of local governments, autonomy regulations and separate rules of autonomous regions and international treaties of which the PRC government is a signatory. Court judgments do not constitute binding precedents, although they may be used for the purpose of judicial reference and guidance. The PRC Constitution (《中華人民共和國憲法》) (the “**Constitution**”), enacted by the National People’s Congress (the “**NPC**”), is the basis of the PRC legal system and has supreme legal authority.

According to the Constitution and the Legislation Law of the PRC, the NPC and the Standing Committee of the NPC are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend the basic laws governing criminal and civil matters, State institutions and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during its adjournment, provided that such supplements and amendments shall not be in conflict with the principles of such laws.

The State Council enacts administrative regulations under the Constitution and laws.

The People’s congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and requirements of the local administrations, provided that such local regulations shall not be in conflict with the constitution, laws, and administrative regulations. The People’s congresses of large cities and their respective standing committees may enact local regulations based on the specific circumstances and actual needs which shall come into effect upon approval from the respective standing committees of the people’s congresses of the provinces and autonomous regions, provided that such local regulations shall not be in conflict with the constitution, laws, and administrative regulations.

The People’s congresses of autonomous regions may enact autonomy regulations and separate rules in the light of the political, economic and cultural characteristics of the local nationalities, which shall come into effect upon approval from the Standing Committee of the NPC. Adaptations of provisions of laws and administrative regulations may be introduced to the autonomy regulations and

separate rules so long as they do not contravene the basic principles of the laws or administrative regulations, and no adaptations shall be made to the specific provisions on national autonomous areas in the constitutions, national region autonomy law and other relevant laws and administrative regulations.

The ministries, commissions, PBOC, Audit Office and institutions with administrative functions directly under the State Council may formulate rules and regulations within the jurisdiction of their respective departments based on the laws and the administrative regulations, decisions and rulings of the State Council. Provisions of departmental rules and regulations shall be formulated for the purpose of the enforcement of the laws and administrative regulations, decisions and rulings of the State Council. The people's governments of provinces, autonomous regions, municipalities and large cities may formulate rules and regulations based on the laws, administrative regulations and relevant local regulations.

According to the PRC Constitution, the authority of the interpretation of laws shall be vested in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on June 10, 1981, interpretation on the application of laws and decrees in court trials and the procuratorial work of the procuratorates shall be given by the Supreme People's Court and the Supreme People's Procuratorate, respectively. Interpretation of the laws and decrees unrelated to trials and procuratorial work shall be given by the State Council and the competent ministries and commissions. In the case that clarification or additional provisions shall be made for the local regulations, the standing committees of the people's congresses of provinces, autonomous regions and municipalities which enacted such regulations shall give the interpretation or formulate the additional provisions. Interpretation on the application of local regulations shall be given by the competent departments under the people's government of the respective provinces, autonomous regions and municipalities.

## **PRC JUDICIAL SYSTEM**

Under the Constitution and the Law of the PRC on the Organization of the People's Courts (《中華人民共和國法院組織法》) which was taken effect on January 1, 1980 and last amended on October 26, 2018 and became effective on January 1, 2019, the judicial system in PRC is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts may be organized into civil, criminal, and administrative tribunals. The intermediate people's courts may be organized into divisions similar to those of the basic people's courts, and may be further organized into other special divisions. The people's courts at lower levels are subject to supervision of the people's courts at higher levels. The Supreme People's Court is the highest judicial organ of the PRC and it has the power to supervise the administration of justice by the local people's courts at all levels and all special people's courts. The people's procuratorates also have the right to exercise legal supervision over the trial activities of people's courts.

The people's courts adopt a "second instance as final" appellate system in the trial of the cases. A party to the case concerned may appeal against the judgment and ruling of the first instance by the local people's courts to the people's courts at the next higher level in accordance with the legal procedures. The people's procuratorate may appeal to the people's court at the next higher level in accordance with the legal procedures. In the absence of any appeal by any parties to the case concerned or any appeal by the people's procuratorate within the stipulated period, the judgment and ruling of the first instance by the local people's courts shall be final and legally binding. Judgments and rulings of the second instance of the intermediate people's courts, the higher people's courts and Supreme People's Court and the judgments and rulings of the first instance of the Supreme People's Court shall be the final judgments and rulings. The death penalty shall be reported to the Supreme People's Court for approval unless it is otherwise adjudged by the Supreme People's Court.

The Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》) (the "**PRC Civil Procedure Law**"), which was adopted on April 9, 1991 and last amended on June 27, 2017 and became effective on July 1, 2017, sets forth the criteria for instituting a civil case, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the PRC Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by an express agreement, select a competent court where civil actions may be brought, provided that the competent court has jurisdiction over either the plaintiff's or the defendant's place of residence, the place of execution or performance of the contract, the object of the action or locations which have substantial connections with the dispute. However, such selection cannot violate the stipulations of hierarchical jurisdiction and exclusive jurisdiction in any case.

A foreign individual, enterprise and organization generally have the same litigation rights and obligations as a citizen, legal person and other organization of the PRC. Should the judicial system of a foreign country limit the litigation rights of PRC citizens or enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country.

If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award granted by an arbitration panel in the PRC, the other party may apply to the people's court to request for enforcement of the judgment, order or award. There are time limits imposed on the right to apply for such enforcement and the time limit is two years. The termination or suspension of the time limit for the submission of an application for enforcement shall be governed by the provisions on the termination or suspension of the statute of limitation.

When a party applies to a people's court for enforcing an effective judgment or ruling by a people's court against a party who is not located within the territory of the PRC or whose property is not within the PRC, the party may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or ruling. A foreign judgment or ruling may also be recognized and enforced by the people's court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country on the mutual recognition

and enforcement of judgments and rulings, or if the judgment or ruling satisfies the court's examination based on the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgment or ruling will result in the violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons related to the public interest.

### **The PRC Company Law, Special Regulations and Mandatory Provisions of PRC**

On December 29, 1993, the PRC Company Law was adopted by the standing committee of the Eighth NPC, which came into effect on July 1, 1994 and was amended for the first time on December 25, 1999, the second time on August 28, 2004, the third time on October 27, 2005, the fourth time on December 28, 2013, and fifth time on October 26, 2018. The newly amended PRC Company Law was implemented on October 26, 2018. The PRC Company Law regulates the organization and operation of companies and protects the legitimate rights and interests of companies, shareholders and creditors. The recent amendment to the PRC Company Law in 2013 has canceled the restriction on the minimum registered capital and replaced the registered paid-up share capital system with the registered subscribed capital system.

The Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) (the “**Special Regulations**”) were promulgated by the State Council, and took effect on August 4, 1994. The Special Regulations were formulated according to the then applicable Article 85 and Article 155 of the PRC Company Law and apply to the overseas share issue and listing of joint stock limited companies.

The Mandatory Provisions were promulgated and implemented by the former Securities Commission of the State Council and the former State Economic System Restructuring Commission on September 29, 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Therefore, the Mandatory Provisions have been incorporated into the Articles of Association (which are summarized in Appendix V — Summary of the Articles of Association of the Company).

Main provisions in PRC Company Law, Special Regulations and Mandatory Provisions are summarized as follows:

#### ***General***

A joint-stock limited liability company (hereinafter referred to as “**company**”) is a corporate legal person incorporated under the PRC Company Law, whose registered capital is divided into shares of equal nominal value. The liability of its shareholders is limited to the extent of the shares held by them, and the liability of the company is limited to the full amount of all the assets owned by it.

A company must conduct its business in accordance with law and public and commercial ethics. A company may invest in other limited liability companies. The liabilities of the company to such invested companies are limited to the amount invested. Unless otherwise provided by laws, a company cannot be the capital contributor who has the joint and several liability associated with the debts of the invested enterprises.

***Incorporation***

A company may be incorporated by promotion or public subscription. A company may be incorporated by two to 200 promoters, but at least half of the promoters must reside in the PRC. A company incorporated by promotion is one with registered capital entirely subscribed for by the promoters. Where a company is incorporated by public subscription, unless otherwise provided, the promoters are required to subscribe for not less than 35% of the total shares of the company, and the remaining shares can be offered to the public or specific persons.

For companies incorporated by promotion, the registered capital has to be the total capital subscribed for by all promoters as registered with the company registration authority. It shall not raise capital from others before the promoters fully pay the capital subscribed by them; for companies established by public subscription, the registered capital is the amount of total paid-up capital as registered with the company registration authority. The promoters shall subscribe in writing for the shares required to be subscribed for by them and pay up their capital contributions under the articles of association. Procedures relating to the transfer of titles to non-monetary assets shall be duly completed by law if such assets are to be contributed as capital.

The latest revision of the PRC Company Law no longer imposes restrictions on minimum amount or requirements for payment deadlines of paid-up registered capital. However, if there are laws, administrative regulations and other requirements imposed by the State Council that provide for payment deadlines of paid-up registered capital or minimum amount of a limited liability company and joint stock company, such laws, administrative regulations and requirements shall prevail. The promoters shall convene an inaugural meeting within 30 days after the issued shares have been completely paid up, and shall give notice to all subscribers or make a public announcement of the date of the inaugural meeting 15 days prior to the meeting. The inaugural meeting may be convened only with the presence of promoters and subscribers holding shares representing more than 50% of the total issued shares of the company. Matters to be dealt with at the inaugural meeting include adopting the draft articles of association proposed by the promoters and electing the board of directors and the board of supervisors of the company. Any resolution of the meeting shall be approved by subscribers with more than half of the voting rights of those present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the company registration authority for registration of the establishment of the company. The company is formally established and has the status of a legal person after the approval for registration has been given and a business license has been issued.

Where after the incorporation of a company, a promoter fails to pay in full the subscription moneys in accordance with the provisions of the company's articles of association, he shall pay them in full; and the other promoters shall bear joint and several liability. Where it is discovered that the actual evaluation of the non-currency property used as capital contributions for the incorporation of the company is obviously less than the evaluation prescribed by the company's articles of association, the promoters making such contributions shall make up the difference; and the other promoters shall bear joint and several liability.

The promoters of a company shall individually and jointly be liable for: the payment of all liabilities and expenses incurred in the incorporation process if the company cannot be incorporated; the repayment of subscription monies to the subscribers together interest at bank rates for a deposit of the same term if the company cannot be incorporated; and damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

### *Share capital*

The promoters of a company can make capital contributions in cash or in kind, that can be valued in currency and transferable according to law such as intellectual property rights or land use rights based on their appraised value, except for the property that is not allowed to be used as capital contributions, as is provided for by laws or administrative regulations.

If capital contribution is made other than in cash, valuation and verification of the property contributed must be carried out and converted into shares according to the laws. Non-current property used for capital contributions shall be evaluated and verified, and shall not be overvalued or undervalued. Where laws or administrative regulations provide otherwise, those provisions shall prevail. A company may issue registered or bearer shares. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered shares and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative. The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong Special Administrative Region, Macau Special Administrative Region, China and Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic shares. Qualified Foreign Institutional Investors (the “QFII”) approved by the CSRC may make investments in the PRC securities market.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Specific provisions shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares. The share offering price may be equal to or in excess of par value, but shall not be less than par value. The transfer of shares by shareholders shall be conducted in legally established stock exchanges or via other methods as stipulated by the State Council. No modification registration shall be made to the register of shareholders within 30 days prior to the shareholders’ meeting being held or within five days prior to the benchmark date set for the purpose of distributing dividends. However, if there are laws that provide for the change of registers of members for a listed company, such provisions shall prevail.

*Increase in Capital*

Under the PRC Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders in general meeting.

Save for the above-mentioned shareholder approval requirement, for a public offering of new shares, the PRC Securities Law (《中華人民共和國證券法》) (the “**Securities Law**”) provides that the company shall: (i) have a sound organizational structure with satisfactory operating record; (ii) have the capability of continuing profitability and a healthy financial position; (iii) have no false statements and other material breaches in the financial and accounting documents of the last three years; (iv) fulfill other conditions required by the securities administration department of the State Council as approved by the State Council.

Public offer requires the approval of the securities administration department of the State Council. After payment in full for the new shares issued, a company must change its registration with the company registration authority and issue a public notice accordingly.

*Reduction of Share Capital*

A company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- (i) the company shall prepare a balance sheet and a list of assets;
- (ii) the reduction of registered capital must be approved by shareholders in general meeting;
- (iii) the company shall inform its creditors of the reduction in registered capital within ten days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; The creditors shall, within 30 days from the date they receive the written notice, or within 45 days from the date the announcement is made in the case of those who have not received such written notice, have the right to claim full repayment of their debts or provision of a corresponding guarantee from the company; and
- (v) the company must apply to the company registration authority for registration of the reduction in registered capital.

***Repurchase of Shares***

A company may not purchase its own shares other than for the purpose of:

- (i) reducing the registered capital of the company;
- (ii) merging with another company holding shares of this company;
- (iii) carrying out an employee stock ownership plan or equity incentive plan by its own shares;
- (iv) purchasing the company's own shares upon request of its shareholders who vote against the resolution regarding the merger or division of the company in a general meeting;
- (v) conversion of convertible corporate bonds into its own shares issued by a listed company;  
and
- (vi) share purchasing is necessary for a listed company to maintain its company value and protect its shareholders' equity.

A resolution of a shareholders' general meeting is required for the share purchase by a company under either of the circumstances stipulated in item (i) or item (ii) above; for a company's share purchase under any of the circumstances stipulated in item (iii), item (v) or item (vi) above, a resolution of the company's board of directors shall be made by a two-third majority of directors attending the meeting according to the provisions of the company's articles of association or as authorized by the shareholders' meeting.

The shares purchased under the circumstance stipulated in item (i) hereof shall be deregistered within ten days from the date of purchased of shares; the shares shall be assigned or deregistered within six months if the share buyback is made under the circumstances stipulated in either item (ii) or item (iv); and the shares held in total by a company after a share purchase under any of the circumstances stipulated in item (iii), item (v) or item (vi) shall not exceed 10% of the company's total outstanding shares, and shall be assigned or deregistered within three years.

Listed companies shall perform their obligation of information disclosure according to the PRC Securities Law if purchasing its own shares. If the share purchase under the circumstances stipulated in item (iii), item (v) or item (vi) hereof, centralized trading shall be adopted publicly.

A company shall not accept its own shares as the subject of pledge.

***Transfer of Shares***

Shares may be transferred in accordance with the relevant laws and regulations. A shareholder shall transfer his/her shares in stock changes established pursuant to laws or by other means as stipulated by the State Council. Registered shares shall be transferred by means of endorsement by shareholders or by such other means as provided for by laws or administrative regulations; and after



such transfer, the company shall register the names or titles and domiciles of the transferees in its roster of shareholders. Excepts as otherwise provided by any PRC laws of regulations no registration of modification to the roster of shareholders as stipulated by the preceding paragraph shall be made within the period of 20 days prior to the convening of a meeting of the shareholders general assembly or within the period of 5 days prior to the date of record on which the company decides to distribute dividends.

Under PRC law, our Domestic Shares, which are denominated and subscribed for in Renminbi, and our Unlisted Foreign Shares, which are subscribed for and traded only in foreign currencies, may only be subscribed for or traded by the State, PRC legal persons, natural persons. Our overseas listed H Shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors. However, eligible institutional investors and individual investors may trade Shanghai Stock Exchange or Shenzhen Stock Exchange securities and the Stock Exchange securities by participating in Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect.

Transfer of bearer shares shall become effective immediately after a shareholder delivers such share certificates to a transferee.

Shares held by the promoters of a company shall not be transferred within one year from the date the company is incorporated. Directors, supervisors and senior managers of a company shall declare to the company the numbers of the company's shares held by them and the changes of the shares they hold, and the number of the company's shares annually transferred by each of them during their term of office shall not exceed 25 percent of the total number of the company's shares held by them respectively; The company's shares held by the persons mentioned above shall not be transferred within six months after they leave office. The company's articles of association may stipulate other restrictive provisions on the transfer of the company's shares held by the directors, supervisors and senior managers of the company.

### ***Shareholders***

Shareholders have such rights and obligations as set forth in the articles of association of the company. The articles of association of a company are binding on each shareholder. Under the PRC Company Law and the Mandatory Provisions, the rights of a shareholder include:

- (i) to attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held;
- (ii) to transfer his shares in accordance with applicable laws and regulations and the articles of association of the company;
- (iii) to inspect the company's articles of association, shareholders' registers, records of debentures, minutes of shareholders' general meetings, board resolutions, supervisors' resolutions, financial and accounting reports and put forward proposals or raise questions about the business operations of the company;

- (iv) if any directors or senior officers damages the shareholder's interests by violating law or administrative regulations or articles of association, the shareholders may lodge an action in the people's court;
- (v) to receive dividends and other distributions in respect of the number of shares held;
- (vi) to obtain surplus assets of the company upon its termination in proportion to his or her shareholding; to claim against other shareholders who abuse their shareholders' rights for the damages; and
- (vii) any other shareholders' rights specified in the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by him/her, not to abuse shareholders' right to damage the interests of the company or other shareholders of the company; not to abuse the independent status of the company as a legal person and the limited liability to damage the interests of the creditors of the company and any other shareholders' obligation specified in the company's articles of association.

#### *Shareholders' General Meetings*

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law.

The shareholders' general meeting exercises the following principal powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect or replace the directors, supervisors who are not representatives of the employees and decide on matters relating to the remuneration of directors and supervisors;
- (iii) to consider and approve reports of the board of directors;
- (iv) to consider and approve reports of the board of supervisors;
- (v) to consider and approve the company's proposed annual financial budget and final accounts;
- (vi) to consider and approve the company's proposals for profit distribution and loss recovery plan;
- (vii) to decide on any increase or reduction in the company's registered capital;
- (viii) to decide on the issue of bonds by the company;

- (ix) to decide on issues such as merger, division, dissolution, liquidation or change of the form of the company and other matters;
- (x) to amend the articles of association of the company; and
- (xi) other powers specified in the articles of association of the company.

A shareholders' annual general meeting is required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following circumstances:

- (i) the number of directors is less than the number provided for in the PRC Company Law or less than two-thirds of the number specified in the company's articles of association;
- (ii) the losses of the company which are not made up reach one-third of the company's total paid up share capital;
- (iii) a request by a shareholder that holds, or by shareholders that hold in aggregate, 10% or more of the company's shares;
- (iv) when deemed necessary by the board of directors;
- (v) when the board of supervisors proposes convening it; or
- (vi) other matters required by the company's articles of association.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of directors shall preside over the meeting. Where the board of directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the board of supervisors shall convene and preside over such meeting in a timely manner. In case the board of supervisors fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the total shares of the company for ninety days consecutively may unilaterally convene and preside over such meeting.

Notice of the shareholders' general meeting shall be given to all shareholders 20 days before the meeting under the PRC Company Law and 45 days under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. Under the Special Regulations and the Mandatory Provisions, shareholders wishing to attend are required to give to the company written confirmation of their attendance 20 days prior to the meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, but the company shall have no vote for any of its own shares the company holds.

Resolutions proposed at the shareholders' general meeting shall be adopted by more than half of the voting rights cast by shareholders present (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division, dissolution, increase or reduction in registered capital, change in the form of the company or amendments to the articles of association which shall be adopted by shareholders with two-thirds or more of the voting rights cast by shareholders present (including those represented by proxies) at the meeting.

Shareholders may entrust a proxy to attend shareholders' general meetings on his or her behalf which sets forth the scope of exercising the voting rights. There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% or more of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holders of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

Where holders of bearer shares intend to attend a meeting of the shareholders' general assembly, they shall deposit their share certificates with the company for a period beginning from five days prior to the convening of the meeting to the end of the meeting.

### ***Directors***

A company shall have a board of directors, which shall consist of 5 to 19 members and may include staff representatives of the company. Under the PRC Company Law, each term of office of a director shall not exceed three years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors at least ten days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the PRC Company Law, the board of directors exercises the following powers:

- (i) to convene the shareholders' general meeting and report on its work to the shareholders;
- (ii) to implement the resolution of the shareholders' general meeting;
- (iii) to decide on the company's business plans and investment plans;
- (iv) to formulate the company's proposed annual financial budget and final accounts;

- (v) to formulate the company's proposals for profit distribution and for loss recovery plan;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- (vii) to prepare plans for the merger, division, dissolution or change of the form of the company;
- (viii) to decide on the company's internal management structure;
- (ix) to appoint or dismiss the company's general manager, and based on the president's recommendation, to appoint or dismiss deputy general manager and financial officers of the company and to decide on their remuneration;
- (x) to formulate the company's basic management system; and
- (xi) any other power given under the articles of association of the company. In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating the proposals for amendment of the articles of association of a company. Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the PRC Company Law, the following persons may not serve as a director of a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offense of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than five years have elapsed since the date of the completion of implementation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked or business operation shut down due to violation of the law and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license;
- (v) persons who have a relatively large amount of debt due and outstanding; or
- (vi) other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in “Appendix V — Summary of the Articles of Association of the Company”).

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises, among others, the following powers: to preside over shareholders’ general meetings and convene and preside over meetings of the board of directors; and to check on the implementation of the resolutions of the board of directors.

The legal representative of a company in accordance with the Mandatory Provisions, is the chairman of the board of directors. The Special Regulations provide that a company’s directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in “Appendix V — Summary of the Articles of Association of the Company”) contain further elaborations of such duties.

### *Supervisors*

A company shall have a board of supervisors composed of not less than three members. Each term of office of a supervisor is three years and he may serve consecutive terms if re-elected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of supervisor results in the number of supervisors being less than the quorum. The board of supervisors is made up of shareholders’ representatives and an appropriate proportion of the company’s staff representatives; and the percentage of the number of the company’s staff representatives shall not be less than one-third. Directors and senior management shall not act as supervisors.

Requirements in relation to the power of the board of supervisors under the PRC Company Law are as follows:

- (i) to examine the company’s financial affairs;
- (ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of any director or senior management who violates the laws, regulations, articles of association or shareholders’ resolution;

- (iii) to require any director or senior management whose act is detrimental to the company's interests to rectify such act;
- (iv) to propose the convening of extraordinary shareholders' general meetings and, in the event that the board of directors fails to perform the duties of convening and presiding shareholders' meetings, to convene and preside over shareholders' meetings;
- (v) to submit proposals to shareholders' general meetings;
- (vi) to commence any action against any directors or senior management; and
- (vii) other powers specified in the company's articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to supervisors of a company.

***Managers and other Senior Management Officers***

The "senior management" refers to the manager, vice manager, person in charge of finance of a company, and the secretary of the board of directors of a listed company as well as any other person as stimulated in the articles of association.

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

- (i) in charge of the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) arrange for the implementation of the company's annual business and investment plans;
- (iii) formulate plans for the establishment of the company's internal management structure;
- (iv) formulate the basic administration system of the company;
- (v) formulate the company's internal rules;
- (vi) recommend the appointment and dismissal of deputy managers and any financial officer and appoint or dismiss other senior administration officers (other than those required to be appointed or dismissed by the board of directors);
- (vii) attend board meetings as a non-voting attendant; and
- (viii) other powers conferred by the board of directors or the company's articles of association.

The Special Regulations and the Mandatory Provisions provide that the other senior management officers of a company includes the financial officer, secretary of the board of directors and other executives as specified in the articles of association of the company. The circumstances under which a person is disqualified from being a director of a company also apply to managers and officers of the company. The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association, a summary of which is set out in “Appendix V — Summary of the Articles of Association of the Company.”

#### ***Duties of Directors, Supervisors and Senior Management Officers***

A director, supervisor and senior officer of a company are required under the PRC Company Law to comply with the relevant laws, regulations and the company’s articles of association, carry out their duties honestly and protect the interests of the company. They are also prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating the company’s properties. A director, supervisor and senior management officer of a company is also under a duty of confidentiality to the company.

A director, supervisor and senior management officer who contravenes any law, regulation or the company’s articles of association in the performance of his duties which results in any loss to our company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor and senior management officer of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

#### ***Finance and Accounting***

A company shall establish its financial and accounting systems according to laws, administrative regulations and the provisions of the responsible financial department of the State Council and at the end of each financial year, prepare a financial report which shall be audited and verified as provided by law.

A company shall deposit its financial statements at the company for inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders. A company incorporated by public subscription must publish its financial statements.

The common reserve of a company comprises the statutory surplus reserve, the discretionary common reserve and the capital common reserve. When distributing each year’s after-tax profits, the company shall set aside 10% of its after-tax profits for the company’s statutory surplus reserve (except where the reserve has reached 50% of the company’s registered capital). After a company has made an allocation to its statutory common reserve from its after-tax profits, subject to a resolution of the



shareholders' general meeting, the company may make an allocation to a discretionary common reserve. When the company's statutory surplus reserve is not sufficient to make up for the company's losses of the previous years, current year profits shall be used to make up for the losses before allocations are set aside for the statutory surplus reserve. After the company has made up for its losses and make allocations to its statutory surplus reserve the remaining profits could be available for distribution to shareholder in proportion to the number of shares held by the shareholders except as otherwise provided in the articles of association of such company limited by shares. The capital common reserve of a joint stock limited company is made up of the premium over the nominal value of the shares of the company on issue, and other amounts required by the financial department of the State Council to be treated the capital reserve. The company's common reserves shall be used for making up losses, expanding the production and business scale or increasing the registered capital of the company, but the capital reserve shall not be used for making up the company's losses. Where the statutory surplus reserve is converted into registered capital, the balance of the statutory surplus reserve shall not be less than 25% of the registered capital after such conversion.

#### *Appointment and removal of auditors*

The Special Regulations require a company to employ an independent PRC qualified accounting firm to audit the company's annual report and review and check other financial reports. The PRC company law regulates that the engagement of any accounting firm undertaking the audit of a company, and the termination of the engagement shall, pursuant to the company's articles of association, be decided by the shareholders' meeting, the general meeting or the board of directors. The term of accounting firm shall start at the close of the annual general shareholders' meeting and continue until the close of the next annual shareholders' meeting. If there is a voting on a dismissal of the accounting firm, the accounting firm shall be entitled to make a statement. The company shall provide the accounting firm engaged with truthful and complete accounting proofs, account books, financial and accounting reports and other accounting materials, and may not refuse to provide or conceal any required information or make any false statements.

#### *Distribution of Profits*

The PRC Company Law provides that a company is restricted from distributing profits before accumulated losses have been made up and statutory common reserve has been drawn. The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

#### *Amendments to Articles of Association*

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions

incorporated in the articles of association in connection with the Mandatory Provisions will only be effective after approval by the companies approval department authorized by the State Council and the CSRC. In relation to matters involving the company's registration, its registration with the authority must also be changed.

***Dissolution and Liquidation***

Under the PRC Company Law, a company shall be dissolved in any of the following events:

- (i) the term of its operations set down in its articles of association has expired or events of dissolution specified in its articles of association have occurred;
- (ii) the shareholders in general meeting have resolved to dissolve the company;
- (iii) the company is dissolved by reason of its merger or division;
- (iv) the company is subject to the revocation of business license, a closure order or elimination in accordance with laws; or
- (v) in the event that the company encounters substantial difficulties in its operation and management and its continuance shall cause a significant loss, in the interest of shareholders, and where this cannot be resolved through other means, shareholders who hold more than 10% of the total shareholders' voting rights of the company may present a petition to the people's court for the dissolution of the company.

Where the company is dissolved in the circumstances described in (i), (ii), (iv) and (v) above, a liquidation committee must be formed within 15 days after the occurrence of the cause of dissolution so as to carry out liquidation. Members of the liquidation committee shall be composed of the directors or people as determined by the shareholders' meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the people's court for its establishment. The liquidation committee shall notify the company's creditors within ten days after its establishment, and issue a public notice in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification. The liquidation committee shall exercise the following powers during the liquidation period:

- (i) to handle the company's assets and to prepare a balance sheet and a list of assets;
- (ii) to notify creditors or issue public notices;
- (iii) to deal with the company's outstanding business which relates to the liquidation;

- (iv) to pay any tax overdue;
- (v) to settle the company's claims and liabilities;
- (vi) to handle the surplus assets of the company after its debts have been paid off; and
- (vii) to represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labor insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them. During the liquidation period, a company shall not engage in operating activities unrelated to the liquidation. If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the people's court for a declaration for bankruptcy according to the laws. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court. Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the people's court for confirmation. Thereafter, the report shall be submitted to the company registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

#### *Overseas listing*

The shares of a company could be listed on overseas stock exchange after obtaining approval from the CSRC. In accordance with the Circular on Relevant Issues Concerning Enterprises' Application for Overseas Listing issued by the CSRC (《中國證券監督管理委員會關於企業申請境外上市有關問題的通知》) (the "1999 Circular") issued on July 14, 1999, domestic companies were required to achieve the following requirements for overseas listings: an annual after-tax profit of at least RMB60,000,000 for the latest year; net assets of not less than RMB400,000,000; a fundraising size of not less than US\$50 million based on a reasonably expected price/earnings ratio.

The 1999 Circular was replaced by the Regulatory Guidelines for the Application Documents and Examination Procedures for Overseas Share Issuance and Listing by Joint Stock Companies (《關於股份有限公司境外發行股票和上市申報文件及審核程序的監管指引》) (the "New Guidelines") which was issued on December 20, 2012, and came into force on January 1, 2013. The New Guidelines abolished the foregoing thresholds and stipulate that all joint stock companies legally incorporated under the PRC Company Law are entitled to apply to the CSRC for overseas share issuance and listing.

Under the New Guidelines, a PRC domestic company may submit its primary overseas listing application to overseas securities regulatory authorities and stock exchanges after the CSRC has accepted its overseas listing application for processing, and may submit its official application to overseas securities regulatory authorities and stock exchanges for hearing after the CSRC has examined and approved its overseas listing application. The approval document in respect of the overseas share issuance and listing from the CSRC is valid for 12 months.

On December 26, 2014, the SAFE promulgated the Circular on Certain Issues Concerning the Foreign Exchange Administration for Overseas Listings (《國家外匯管理局關於境外上市外匯管理有關問題的通知》), pursuant to which a domestic company shall register with the relevant exchange authority for the overseas listing within 15 working days after its offerings for overseas listing.

#### *Loss of H share certificates*

In the event H share certificates in registered form are either stolen or lost, shareholder may, in accordance with the relevant provision set out in the PRC Civil Procedure Law, apply to a people's court for a declaration that such certificates will no longer be valid. After such a declaration has been made, the shareholder may apply to the company for the issue of replacement certificates. The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in Appendix V).

#### *Merger and division*

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved. As for a corporate merger, both parties to the merger shall conclude an agreement with each other and formulate balance sheets and checklists of properties. The companies involved shall, within 10 days as of making the decision of merger, notify the creditors, and shall make a public announcement in a newspaper within 30 days. The creditors may, within thirty days as of the receipt of the notice or within 45 days as of the issuance of the public announcement if it fails to receive a notice, require the company to clear off its debts or to provide corresponding guarantees. In the case of a merger, the credits and debts of the companies involved shall be succeeded by the company that survives the merger or by the newly established company. As for the division of a company, the properties thereof shall be divided accordingly, and balance sheets and checklists of properties shall be worked out. The company shall, within ten days as of the day when the decision of division is made, notify the creditors and make a public announcement in a newspaper within 30 days. The post-division companies shall bear joint liabilities for the debts of the former company before it is divided, unless it is otherwise prescribed by the company and the creditors before the division with regard to the clearance of debts in written agreement.

#### **ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS**

The Arbitration Law of the People's Republic of China(《中華人民共和國仲裁法》) (the "Arbitration Law") was passed by the Standing Committee on August 31, 1994, became effective on September 1, 1995 and amended on August 27, 2009 and September 1, 2017. The first amendment was made and came into effect on August 27, 2009. The second amendment was passed on September 1, 2017 with the effective date on January 1, 2018. It is applicable to contract disputes and other property disputes between natural persons, legal persons and other organizations where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may,

before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the Articles of Association and, in the case of the Listing Rules, also in contracts with each of the Directors and Supervisors, to the effect that whenever any disputes or claims arise between holders of the H Shares and us; holders of the H Shares and the Directors, Supervisors or officers; or holders of the Shares, in respect of any disputes or claims in relation to our affairs or as a result of any rights or obligations arising under the Articles of Association, the PRC Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred to arbitration. Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are shareholders, Directors, Supervisors, officers of us, shall be subject to the arbitration. Disputes in respect of who is the shareholder and those in relation to our register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission (“CIETAC”) in accordance with its rules or the Hong Kong International Arbitration Center (“HKIAC”) in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the securities arbitration rules of the HKIAC.

Under the Arbitration Law and the PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for Enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration tribunal if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration tribunal.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (《承認及執行外國仲裁裁決公約》) (the “**New York Convention**”) adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the National People's Congress passed on December 2, 1986. The New York Convention provides that all

arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the State to which the application for enforcement is made.

## **HONG KONG LAWS AND REGULATIONS**

### **Summary of Material Differences between Hong Kong and PRC Company Law**

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies Ordinance, Companies (Winding up and Miscellaneous Provisions) Ordinance and supplemented by common law and rules of equity that apply to Hong Kong. The Company, which is a joint stock limited company established in the PRC, is governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of the material differences between the Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

#### **(i) *Corporate existence***

Under the Companies Ordinance, a company having share capital is incorporated by the Registrar of Companies in Hong Kong issuing a certificate of incorporation and upon its incorporation, a company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or by way of stock flotation. The amended Company Law which came into effect on October 26, 2018, has no provisions on minimum registered capital of joint stock limited companies. Where otherwise provided for in any other laws, administrative regulations and decisions of the State Council in respect of the actual paid-in registered capital and the minimum registered capital for joint stock limited companies, the provisions thereof shall prevail.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

#### **(ii) *Share capital***

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The PRC Company Law does not provide for authorized share capital other than registered capital. The registered capital of a joint stock limited company is the amount of the issued share capital. Any increase in registered capital must be approved by the shareholders in a general meeting and by the relevant PRC governmental and regulatory authorities when applicable.

Under the Securities Law, a company which is authorized by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets that may be valued in currency and lawfully transferable. For non-monetary assets to be used as capital contributions, appraisals and verification shall be carried out to ensure no over-valuation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

(iii) *Restrictions on shareholding and transfer of shares*

Under PRC law, the domestic shares (“**domestic shares**”) in the share capital of a joint stock limited company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the PRC domestic investors and qualified foreign institutional investors. The overseas listed foreign shares (“**foreign shares**”) issued by a joint stock limited company which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, and qualified domestic institutional investors. However, qualified institutional investors and individual investors may trade the Southbound Hong Kong Trading Link and the Northbound Shanghai Trading Link (or the Northbound Shenzhen Trading Link) shares via participating in the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect.

Under the PRC Company Law, shares in a joint stock limited company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company’s public offering cannot be transferred within one year from the listing date of the shares on a stock exchange. Shares in a joint stock limited company held by its directors, supervisors and senior management and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company’s shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law except for the six-month lock-up on the company’s issue of shares and the 12 month lock-up on the Controlling Shareholders’ disposal of shares as described in the section entitled “Underwriting” in this prospectus.

(iv) *Financial assistance for acquisition of shares*

Although the PRC Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company’s shares, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

**(v) *Variation of class rights***

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed regarding variations of class rights. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix V.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of a Hong Kong company, or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions. The Company (as required by the Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic shares are defined in the Articles of Association as different classes of shareholders, provided however that the special procedures for approval by separate class shareholders shall not apply to the following circumstances: (i) the Company issues domestic shares and listed foreign invested shares, separately or simultaneously, once every 12-month period, pursuant to a Shareholders' special resolution, not more than 20% of each of the issued domestic shares and issued overseas listed foreign invested shares existing as of the date of the Shareholders' special resolution; (ii) the plan for the issue of domestic shares and listed foreign invested shares upon its establishment is implemented within 15 months following the date of approval by CSRC; and (iii) upon approval by CSRC, the shareholders of domestic shares of the Company transfer their shares to overseas investors and such shares are listed and traded in foreign markets.

**(vi) *Directors***

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration made by directors of the interests in material contracts; restrictions on directors' authority in making major dispositions; restrictions on companies providing certain benefits, prohibitions against compensation for loss of office without shareholders' approval. The PRC Company Law provides restrictions on interested directors voting on the resolution at a meeting of the board of directors when such resolution relates to an enterprise which the director is interested or connected. The Mandatory Provisions, however, contain requirements and restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix V.



**(vii) *Board of Supervisors***

Under the PRC Company Law, the board of directors and managers of a joint stock limited company is subject to the supervision and inspection of a Board of Supervisors but there is no mandatory requirement for the establishment of a Board of Supervisors for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

**(viii) *Derivative action by minority shareholders***

Hong Kong law permits minority shareholders to start a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company, if such directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law gives shareholders of a joint stock limited company the right to initiate proceedings in the people's court to restrain the implementation of any resolution passed by the shareholders in a general meeting, or by the board of directors, that violates any law or infringes the lawful rights and interests of the shareholders. The PRC Company Law also provides that the shareholder can initiate proceedings if the director or senior management of a company violates the law, administrative regulation or articles of association of a company and thus infringe the shareholder's interest. The Mandatory Provisions further provide remedies to the company against directors, supervisors and senior management in breach of their duties to the company. In addition, every director and supervisor of a joint stock limited company applying for a listing of its foreign shares on the Stock Exchange is required to give an undertaking in favor of the company to comply with the company's articles of association. This allows minority shareholders to act against the directors and supervisors in default.

**(ix) *Protection of minorities***

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of the Hong Kong government may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC Company Law provides that where any company encounters any serious difficulty in its operations or management so as that the interests of the shareholders will face serious loss if the company continues to exist and such difficulty cannot be resolved by any other means, the shareholders holding ten percent or more of the voting rights of all the issues shares of the company may plead the people's court to dissolve the company. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders which is prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company.

**(x) *Notice of shareholders' meetings***

Under the PRC Company Law, shareholders shall be notified no less than 20 days in advance of a general meeting of the time and place of the meeting and the matters to be considered at the meeting. Shareholders shall be notified no less than 15 days in advance of an extraordinary general meeting. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a limited company incorporated in Hong Kong, the minimum notice period of a general meeting other than an annual meeting is 14 days and the notice period for an annual general meeting is 21 days.

**(xi) *Quorum for shareholders' meetings***

Under Hong Kong law, the quorum for a general meeting is two members unless the articles of association of the company otherwise provide. For one member companies, one member will be a quorum.

The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting. If that 50% level is not achieved, the company shall within five days notify its shareholders by public announcement and the shareholders' general meeting may be held thereafter.

**(xii) *Voting***

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires more than one half of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, increase or reduction of share capital, and merger, demerger or dissolution of a joint stock limited company or changes to the company status, which require two-thirds or more of votes cast by shareholders present at a shareholders' general meeting.

**(xiii) *Financial disclosure***

A company is required under the PRC Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, statements of changes in financial position and other relevant annexes 20 days before the annual general meeting of shareholders. In addition, a company established by way of public subscription under the PRC Company Law must publish its financial position. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet,

auditors' report and directors' report, which are to be laid before the company in its annual general meeting, not less than 21 days before such meeting. A company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC standards, have its accounts prepared and audited in accordance with International Accounting Standards or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

**(xiv) *Information on directors and shareholders***

The PRC Company Law gives the shareholders of a company the right to inspect the articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, Shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

**(xv) *Receiving agent***

Under both the PRC Company Law and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while that under the PRC law is two years. The Mandatory Provisions require that the company should appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited company in respect of such foreign shares.

**(xvi) *Corporate reorganization***

Corporate reorganizations involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company to another company in the course of being wound up voluntarily pursuant to section 237 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to sections 668 to 674 of the Companies Ordinance which requires the sanction of the court. Under PRC Company Law, the merger, demerger, dissolution, liquidation or change to the forms of a company has to be approved by shareholders at general meeting.

**(xvii) *Arbitration of disputes***

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC at the claimant's choice.

**(xviii) *Mandatory deductions***

Under the PRC Company Law, a company shall draw 10% of the profits as its statutory reserve fund before it declares any dividends after taxation. The company may not be required to deposit the statutory reserve fund if the aggregate amount of the statutory reserve fund has accounted for 50% of the company's registered capital. After the company has drawn statutory reserve fund from the after-tax profits, it may, upon a resolution made by the shareholders, draw a discretionary reserve fund from the after-tax profits. There are no such requirements under Hong Kong law.

**(xix) *Remedies of a company***

Under the PRC Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, remedies of the company similar to those available under the Hong Kong law (including rescission of the relevant contract and recovery of profits made by a director, supervisor or officer) have been in compliance with the Listing Rules.

**(xx) *Dividends***

Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is three years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its listed foreign shares until after the expiry of the applicable limitation period.

**(xxi) *Fiduciary Duties***

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors, senior management owe a fiduciary duty towards a company and are not permitted to engage in any activities which compete with or damage the interests of the company.

**(xxii) *Closure of register of shareholders***

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the articles of association of a company provide, as

required by the PRC Company Law, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

(a) **Listing Rules**

The Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited company and seeks a primary listing or whose primary listing is on the Stock Exchange. Set out below is a summary of such principal additional requirements which apply to the Company.

(i) *Compliance advisor*

A company seeking listing on the Stock Exchange is required to appoint a compliance advisor acceptable to the Stock Exchange for the period from its listing date up to the date of the publication of its first full year's financial results, to provide the company with professional advice on continuous compliance with the Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to the company's two authorized representatives, as the principal channel of communication with the Stock Exchange. The appointment of the compliance advisor may not be terminated until a replacement acceptable to the Stock Exchange has been appointed.

If the Stock Exchange is not satisfied that the compliance advisor is fulfilling its responsibilities adequately, it may require the company to terminate the compliance advisor's appointment and appoint a replacement.

The compliance advisor must keep the company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company.

It must act as the company's principal channel of communication with the Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

(ii) *Accountants' report*

An accountants' report for a PRC issuer will not normally be regarded as acceptable by the Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong or under International Standards on Auditing or China Auditing Standards. Such report will normally be required to conform to Hong Kong or international accounting standards or China Accounting Standards for Business Enterprises.

**(iii) *Process agent***

The Company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Stock Exchange and must notify the Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

**(iv) *Public shareholdings***

If at any time there are existing issued securities of a PRC issuer other than foreign shares which are listed on the Stock Exchange, the Listing Rules require that the aggregate amount of such foreign shares held by the public must constitute not less than 25% of the issued share capital and that such foreign shares for which listing is sought must not be less than 15% of the total issued share capital if the company has an expected market capitalization at the time of listing of not less than HK\$50,000,000. The Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the company has an expected market capitalization at the time of listing of over HK\$10,000,000,000.

**(v) *Independent non-executive directors and supervisors***

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

Subject to governmental approvals and the provisions of the Articles of Association, the Company may repurchase its own H shares on the Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of special resolution of the holders of domestic shares and the holders of H shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, the Company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Takeovers Code and any similar PRC law of which the directors are aware, if any.

Any general mandate given to the directors to repurchase the foreign shares must not exceed 10% of the total amount of existing issued foreign shares of the company.

**(vi) *Mandatory provisions***

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is

on the Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the board of supervisors of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix V.

(vii) *Redeemable shares*

The Company must not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of the foreign shares are adequately protected.

(viii) *Pre-emptive rights*

Except in the circumstances mentioned below, the directors of a company are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of domestic shares and foreign shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the company's articles of association, prior to (1) authorizing, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities; or (2) any major subsidiary of the company making any such authorization, allotment, issue or grant so as materially to dilute the percentage equity interest of the company and its shareholders in such subsidiary.

No such approval will be required, but only to the extent that, the existing shareholders of the company have by special resolution in general meeting given a mandate to the directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing domestic shares and foreign shares as of the date of the passing of the relevant special resolution or of such shares that are part of the company's plan at the time of its establishment to issue domestic shares and foreign shares and which plan is implemented within 15 months from the date of approval by CSRC; or where upon approval by securities supervision or administration authorities of State Counsel, the shareholders of domestic invested shares of the company transfer its shares to overseas investors and such shares are listed and traded in foreign markets.

(ix) *Supervisors*

The Company is required to adopt rules governing dealings by its Supervisors in securities of the Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Listing Rules) issued by the Stock Exchange.

The Company is required to obtain the approval of its shareholders at a general meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to the Company or any of its subsidiaries entering into a service contract of the following nature with a Supervisor or

proposed Supervisor of the Company or its subsidiary: (1) the term of the contract may exceed three years; or (2) the contract expressly requires the Company to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration more than one year in order for it to terminate the contract.

The remuneration committee of the Company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of the Company and its Shareholders as a whole and advise Shareholders on how to vote.

(x) *Amendment to the Articles of Association*

The Company is required not to permit or cause any amendment to be made to its Articles of Association which would cause the same to cease to comply with the mandatory provisions of the Listing Rules or the Mandatory Provisions or the PRC Company Law.

(xi) *Documents for inspection*

The Company is required to make available at a place in Hong Kong for inspection by the public and its Shareholders free of charge, and for copying by Shareholders at reasonable charges the following:

- a complete duplicate register of shareholders;
- a report showing the state of the issued share capital of the Company;
- the Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of the Company;
- reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- a copy of the latest annual return filed with the Beijing Administration for Industry and Commerce; and
- for Shareholders only, copies of minutes of meetings of shareholders.



**(xii) *Receiving agents***

The Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

**(xiii) *Statements in H share certificates***

The Company is required to ensure that all of its listing documents and H share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect that the acquirer of shares:

- agrees with the Company and each Shareholder of the Company, and the Company agrees with each shareholder of the Company, to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;
- agrees with the Company, each Shareholder, Director, Supervisor, manager and officer of the Company, and the Company acting for itself and for each Director, Supervisor, manager and officer of the Company agrees with each shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with the Company and each shareholder of the Company that the H Shares are freely transferable by the holder thereof; and
- authorizes the Company to enter into a contract on his behalf with each Director, Supervisors, managers and officer of the Company whereby each such Director and officer undertakes to observe and comply with his obligation to shareholders as stipulated in the Articles of Association.

**(xiv) *Compliance with the PRC Company Law, the Special Regulations and the Articles of Association***

The Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

*(xv) Contract between the Company and its Directors, officers and Supervisors*

The Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to the Company to observe and comply with the PRC Company law, the Special Regulations, the Articles of Association, the Takeovers Codes and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders as stipulated in the Articles of Association;
- an arbitration clause which provides that whenever any disputes or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning the affairs of the Company between the Company and its Directors or officers and between a holder of H Shares and a Director or officer of the Company, such disputes or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;
- disputes over who is a shareholder and over the share registrar do not have to be resolved through arbitration;
- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitral body is final and shall be binding on the parties thereto;
- the agreement to arbitrate is made by the Director or officer with the Company on its own behalf and on behalf of each shareholder; and
- any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct hearings in open session and to publish its award.

The Company is also required to enter into a contract in writing with every supervisor containing statements in substantially the same terms.

**(xvi) *Subsequent listing***

The Company must not apply for the listing of any of its foreign shares on a PRC stock exchange unless the Stock Exchange is satisfied that the relative rights of the holders of foreign shares are adequately protected.

**(xvii) *English translation***

All notices or other documents required under the Listing Rules to be sent by the Company to the Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

**(xviii) *General***

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including the Company, subject to special conditions as the Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of the Company's listing.

**(b) *Other Legal and Regulatory Provisions***

Upon the Company's listing, the provisions of the Securities and Futures Ordinance, the Takeovers Codes and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to the Company.

**(c) *Securities Arbitration Rules***

The Articles of Association provide that certain claims arising from the Articles of Association, PRC Company Law and other applicable laws shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend.

Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and China Taiwan.

**(d) PRC Legal Matter**

Our PRC Legal Advisors have confirmed that it has reviewed the summaries of relevant PRC laws and regulations as contained in this Appendix and that, in its opinion, such summaries are correct summaries relevant to PRC laws and regulations. Any person wishing to have detailed advice on PRC law and the laws of any jurisdictions is recommended to seek independent legal advice.

**SUMMARY OF ARTICLES OF ASSOCIATION**

This appendix summarized our Articles of Association for the purpose of providing potential investors with an overview of it. As the information set out below is only a summary, it does not contain all of the information which may be important to potential investors.

Our Articles of Association were passed in the shareholders' general meeting held on August 16, 2018 and have obtained the CBIRC's approval and will become effective on the date on which our H Shares are listed on the Stock Exchange.

**CLASSES OF SHARES**

Shareholders holding different types of shares shall be shareholders of different classes.

Shareholders of different classes shall enjoy the rights and assume the obligations stipulated by laws, regulations, and our Articles of Association.

Except shareholders holding other types of shares, shareholders holding domestic shares and shareholders holding overseas listed shares are considered as shareholders of different classes.

Shareholders of different classes shall enjoy the same rights in any distribution in the form of dividends or any other form.

**DIRECTORS****Board**

The Board of the Company is accountable to the shareholders' general meeting, and shall exercise the functions and authorities in accordance with the laws, administrative regulations and our Articles of Association. The Board is comprised of 7 directors, of which the independent non-executive directors shall account for more than one third of the total members of the Board. The Board shall have one chairman and one vice chairman who shall both be held by directors of the Company, and shall be elected and removed by more than one-half of all directors of the Company.

The Board exercises the following functions and authorities:

- convening the shareholders' general meeting and reporting to the shareholders' general meeting;
- implementation of the resolutions of the shareholders' general meeting;
- decisions on our business development strategy and investment plan;
- formulation of proposals of our annual financial budgets and final accounts;

- formulation of profit distribution and loss appropriation plan;
- formulation of plans of increase or reduction of registered capital, issuance of corporate bonds or other marketable securities and listing plan;
- formulation of proposals of material acquisition, repurchase of the shares, or proposals of merger, division, dissolution or change of the legal form of our Company;
- Decision, within the scope of the mandate granted by a shareholders' general meeting, on the company's external investments, acquisition and sale of assets, mortgage of assets, external guarantees, entrusted wealth management, connected transactions etc;
- decisions on the establishment of internal management organizations of the Company;
- appointment and removal of the general manager and the secretary to the Board of the Directors;
- appointment and removal of the deputy general manager of the Company and other senior management upon the nomination by the general manager, and decision on the remuneration and punishment of such personnel;
- formulation of our fundamental management rules;
- formulation of amendments to our Articles of Association;
- proposals to the shareholders' general meeting for engagement, dismissal or discontinuance of the accounting firm;
- listening to the work reporting of the general manager and inspection of the general manager's work;
- other functions and authorities vested by laws, administrative regulations, departmental rules and our Articles of Association and authorized by the shareholders' general meeting.

**Remuneration, compensation or payment for loss of office**

The remuneration of the directors shall be subject to the approval of shareholders' general meeting. The Company shall sign written agreements with its directors and supervisors in the matter of remuneration with the prior approval of shareholders' general meeting. The matter of remuneration above includes:

- remuneration for positions as the Company's directors, supervisors or senior management;
- remuneration for positions as the directors, supervisors or senior management of subsidiary companies of the Company;
- remuneration for other services supporting the management of the Company and its subsidiary companies of the Company;

- compensation for a director or supervisor's loss of office or retirement.

Unless pursuant to the aforesaid agreements, the directors and supervisors shall not file any lawsuit against the Company and claim the benefits they shall obtain for the foregoing matters.

There shall be a provision in the contract in relation to remuneration made between the Company and our directors or supervisors that, in the event of a takeover of our Company, the directors or the supervisors shall be entitled to receive compensation or other payments as a result of loss of office or retirement, provided that prior approval shall have been obtained at a shareholders' general meeting.

A takeover of the Company referred to above means either:

- a takeover offer to all shareholders has been made by any person; or
- a takeover offer has been made by any person to enable the offer or to become the controlling shareholder as defined in our Articles of Association.

If the relevant director or supervisor does not comply with this provision, any sum so received by him/her shall belong to those who have sold their shares as a result of the said offer. The expenses incurred in distributing such sum pro rata amongst those persons shall be borne by such director or supervisor and shall not be deducted from the sum to be received by him/her.

(i) ***Power to allot and issue shares***

There is no provision in the Articles of Association empowering the directors, supervisors and senior management to allot and issue shares.

Any proposal to increase the registered capital of the Company must be submitted for approval by a special resolution of the shareholders' general meeting. Any such increase is subject to approval of relevant regulatory authorities.

(ii) ***Power to dispose of the assets of the Company or any subsidiary companies***

When disposing of fixed assets, if the expected value of the fixed assets the Board intends to dispose of and the total value of the fixed assets already disposed of four months before such disposal proposal in aggregate exceeds 33% of the fixed assets value shown in the most recent balance sheet reviewed by the shareholders' general meeting, the Board must not dispose of or consent to the disposal of such fixed assets before such disposal is approved by the shareholders' general meeting.

The effectiveness of transactions conducted by the Company to dispose of fixed assets is not subject to the violation of the aforesaid item.

For our Articles of Association, disposal of fixed assets referred to above includes the transfer of certain interests of assets, but excludes the provision of security using fixed assets.

**(iii) *Loans to directors, supervisors and senior management***

The Company shall not, directly or indirectly, provide loans or loan guarantees for its and its parent company's directors, supervisors, or senior management, nor shall it provide the same to their related persons.

The following situations are not subject to the above provisions:

- the provision of a loan or a guarantee for a loan by the Company to its subsidiary companies;
- the provision of a loan or a guarantee for a loan or any other funds by the Company to any of its directors, supervisors, or other senior management to meet expenditure incurred by him/her for the purpose of the Company or for the purpose of enabling him/her to perform his/her duties properly, in accordance with the terms of an employment contract approved by the shareholders' general meeting; and
- in the event that the normal business scope of the Company includes providing loans and loan guarantees, the Company may provide loans or loan guarantees for directors, supervisors, and senior management and their respective related persons based on normal commercial terms.

A loan made by the Company in breach of the above provisions shall be forthwith repayable by the recipient of the loan regardless of the terms of the loan.

A loan guarantee made by the Company in breach of the above provisions shall not be enforceable on the Company, with the following exceptions:

- The lender is unaware about actual situation when a loan is extended to the respective associates of directors, supervisors and senior management members of the Company or its parent company; and
- Collateral provided by the Company has legally been sold to a bona fide purchaser.

**(iv) *Financial assistance to purchase the shares***

The Company or the subsidiary companies shall not offer any financial assistance at any time by any means to purchasers or prospective purchasers for behaviors of purchasing or proposing to purchase the Company's shares. Such purchasers of the Company's shares as mentioned above shall include those who directly or indirectly assume the obligations due to purchase of the shares of the Company.

The Company or the subsidiary companies shall not offer any financial assistance at any time by any means in order to reduce or relieve the obligations of the aforesaid obligator due to their purchase or intention of purchase of the shares of the Company.



For these purposes, the “financial assistance” shall include but is not limited to the following means:

- gifts;
- guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), compensation (other than the compensation in respect of the Company’s fault) or release or waiver of any rights;
- provision of loan or any other agreement under which the obligations of the Company are to be fulfilled before the obligations of another party, or a change in the parties to, or the novation of, or the assignment of rights arising under, such loan or agreement; and
- any other form of financial assistance given by the Company when the Company is insolvent or has no net assets or when its net assets would thereby be reduced to a material extent.

The “obligations” herein referred to shall include the obligations of the obligator by signing a contract or making an arrangement (regardless of whether or not the aforesaid agreement or arrangement is enforceable, or whether or not such obligations are assumed by the obligator individually or jointly with any other person), or changing its financial condition in any other way.

The acts listed below are not prohibited by the Articles of Association of the Company, except those prohibited by relevant laws, regulations, rules and statutory documents:

- where the Company provides the financial assistance truthfully for the interests of the Company and the main purpose of the financial assistance is not to purchase shares of the Company, or the financial assistance is an incidental part of an overall plan of the Company;
- lawful distribution of the Company’s property in the form of dividends;
- distribution of dividends in the form of shares;
- reduction of registered capital, repurchase of shares, adjustment of shareholding structure, etc., in accordance with the Articles of Association of the Company;
- provision of a loan by the Company within its scope of business and in the ordinary course of its business (provided that the same does not lead to a reduction in the net assets of the Company or that if the same constitutes a reduction, the financial assistance is deducted from the Company’s distributable profits); and

- provision of money by the Company for an employee shareholding scheme (provided that the same does not lead to a reduction in the net assets of the Company or that if the same constitutes a reduction, the financial assistance is deducted from the Company's distributable profits).

(v) *Disclosure of interest in contracts with the Company*

Where the Company's directors, supervisors and senior management are directly or indirectly materially relevant to the agreements, transactions or arrangements (except employment agreements between the Company and its directors, supervisors and senior management) signed or planned by the Company, they shall notify the Board of the nature and degree of such a relationship, no matter whether such matter, in general, shall be approved by the Board.

Unless the interested directors, supervisors and senior management of the Company have informed the Board of the matter as specified, and the Board has approved it at a meeting where they are not incorporated into the quorum and nor do they participate in the voting, the Company shall have the right to cancel such agreements, transactions or arrangements, except where the counterparty is an innocent party who is not aware of the relevant directors, supervisors and senior management's violation of their obligations.

The Company's directors, supervisors and senior management shall be treated as interested parties where their related persons are interested in a certain contract, transaction or arrangement.

If, before the Company first considers the entering into of the relevant contract, transaction or arrangement, a director, supervisor and senior management member of the Company gives written notice to the Board, stating that by reasons of the facts contained in the notice, he/she will be interested in such contract, transaction or arrangement to be entered into by the Company subsequently, such director, supervisor and senior management member shall be deemed to have made such disclosure as stipulated above to the extent as stated in the notice.

(vi) *Appointment, removal and retirement*

- *Election of Directors*

The Directors includes executive Directors and non-executive Directors (including independent non-executive Directors), and shall have a term of office of three years. All the directors may serve consecutive terms if reelected upon the expiration of his/her term of office. The directors shall be elected by the shareholders' general meeting. The qualification for serving as directors shall be submitted to and approved by the banking regulatory authorities.

- *Election of Supervisors*

Supervisors of the Company include supervisors representing shareholders and supervisors representing employees. The Board of Supervisors is composed of two supervisors representing shareholders and one supervisor representing employee (“Employee Supervisor”).

Supervisors representing shareholders shall be elected, removed or changed by the shareholders’ general meeting. Employee Supervisors shall be subject to the election, removal or change at the employee representative meeting or through any other democratic procedure.

- *Removal and Resignation of Directors*

Subject to compliance with relevant laws and administrative regulations, the shareholders’ general meeting may dismiss any director during his/her service term through a general resolution.

A director may resign prior to the expiry of his/her service term. When a director intends to resign, he/she shall submit a written resignation to the Board. The Board shall notify the Board of Supervisors within 2 days upon receipt of such a resignation, and report this fact to the latest shareholders meeting. If failure to re-elect a candidate upon the expiry of a director’s service term or the resignation of any director within his/her term of office has an impact on our normal operation or causes the number of members of the Board to fall below the minimum number of directors required by law, such director shall continue to perform his/her duties as a director in accordance with laws, administrative regulations, departmental rules and the Company’s Articles of Association until a new director is elected and assumes his/her office. Save as stated above, the resignation of a director shall become effective when it is served to the Board.

There is no provision in the Articles of Association regarding retirement or non-retirement of directors under an age limit.

- *Removal and Resignation of Supervisors*

A supervisor may offer to resign before the expiry of his/her term of office. The provisions concerning the resignation of directors shall apply to supervisors.

(vii) *Borrowing powers*

The Articles of Association of the Company do not specifically provide for the manner in which borrowing powers may be exercised nor do they contain any specific provision in respect of the manner in which such borrowing powers may be amended, except for:

- provisions which authorize the Board to formulate proposals for the issuance of corporate bonds or other marketable securities by the Company and public listing; and
- provisions which provide that the issuance of corporate bonds and other marketable securities shall be approved by the shareholders’ general meeting by a special resolution.

**(viii) Proceedings of the Board**

Resolutions of board meetings shall be passed by more than half of all directors and resolutions of board meetings approving connected transactions shall be passed by more than half of the votes cast by all directors who have no material interest in such transactions.

A special resolution of board meetings shall be passed by two-thirds of all directors. For the following matters, a special resolution shall be passed by the Board:

- our plans for the increase or decrease of registered capital;
- our plans for issuance of corporate bonds or other marketable securities and public listing;
- our plans for merger, division, dissolution or change of corporate form;
- our plans for material purchase of assets;
- our plans for repurchase of the shares of the Company;
- amendments to the Articles of Association;

**REVISION OF THE COMPANY'S ARTICLES OF ASSOCIATION**

In any of the following circumstances occurs, our Company shall amend the Articles of Association:

- If upon amendments to the Company Law, Administrative Measures for Auto Financing Companies or other applicable laws and regulations, any terms contained in the Articles of Association become inconsistent with the provisions of the amended laws, regulations;
- Certain terms specified in our Articles of Association changes; and
- A resolution is passed by the shareholders' general meeting to amend our Articles of Association.

For any amendments to our Articles of Association, the Board shall propose the plan on amendments, which are subject to approval by the shareholders' general meeting. The amendments to the Articles of Association passed by the shareholders' meeting shall be subject to the approval by the relevant regulatory authorities, if required; and where an amendment to the Articles of Association shall be subject to registration, the Company shall register such amendment in accordance with relevant laws.

**VARIATION OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES**

If the Company intends to change or abrogate the rights of a class of shareholders, it may do so only after such change or abrogation has been approved by way of a special resolution of the shareholders' general meeting and by a separate shareholders' meeting convened by the affected shareholders of that class in accordance with the Articles of Association.

In the following conditions, rights of a class of shareholders shall be deemed to have been changed or abrogated:

- an increase or decrease in the number of shares of such class or an increase or decrease in the number of shares of a class having voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;
- a change of all or part of the shares of such class into shares of another class, a conversion of all or part of the shares of another class into shares of such class or the grant of the right to such change;
- a removal or reduction of rights to accrued dividends or cumulative dividends attached to shares of such class;
- a reduction or removal of a dividend preference or property distribution preference during liquidation of the Company, attached to shares of such class;
- an addition, removal or reduction of share conversion rights, options, voting rights, transfer rights, preemptive rights to rights issues or rights to acquire securities of the Company attached to shares of such class;
- a removal or reduction of rights to receive amounts payable by the Company in a particular currency attached to shares of such class;
- a creation of a new class of shares with voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;
- an imposition of restrictions or additional restrictions on the transfer of ownership of shares of such class;
- an issuance of rights to subscribe for, or convert into, shares of such type or other classes;
- an increase in the rights and privileges of shares of other classes;
- restructuring of the Company causing shareholders of different classes to bear liability to different extents during the restructuring; and
- amendment or cancellation of provisions as required by “Special Procedures for Voting by a Class of Shareholders” of our Articles of Association.

Interested shareholders shall not enjoy voting rights in class shareholders’ general meeting. “Interested shareholders” shall have the following meanings:

- after the Company has made a repurchase offer to all shareholders equally pro rata or made a repurchase by means of public transaction at the stock exchange in accordance with the Articles of Association, “interested shareholders” refers to the controlling shareholders defined in the Articles of Association;
- after the Company has made a repurchase by means of agreement outside the stock exchange in accordance with the Articles of Association, “interested shareholders” refers to the shareholders concerned with this agreement; and
- in the Company’s restructuring plan, “interested shareholders” refers to those shareholders who assume responsibilities with smaller proportion than other shareholders of the same class or those shareholders who enjoy different interests from other shareholders of the same class.

A resolution of class shareholders’ meeting shall be passed after it is adopted by two-thirds or more of voting shares present at a class shareholders’ meeting.

Special procedures for voting by shareholders of different classes do not apply to the following cases:

- after approval by the shareholders’ general meeting through special resolution, the Company issues domestic shares and overseas-listed foreign shares once every 12 months, either separately or simultaneously, and the domestic shares and overseas-listed foreign shares to be issued do not exceed 20% of this kind of shares already issued;
- the plan to issue domestic shares and overseas-listed foreign shares during the Company’s establishment is accomplished within 15 months from the date of approval of the securities regulatory authorities of the State Council; or
- the unlisted shares held by the shareholders, after approval from the securities regulatory authorities of the State Council can be listed and traded on an overseas stock exchange.

## **ALTERATION OF CAPITAL**

### **Increase of Registered Capital**

Upon the demands of operation and business development and in accordance with relevant laws and regulations and the securities regulatory rules where the Company’s shares are listed, the Company may, subject to resolutions of the shareholders’ meeting and the approval of the relevant regulatory authorities, increase its registered capital in the following ways:

- offering of new shares to non-specific investors;
- placing new shares to specific investors and/or existing shareholders;

- dispatching new shares to existing shareholders;
- transferring capital reserve funds to increased capital; or
- other methods permitted by laws and regulations or by relevant competent authorities.

The Company's increase of its capital by issuing new shares shall be conducted in accordance with the procedures provided in relevant laws and regulations after being approved according to the Articles of Association and the securities regulatory rules where the Company's shares will be listed.

### **Reduction of Registered Capital**

The Company may reduce its registered capital. The reduction of the registered capital of the Company shall be handled in accordance with the procedures stipulated by the Company Law, the Administrative Measures for Auto Financing Companies and other relevant regulations and provisions of the Company's Articles of Association and the listing rules of the exchange where the Company's shares will be listed..

The Company must prepare a balance sheet and a list of properties when it is to reduce its registered capital.

The Company shall notify its creditors within ten days of adopting the resolution to reduce its registered capital and shall publish an announcement of the resolution in the media recognized by the stock exchange where the Company's shares will be listed within 30 days. Creditors shall, within 30 days of receiving a written notice or within 45 days since the date of the announcement for those who have not received a written notice, be entitled to require the Company to pay its debts or to provide a corresponding guarantee for repayment.

The registered capital of the Company after reduction may not be less than the statutory minimum.

### **SPECIAL RESOLUTION — MAJORITY REQUIRED**

The resolutions of the shareholders' general meeting are divided into two types: (i) ordinary resolutions, and (ii) special resolutions.

Ordinary resolutions made by shareholders' general meeting shall be adopted by more than half of the voting shares represented by the shareholders present at the meeting (including their proxies).

Special resolutions made by shareholders' general meeting shall be adopted by two-thirds or more of the voting shares represented by the shareholders present at the meeting (including their proxies).

The following items shall be adopted by shareholders' general meeting through ordinary resolution:

- work reports of the Board and the Board of Supervisors;
- profit distribution plans and plans to cover company losses proposed by the Board;
- appointment and dismissal of directors and supervisors representing shareholders and their remuneration and payment thereof;
- plans for financial budget and final accountings, balance sheet, income statement and other financial statements;
- engagement and dismissal of the accounting firms; and
- other matters than those stipulated by laws, regulations, rules, relevant regulatory authorities, the listing rules of the exchange where the Company's shares are listed or the Articles of Association, which require the adoption through a special resolution.

The following items shall be adopted by shareholders' general meeting through special resolution:

- increase or reduction of the Company's registered capital and issuance of stock, warrants of any type or any other similar securities;
- issuance of corporate bonds or other marketable securities and listing plan by the Company;
- such matters as merger, division, dissolution, liquidation and change of corporate form of the Company;
- revision of the Articles of Association;
- purchase or sale by the Company of material assets or the granting of security with a value exceeding 25% of the latest audited total asset value of the Company within one year;
- stock incentive plans and employee stock ownership plan; and
- other matters stipulated by laws, regulations, rules, regulatory authorities or the Articles of Association, and determined by the shareholders' general meeting by a ordinary resolution that may have material impact on the Company and shall be approved by special resolution.

**VOTING RIGHTS (GENERALLY, ON A POLL AND RIGHT TO DEMAND A POLL)**

If the Company intends to hold a shareholders' general meeting, distribute dividends, conduct liquidation and other activities where the shareholders' identities need to be confirmed, the Board or the person convening the general meeting shall decide the record date, and the shareholders recorded in the register of members after the market closes on the record date shall be the shareholders who are entitled to relevant rights and interests.



Shareholders (including their proxies) shall exercise their voting rights according to the voting shares held by them, with each share representing one voting right.

Shares held by the Company have no voting rights, and will not be counted toward the total voting shares present in the shareholders' general meeting.

Unless the following person requires to vote by poll before or after a show of hands, the general meeting shall be voted by a show of hands: (1) the chairman of the meeting; (2) at least two voting shareholders or proxies of voting shareholders; (3) single or combined calculation of one or several shareholders (including their proxies) holding more than 10% (including 10%) of the voting shares held at the meeting.

Ballot voting requested for matters concerning the election of chairman of the meeting or termination of the meeting shall be conducted immediately; for other matters, the chairman of the meeting shall decide when to conduct ballot voting. The meeting can continue to discuss other matters, and the voting result there from will still be deemed as the resolution adopted in this meeting.

During ballot voting and subject to the applicable laws and regulations, shareholders (including their proxies) with two or more voting rights do not necessarily use them all for affirmative or negative votes.

#### **ANNUAL GENERAL MEETINGS**

There are two types of shareholders' general meeting: annual shareholders' general meeting and interim shareholders' general meeting. The shareholders' general meeting is generally convened by the board.

The annual shareholders' general meeting shall be held once a year within six months after the end of the previous fiscal year. If the meeting has to be postponed due to special reasons, it shall be reported to the banking regulatory authorities in time with the reasons stated and make announcement thereof.

An interim shareholders' general meeting shall be convened within two months from the occurrence date of any of the following events:

- the number of directors is less than the quorum as specified by the Company Law, or two thirds of the number as stipulated by the Articles of Association;
- the unrecovered losses of the Company reaches one-third of the Company's total share capital;
- shareholders who individually or jointly hold more than 10% of the voting shares in the Company submit a written request. The number of shares held shall be decided as of the date when the written request is submitted;

- the Board deems it as necessary or the Board of Supervisors proposes to convene; and
- other situations, as stipulated by laws, administrative regulations, departmental rules, regulatory authorities and the Articles of Association.

**ACCOUNTS AND AUDIT**

The Company shall establish its financial and accounting systems according to provisions as stipulated by laws, regulations and regulatory authorities.

The Board shall at each annual shareholders' general meeting submit to the Shareholders the financial statements prepared by the Company as required by the relevant laws, administrative regulations, departmental rules and statutory documents.

The Company shall prepare its financial statement not only according to the Chinese accounting standards and regulations but also according to the international accounting standards or the accounting standards in the overseas-listing place. In case there are major differences between the financial statements prepared according to the two accounting standards, they should be indicated clearly in the notes of the financial statements. When distributing the after-tax profit for the related accounting year, the Company shall adopt whichever is the lower of the after-tax profit in the aforesaid two financial statements.

The annual financial report prepared by the Company within four-month period after the end of each fiscal year shall be submitted to the relevant regulatory authorities according to law. The Company shall publish its financial report twice in each fiscal year, i.e. publish the interim financial report within 60 days after the end of the first six months of a fiscal year, and publish the annual financial report within 120 days after the end of a fiscal year. Where there are otherwise provisions by the securities regulatory authority in the listing place where the shares are listed in relation thereto, those provisions shall be observed.

**NOTICE OF MEETINGS AND BUSINESS TO BE CONDUCTED**

When the Company is to convene a shareholders' general meeting, written notice shall be given to all Shareholders 45 days prior to the meeting, informing all registered shareholders of the date and place of the meeting held and the proposals to be voted . Shareholders to be present in the shareholders' general meeting shall send a written reply of attendance to the Company 20 days before the meeting is convened.

The Company shall calculate the number of shares with voting rights based upon the written reply received 20 days prior to the shareholders' general meeting. Where the number of voting rights shares held by Shareholders who are going to attend the meeting reaches half or more of the total of shares with voting rights of the Company, then the meeting can be held. Otherwise, the Company shall inform the Shareholders again, in the form of an announcement about the matters to be discussed in the meeting, with the location and date of the meeting to be held within five days. The Company may convene such a Shareholders' general meeting after such announcement has been made.

The meeting notice for the Shareholders' general meeting shall satisfy the following conditions:

- made in writing;
- specifying the date, location, and time of the meeting;
- describing the matters and proposals to be considered at the meeting;
- specifying Date of Record for the shareholders who are entitled to attend the shareholders' general meeting, the interval between the Date of Record and the date of the meeting held shall be no more than seven working days. Once the Date of Record is confirmed, it shall not be changed ;
- providing the materials and explanations necessary for shareholders to make sensible decisions regarding the matters to be discussed, principally including (but not limited to) specific terms and agreements (if any) for a proposed transaction, and a detailed explanation of its cause and consequence where the Company proposes a merger, repurchase of shares, restructuring of shares or other form of reorganisation;
- where any Directors, Supervisors and senior management have an important interest with regard to matters to be discussed, then the nature and extent of that interest shall be disclosed. Further, where the impact of the matters to be discussed on such directors, supervisors and senior management who are shareholders is different from the impact on other shareholders of the same class, then that difference shall be illustrated;
- containing the full text of any special resolution proposed to be passed at the meeting;
- providing a clear description stating that shareholders who are entitled to attend the shareholders' general meeting and to put forward a resolution have the right to entrust at least one proxy, as necessary, who does not need to be a shareholder of the Company, to attend the meeting and also to put forward a resolution;
- setting the time and place for the delivery of the proxy forms of the meeting;
- specifying the name and telephone number of the contact person for the meeting; and
- other circumstances provided by laws, administrative regulations, departmental rules, statutory documents, relevant regulatory authorities and our Articles of Association.

The notice of shareholders' general meeting shall be delivered together with template of proxy form.

**TRANSFER OF SHARES**

Unless otherwise specified by the relevant laws, administrative regulations and the regulations of the securities regulatory authorities in the locality where the shares of the Company are listed, the fully paid shares of the Company may be transferred legally without any lien attached. To transfer the shares of the Company, the transferor shall register with the stock registration organization entrusted by the Company.

All fully paid offshore listing shares may be freely transferred in accordance with the Articles of Association.

All transfers of overseas-listed foreign shares shall adopt written instruments of transfer in writing in an ordinary or usual form or in any other form acceptable to the Board. The instruments of transfer may be signed by hand or (where the transferor or transferee is a corporation) by the company's seal. Where the transferor or transferee is a recognized clearing house (as defined by relevant regulations in accordance with Hong Kong laws from time to time) or its proxy, the instruments of transfer may be signed by hand or in a machine-imprinted format.

The transfer of the shares shall comply with relevant provisions as required by the banking regulatory authorities and other regulatory authorities.

The Company shall not accept any pledge with its own shares as the subject matters.

**RIGHT OF THE COMPANY TO REPURCHASE ITS OWN SHARES**

The Company may repurchase its issued shares in the following circumstances in accordance with the provisions of the Article of Associations and subject to the approval from the relevant regulatory authorities:

- cancel shares for the purpose of reducing the registered capital of the Company;
- merging with any other companies holding the shares of the Company;
- giving the shares to employees of the Company as a reward;
- being requested to repurchase the shares of the Company by the shareholders who object to the resolutions adopted at the shareholders' general meeting concerning merger and division of the Company; and
- other circumstances permitted by laws, administrative regulations and relevant regulatory authorities.

Where the Company repurchases its shares under circumstances (1) to (3), it shall obtain approval from shareholders' general meeting. Where the Company repurchases its shares under

circumstance (1), it shall cancel the shares within 10 days from the date of repurchase. Where the Company repurchases its shares under circumstances (2) and (4), the Company shall transfer or cancel the shares within 6 months, and shall apply for registration of change of registered capital to the original company registration authority and make relevant announcements.

The shares repurchased by the Company under circumstance (3) shall not exceed 5% of the total issued shares of the Company. The funds for repurchase shall be paid from the after-tax profits of the Company. The shares repurchased shall be transferred to the employees within one year.

The Company may repurchase its shares in any of the following ways after being approved by relevant regulatory authorities:

- making a repurchase offer to all its shareholders in pro rata basis;
- repurchasing by means of public dealing on a stock exchange;
- repurchasing by means of contractual agreement outside a stock exchange; or
- other methods as permitted by laws, administrative regulations and relevant regulatory authorities.

#### **RIGHT OF ANY OF THE SUBSIDIARY COMPANIES TO OWN THE SHARES**

There are no provisions in the Articles of Association restricting ownership of shares in our Company by any of our subsidiary companies.

#### **DIVIDENDS AND OTHER METHODS OF DISTRIBUTIONS**

The Company may distribute dividends in the form of cash or shares.

The Company's current year profits after tax shall be distributed in the following order of priority:

- offsetting the losses in previous years;
- contributing 10% of them to its statutory reserve fund;
- contributing to its discretionary reserve fund; and
- distributing profits and paying dividends to its shareholders at the proportion of the shares held by a shareholder.

In the event that the accumulated statutory reserve exceeds 50 percent of the Company's registered capital, no further allocation is needed. The shareholders' general meeting shall decide whether any further allocation to the discretionary reserve shall be made after making allocations to

the statutory reserve. The Company shall not distribute dividends to shareholders before making up losses, making allocations to the statutory reserve. Any dividend distributed to shareholders by the shareholders' general meeting in contravention of the requirements provided above shall be refunded to the Company by the shareholders. Shares of the Company held itself shall not participate in any distribution of profits.

The Company shall appoint receiving agents on behalf of the shareholders of overseas-listed foreign shares. Receiving agents shall receive on behalf of the relevant shareholders dividends distributed and other monies payable by the Company in respect of the overseas-listed foreign shares. The receiving agents appointed by the Company shall comply with the laws and the requirements of the regulations of the securities regulatory authorities where the shares of the Company are listed. The receiving agents appointed by the Company on behalf of H shareholders shall be a trust company registered in accordance with the Trustee Ordinance of Hong Kong.

Subject to compliance with the relevant laws, administrative regulations and departmental rules of the PRC and regulations of Stock Exchange the Company may exercise right to forfeit unclaimed dividends, provided that such right shall be exercisable only after the applicable limitation period expires.

## **PROXIES**

Any shareholders entitled to attend and vote at a shareholders' meeting shall have the right to appoint one or more persons (who need not be shareholders) as his/her proxies to attend and vote on his/her behalf.

Shareholders shall entrust the proxy in writing, and the proxy shall be signed by the shareholders or agents authorized by the shareholders in writing. If a shareholder is a legal person, the instrument shall be sealed with the legal person's stamp or signed by its directors or agents authorized in writing.

The proxy form shall specify, in the absence of specific instructions from the shareholder, the proxy may vote at his/her own discretion.

Where a shareholder has deceased, lost capacity for acts, revoked the proxy or the signed authorization prior to the voting, or the relevant shares have been transferred, a vote given in accordance with the terms of proxy letter shall remain valid as long as our Company does not receive a written notice of the event before the commencement of the relevant meeting.

## **CALLS ON SHARES AND FORFEITURE OF SHARES**

For dividends that are not claimed by anyone, the Company may exercise the right of expropriation under the precondition of complying with the relevant laws, administrative regulations and departmental rules, but the right shall be exercised only after the expiration of the applicable period, which is six years after date of declaration of dividend.

The Company shall have the right to terminate sending dividend warrants to holders of overseas-listed foreign shares by mail, but the Company shall exercise the right only after a dividend warrant fails to be redeemed for two consecutive occasions, however, the Company can exercise the right after the first occasion on which such a dividend warrant is returned as undelivered.

The Company shall have the right to sell the shares of shareholders of overseas-listed foreign shares who are untraceable in a way deemed appropriate by the Board, provided the following conditions are met:

- the Company has distributed dividends at least three times to the shares within 12 years, and the dividends are not claimed by anyone during the period; and
- the Company publishes announcements in one or more newspapers where the Company's shares are listed after the expiration of the 12-year period, stating its intention to sell the shares, and informs the securities regulatory authorities where the Company's shares are listed.

#### **INSPECTION OF REGISTER OF MEMBERS**

The shareholders are entitled to inspect all parts of the register of members for free and make photocopies upon payment of a reasonable cost according to the Articles of Association of the Company.

#### **QUORUM FOR MEETINGS AND SEPARATE CLASS MEETINGS**

The Company shall calculate the number of shares with voting rights represented by the shareholders who are going to attend the shareholders' general meeting based upon the written reply received 20 days prior to the shareholders' general meeting. Where the number of voting rights shares held by shareholders who are going to attend the meeting reaches half or more of the total of shares with voting rights of the Company, then the meeting can be held. Otherwise, the Company shall inform the shareholders again, in the form of an announcement about the matters to be reviewed in the meeting, with the date and place of the meeting to be held within five days. The Company may convene such shareholders' general meeting after such announcement has been made.

When the voting shares represented by the shareholders to be present in the meeting reach half or more of the total voting shares of that class in the meeting, the Company can convene class shareholders' general meeting; otherwise, the Company shall, within five days, inform the shareholders again of the matters to be reviewed in the meeting, the meeting date and place through public announcement, after which it can convene class shareholders' general meeting.

#### **RIGHTS OF MINORITIES IN RELATION TO FRAUD OR OPPRESSION**

A controlling shareholder and the de facto controller of the Company have fiduciary duty to the Company and other public shareholders. The controlling shareholder shall exercise the rights of

contributors in strict compliance with the laws, and it shall not jeopardize legitimate rights and interests of the Company and other public shareholders by profit distribution, assets reorganization, external investments, fund appropriation or loan guarantee, nor shall it abuse its controlling status to damage the interests of the Company and other public shareholders.

In addition to the obligations imposed by the laws and administrative regulations or the relevant regulations required by securities regulatory authorities where the shares of the Company are listed, our controlling shareholder, in exercising the right as a Shareholder, shall not exercise his voting rights in a manner prejudicial to the interests of all or part of the shareholders when making decision on the following matters:

- exempting the responsibility of the directors and the supervisors to act in good faith in the best interests of the Company;
- approving the directors and the supervisors to deprive the property of the Company (including but not limited to the opportunities that are favorable to the Company) in any form for their own benefit or for the benefit of others; and
- approving the directors and the supervisors to deprive the individual rights and interests of other shareholders (including but not limited to any distribution rights, voting rights, but excluding the reorganization of the Company which is submitted to the shareholders' general meeting for approval in accordance with the Articles of Association) for their own benefit or for the benefit of others.

The term "controlling shareholder(s)" herein shall refer to the person(s) satisfying any of the following conditions:

- acting alone or in concert with others, has the right to elect half or more of the directors;
- acting alone or in concert with others, has the right to exercise or control the exercise of 30% or more of the voting rights of the Company;
- acting alone or in concert with others, holds 30% or more of the issued shares of the Company;
- acting alone or in concert with others, can de facto control over the Company in any other manners.

#### **LIMITATION TO THE RIGHTS OF THE SHAREHOLDERS UNDER CERTAIN CIRCUMSTANCES**

Any entity or individual which or who purchases the issued shares outside of the Company shall be subject to the requirements of the banking regulatory authorities and the relevant regulatory authorities. The major shareholders shall make a true, accurate and complete disclosure of the particulars of the related parties to the Board, and undertake to promptly report to the Board of the Company in case of any changes of their relationship.



If any entity or individual (including its related parties and parties acting in concert therewith) holds, individually or in aggregate, more than 1% and less than 5% of the total number of issued shares of the Company, it shall report to the banking regulatory authorities within ten working days after obtaining the corresponding shares. Any entity or individual (including its related parties and parties acting in concert therewith) which or who purchases 5% or more of the total number of the issued shares of the Company should obtain a prior approval of the banking regulatory authorities. If, in the absence of the prior approval of the banking regulatory authorities, the number of shares held by a shareholder (including its related parties and parties acting in concert therewith) is equal to or in excess of 5% of the total number of the issued shares of the Company (the “Excess Shares”), prior to the approval of the banking regulatory authorities, such shareholder holding the Excess Shares shall be subject to the necessary restrictions when exercising the shareholders’ rights in respect of the Excess Shares as stipulated in the Articles of Association, including but not limited to:

- no voting rights shall be attached to the Excess Shares when a vote is taken at the shareholders’ general meeting (including the class shareholders’ general meeting); and
- the right to nominate directors and supervisors as stipulated in the Articles of Association shall not be attached to the Excess Shares.

If a shareholder holding the Excess Shares fails to obtain the approval from the banking regulatory authorities, such shareholder must transfer such Excess Shares within the period prescribed by the banking regulatory authorities.

Notwithstanding the foregoing provisions, shareholders of the Company holding the Excess Shares shall not be subject to any restriction when exercising part of their rights.

Any shareholder shall be in strict compliance with the laws and regulations, and the requirements of the regulatory authorities if any shares of the Company are to be pledged for the benefits of his/her own or others. Also, such shareholder must serve a prior notice to the Board.

If the balance of loans from the Company by a shareholder exceeds the audited net equity held by him for the previous year, he/she/it shall not pledge over his/her/its shares in the Company.

#### **PROCEDURE ON LIQUIDATION**

The Company shall be dissolved according to laws, if:

- the term of its business operations has expired;
- its shareholders’ general meeting has resolved to do so;
- it is dissolved as a result of the merger or division of the Company;

- the Company's business license is suspended, or it is ordered to be closed down or revoked according to laws; or
- it is declared to be bankrupted as a result of the inability to pay off the due debts;
- in case the Company encounters significant difficulties in its operation and management, under the circumstance of which continuing existence will cause material harm to shareholders' interests, and the problems could not be solved by other means, the shareholders holding 10% or more of all the voting shares may request the People's Court to dissolve the Company;
- other situations according to law and regulations.

If the Board decides the Company shall carry out liquidation (except for liquidation resulting from the Company's declaration of bankruptcy), it shall state in the notice of the shareholders' general meeting convened for this purpose that the Board has conducted comprehensive investigation of the Company's condition and believes that the Company is able to pay off all its debts within 12 months after starting the liquidation.

The powers and functions of the Board shall terminate immediately upon the resolution on liquidation passed by shareholders' general meeting.

The liquidation committee shall follow the directions of the shareholders' general meeting to report on its income and expenditures, the Company's business and progress of liquidation at least once a year to the shareholders' general meeting and make a final report to shareholders' general meeting at the end of liquidation.

The liquidation committee shall give notice of its establishment to the creditors within 10 days of its establishment and publish an announcement of the establishment in the media designated by the Company within 60 days of its establishment. The creditors shall declare their claims to the liquidation committee within 30 days of the date of receiving the notice or within 45 days of the date of the announcement in the case of not receiving the notice. The creditors shall explain the matters related to their claims and provide supporting materials when declaring their claims. The liquidation committee shall register the claims. The liquidation committee shall not settle any debt with the creditors during the period of claim declaration.

## **OTHER PROVISIONS MATERIAL TO THE SHAREHOLDERS**

### **Functions and Authority of the Shareholders' Meeting**

The shareholders' meeting is the authorized entity to exercise the functions and authorities as follows:

- determine on operating policies and investment plans;

- election and replacement of directors and supervisors who are not employee representatives and decision on their remuneration;
- review and approval of reports of the Board;
- review and approval of reports of the Board of Supervisors;
- review and approval of proposed annual financial budgets and final accounts;
- review and approval of profit distribution and loss recovery plan;
- resolutions on increase or reduction of registered capital;
- resolutions on issuance of corporate bonds or other marketable securities and listing;
- resolutions on merger, division, dissolution, liquidation or change of the legal form of the Company;
- amend of our Articles of Association; review and approval of Rules of Procedure for Shareholders' General Meeting, Rules of Procedure for Meetings of Board and Rules of Procedure for Meetings of Board of Supervisors;
- decision on engagement, dismissal or discontinuance of engagement of accounting firm;
- review and approval of proposals by shareholders independently or collectively representing more than 3% of voting rights;
- consideration and review of matters relating to the acquisition or disposal of material assets with a value exceeding 25% of the latest audited total asset value of the Company within one year;
- decide the establishment of Special Board Committees;
- review and approval of provision of guarantees as stipulated in our Articles of Association;
- review and approval of related party transactions which shall be approved by the shareholders' general meeting in accordance with laws, administrative regulations, departmental rules, statutory documents, requirements by relevant regulatory authorities and the Articles of Association of the Company;
- review and approval of the change of use of proceeds;
- review and approval of stock incentive plan and employee stock ownership plan; and

- review and approval of other matters which shall be determined by the shareholders' general meeting in accordance with laws, administrative regulations, departmental rules and requirements by relevant regulatory authorities and the Articles of Association of the Company and the Listing Rules.

### **Shareholders**

A shareholder of the Company is a person who lawfully holds shares of the Company and has his/her name recorded in the register of shareholders.

A shareholder shall enjoy the relevant rights and assume the relevant obligations in accordance with the class and number of shares he/she holds. Shareholders holding the same class of shares shall enjoy the same rights and assume the same obligations.

The holders of ordinary share of the Company shall be entitled to the following rights:

- the right to dividends and other distributions in proportion to the number of shares held;
- the right to attend or appoint a proxy to attend shareholders' general meetings and to exercise the voting right;
- the right to supervise and manage the operation of the Company and to put forward proposals or inquiries;
- the right to transfer, donate or pledge shares in accordance with the laws, regulations and the Articles of Association;
- the right to receive the relevant information in accordance with laws, administrative regulations, departmental rules and requirements by relevant regulatory authorities, Articles of Association of the Company and the Listing Rules, including:
  - (1) the right to obtain a copy of these Articles of Association, subject to payment of the cost of such copy;
  - (2) the right to inspect for free and copy subject to payment of a reasonable charge: all of the register of shareholders; personal particulars of each of the Company's directors, supervisors, general manager and other senior management; report on the capital structure of the Company; the latest audited financial statements of the Company and reports of the board, auditor and supervisory committee; special resolutions of the Company; reports showing the aggregate par value, quantity, highest and lowest price paid in respect of each class of shares repurchased by the Company since the end of the last accounting year and the aggregate amount of cost incurred by the Company for this purpose; duplicate of the latest Annual Inspection Form filed with competent authority; minutes of shareholders' general meetings, resolutions of the Board of Supervisors;

- the right to participate in the distribution of the remaining assets of the Company in proportion to the number of shares held in the event of the termination or liquidation of the Company;
- the right to demand the Company to acquire the shares held by them if they disagree with the resolution adopted at shareholders' general meeting on the merger or division of the Company;
- any other rights conferred by the laws, rules, regulations, statutory documents and the Articles of Association.

**Independent Directors**

Independent directors shall meet the following basic qualifications:

- The director's competence of a listing company, in accordance with laws, regulations, Listing Rules made by the exchange where the company is listed, and other relevant regulations;
- Performing duties independently despite of the influence from company's substantial shareholders, de facto controller, or other entities and individuals that has an interest in the Company;
- Obtaining a bachelor degree or above or other relevant senior technical titles;
- The basic acknowledge of operation a listed company, and familiarity with relevant laws, administrative regulations and rules; experience to perform as an independent director;
- Minimum 5 years working experience on law, economic, finance, accounting or other work experience conducive to the performance of the duties as an independent director;
- Familiarity with relevant laws, administrative regulations and rules of auto financing companies;
- Capability of reading, comprehending and analyzing credit statistics report and financial statements of an auto financing company;
- Having enough time to perform the duties of diligence.

**The fiduciary duties of Director, Supervisor, and senior management officers**

Director, Supervisor, and senior management officer of the Company shall perform their duties in accordance with the principle of fiduciary and shall not put himself/herself in a position where their duty and their interest may conflict. These principles include (but not limited to) the following:

- to act in good faith in the best interests of the Company;

- to exercise powers within the scope of his powers;
- to exercise the discretion vested in him personally and not to allow himself/herself to act under the control of another and, unless and to the extent permitted by the laws, regulations or with the informed consent of shareholders at shareholders' general meeting, not to delegate to others for the exercise of his/her discretion;
- to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- unless otherwise provided by the Articles of Association or with the informed consent of shareholders at shareholders' general meeting, not to enter into any contract, transaction or arrangement with the Company;
- without the informed consent of shareholders at shareholders' general meeting, not to use the Company's property for his/her own benefit;
- not to exploit his position to accept bribes or other illegal income or expropriate the Company's property by any means, including but not limited to opportunities advantageous to the Company;
- without the informed consent of shareholders at shareholders' general meeting, not to accept commissions in connection with the Company's transactions;
- to abide by the Articles of Association, perform his/her official duties faithfully and protect the Company's interests, and not to exploit his position and power in the Company for his own interests;
- not to compete with the Company in any way unless with the informed consent of shareholders at shareholders' general meeting;
- not to misappropriate the Company's funds or lend such funds to others, not to open accounts in his/her own name or other names for the deposit of the Company's assets and not to provide a guarantee for debts of a shareholder of the Company or other individual(s) with the Company's assets; and
- unless otherwise permitted by informed shareholders at shareholders' general meeting, to keep in confidence information acquired by him in the course of and during his tenure and not to use the information other than in furtherance of the interests of the Company, save that disclosure of such information to the court or other government authorities is permitted if: disclosure is by order of the law; in the interests of the public; and in the interest of the relevant director, supervisor, general manager or other senior management.

The fiduciary duties of the directors, supervisors, general manager and other senior management of the Company do not cease with the termination of their tenure. The duty of confidentiality in

relation to trade secrets of the Company survives the termination of their tenure. Other duties may continue for such period as fairly required depending on the time lapse between the termination and the act concerned and the circumstances under which the relationships between them and the Company are terminated.

### **Board Committees**

The Board shall establish special committees, including Risk Management Committee, Remuneration and Evaluation Committee, Nomination Committee and Audit Committee. Each special committee shall be responsible to the Board, and shall have one chairman who is responsible for convening the activities of the special committee. In principle, the principal chairman of each special committee shall be separated.

Each special committee shall be composed of no less than three members. In which, Audit Committee and Remuneration and Evaluation Committee shall be composed mainly by independent non-executive directors, and shall be chaired by an independent non-executive director as person in charge.

Audit Committee shall be composed of non-executive directors (including independent directors) who have expertise and experience in any of finance, auditing and accounting, and shall include at least one independent director who is a financial or accounting professional.

### **Board of Supervisors**

The Company has established the Board of Supervisors. The Board of Supervisors shall exercise by laws the following functions and duties:

- to inspect and supervise the financial activities of the Company;
- to supervise the duty performance of the Board and senior management to make proposals to remove directors and senior management according to laws if they breach any applicable laws, administrative regulations, Articles of Association of the Company or the resolutions of the shareholders' general meeting;
- to demand rectification from directors and senior management when their acts is harmful to the Company's interest;
- to verify the financial reports, operation reports, profit distribution plan and other financial information the Board intends to submit to the shareholders' general meeting, and to investigate if in doubt or discovering any irregularities in the operations of the Company, and (if necessary) may engage certified public accountants or practicing auditors to assist its work in the name of the Company;

- to propose the convening of interim shareholders' general meetings, and, if the Board fails to convene and preside over such a meeting as required under the Company Law, to convene and preside over the shareholders' general meetings;
- to submit proposals to the shareholders' general meeting;
- to bring actions against directors and senior management according to the Company Law;
- to propose to convene an interim board meeting;
- to investigate when finding that the company is running abnormally, and (if necessary) may engage accounting firms, law firms or other professional firms to assist its work at the costs of the Company;
- other functions and powers as prescribed in the laws, administrative regulations, departmental rules, provisions of the relevant regulatory authorities, the Articles of Association and authorized by the shareholders' general meetings.

**Settlement of Dispute**

The Company shall comply with the following rules for settlement of dispute: Whenever any disputes or claims relating to the affairs of the Company arise from the rights and obligations provided for in the Articles of Association of the Company, the Company Law and other relevant laws and administrative regulations, between the Company and its directors and senior management, between the shareholders of overseas-listed foreign shares and the Company, between the shareholders of overseas-listed foreign shares and the directors, supervisors and senior management of the Company, between the shareholders of overseas-listed foreign shares and other shareholders, the parties involved shall refer such disputes or claims to arbitration.

The disputes or claims mentioned above which are referred to arbitration shall be the entire dispute and claim; all persons having a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of the disputes or claims, if they are, shareholders of the Company, directors, supervisors, or senior management of the Company, shall abide by such arbitration.

Disputes over the definition of a shareholder and over the register of shareholders need not be resolved through arbitration.

The party seeking arbitration may elect to have the dispute or claim arbitrated either by the China International Economic and Trade Arbitration Commission according to its arbitration rules or by the Hong Kong International Arbitration Centre according to its securities arbitration rules. Once the party seeking arbitration submits a dispute or claim to arbitration, the other party shall submit to the arbitral body selected by the party seeking arbitration.



If the party seeking arbitration elects to arbitrate at the Hong Kong International Arbitration Centre, either party may apply to have such arbitration conducted in Shenzhen in accordance with the securities arbitration rules of the Hong Kong International Arbitration Centre.

The laws of the PRC shall govern the arbitration of disputes or claims described in above unless otherwise provided by the laws, administrative regulations, departmental regulations and regulatory documents. The ruling of the arbitral body shall be final and binding on the parties thereto.

**A FURTHER INFORMATION ABOUT OUR COMPANY****1. Incorporation**

Our Company was established as a limited liability company in the PRC on March 11, 2015 and registered as a joint stock limited company in the PRC on August 15, 2018. We currently are a sino-foreign investment joint stock limited company (中外合資股份有限公司), which is subject to the Interim Provisions Concerning the Establishment of Foreign-invested Companies Limited by Shares (Revised in 2015) (《關於設立外商投資股份有限公司若干問題的暫行規定》(2015年修訂)), as opposed to the PRC Sino-foreign Joint Venture Law (《中外合資經營企業法》). Our Company's registered office address is at Unit ABC, 30/F, Mirae Asset Tower, No.166, Lu Jia Zui Ring Road, Shanghai, PRC. A summary of various parts of the Articles of Association is set out in Appendix V to this prospectus.

Our Company was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on November 2, 2018. Our registered place of business in Hong Kong is at 31/F., Tower Two, Time Square, 1 Matheson Street, Causeway Bay, Hong Kong. Ms. Yu Wing Sze has been appointed as our authorized representative for the acceptance of service of process in Hong Kong. The address for service of process is 31/F., Tower Two, Time Square, 1 Matheson Street, Causeway Bay, Hong Kong.

As at the date of this prospectus, our Company's head office is located at Unit ABC, 30/F, Mirae Asset Tower, No. 166, Lu Jia Zui Ring Road, Shanghai, PRC.

**2. Changes in share capital of our Company**

As at August 15, 2018, the date on which the Company registered as a joint stock limited company, our registered share capital was RMB1.6 billion divided into 1,600,000,000 Shares with a nominal value of RMB1.00 per Share.

Assuming that the Global Offering becomes unconditional and the issue of Offer Shares as mentioned in this prospectus being made (assuming the Over-allotment Option is not exercised), the authorized share capital of our Company will be RMB2,133,336,000 divided into 2,133,336,000 Shares, of which all Shares will be issued fully paid or credited as fully paid.

Save as disclosed herein, there has been no alteration in the share capital of our Company since its registration as a joint stock limited company.

**3. Corporate Restructuring**

For details of the restructuring which was effected in preparation for the Listing, please refer to "History and Corporate Structure" in this prospectus.

**4. Resolutions of our Shareholders in Relation to the Global Offering**

At the extraordinary general meeting of the Shareholders held on August 16, 2018, the following resolutions, among others, were duly passed:

- (a) the issue by the Company of H Shares of nominal value of RMB1.00 each and such H Shares be listed on the Hong Kong Stock Exchange;
- (b) the number of H Shares to be issued shall be not more than 30% of the share capital of the Company upon the fully exercise of the Over-allotment Option;
- (c) authorization of the Board and its authorized persons to handle all matters relating to, among other things, the Global Offering, the issue and listing of the H Shares; and
- (d) subject to the completion of the Global Offering, the conditional adoption of the revised Articles of Association, which shall become effective on the Listing Date.

**5. Resolutions of our 2018 annual general meeting**

At the annual general meeting of the Shareholders held on March 5, 2019, the following resolutions, among others, were duly passed:

- (a) the 2018 work report of the Board;
- (b) the 2018 work report of the board of supervisors of the Company;
- (c) the profit distribution plan of the Company for 2018;
- (d) the 2018 work summaries and 2019 business plan of the Company;
- (e) the 2019 financial budget report and the 2018 final financial accounts of the Company;
- (f) authorization to the Board to determine the remunerations of the Directors and the Supervisory Committee to determine the remuneration of the Supervisors for the year 2019;
- (g) proposed issue of not more than RMB2,500 million asset-backed securities; and
- (h) appointment of KPMG as the external auditors of the Company and authorize the Board to decide its annual commission.

**B FURTHER INFORMATION ABOUT OUR BUSINESS****1. Summary of the Material Contract**

The following contract (not being contracts entered into in the ordinary course of business) was entered into by our Company within the two years preceding the date of this prospectus and is or may be material:

- (a) Hong Kong Underwriting Agreement.

**2. Intellectual Property Rights of our Company****Trademarks**

As of the Latest Practicable Date, the Company had registered the following trademarks which we believe are material to our business:

No.	Trademark	Place of Registration	Registered Owner	Class	Registration Number	Expiry Date (dd/mm/yyyy)
1		Hong Kong	Shanghai Dongzheng Automotive Finance Co., Ltd.* (上海東正汽車金融股份有限公司)	9, 35, 36, 42	303895084	05/09/2026
2		Hong Kong	Shanghai Dongzheng Automotive Finance Co., Ltd.* (上海東正汽車金融股份有限公司)	9, 35, 36, 42	303895093	05/09/2026
3		PRC	Shanghai Dongzheng Automotive Finance Co., Ltd.* (上海東正汽車金融有限公司) <sup>(Note)</sup>	36	20373522	27/03/2028

*Note:* We are in the process of applying for changing the registered owner's name of Shanghai Dongzheng Automotive Finance Co., Ltd.\* (上海東正汽車金融有限公司) into Shanghai Dongzheng Automotive Finance Co., Ltd.\* (上海東正汽車金融股份有限公司).

As of the Latest Practicable Date, the Company was not applying for any trademark.

**Patents**

As of the Latest Practicable Date, the Company has not registered or applied for any patent.

**Copyright**

As of the Latest Practicable Date, the Company has not registered or applied for any copyright.

**Domain names**

As of the Latest Practicable Date, the Company had registered and maintained the following domain name which we believe is material to our business:

<b>No.</b>	<b>Domain Name</b>	<b>Registered Owner</b>	<b>Date of Registration (dd/mm/yyyy)</b>	<b>Date of Expiration (dd/mm/yyyy)</b>
1	dongzhengafc.com	Shanghai Dongzheng Automotive Finance Co., Ltd* (上海東正汽 車金融股份有限公司)	16/12/2014	16/12/2024

Save as aforesaid, as of the Latest Practicable Date, there were no other trade or service marks, patents, intellectual or industrial property rights which were material in relation to our Group's business.

## **C FURTHER INFORMATION ABOUT THE DIRECTORS, MANAGEMENT, STAFF, SUBSTANTIAL SHAREHOLDER AND EXPERTS**

### **1. Particulars of Service Contracts and Letter of Appointment**

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, we have entered into a contract with each of Directors and Supervisors in respect of, among other things, (i) compliance of relevant laws or regulations, (ii) observance of the Articles and Association, and (iii) provisions on arbitration.

Save as disclosed above, none of our Directors or Supervisors has or is proposed to have a service contract with us (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

## 2. Directors' and Supervisors' Remuneration

The remuneration provided by the Company for its executive Directors, employee representative, Supervisors and senior management who are also the Company's employees concurrently include salaries, remuneration bonus, social security plans, housing provident fund plans and other benefits. The remuneration provided by the Company for its non-executive Directors, independent non-executive Directors and other Supervisors are determined by their responsibilities.

The total remuneration before tax paid to the Directors for the years ended December 31, 2016, 2017 and 2018 were nil, approximately RMB1.3 million and RMB1.9 million, respectively.

The total remuneration before tax paid to the Supervisors for the years ended December 31, 2016, 2017 and 2018 were nil, nil and approximately RMB0.2 million, respectively.

The total remuneration before tax paid to the Company's senior management (excluding those who were also Directors or Supervisors concurrently for the relevant period) for the years ended December 31, 2016, 2017 and 2018 were nil, nil and nil, respectively.

The total remuneration before tax paid to the five highest paid individuals for the years ended December 31, 2016, 2017 and 2018 were approximately RMB6.2 million, RMB5.2 million and RMB8.3 million, respectively.

Based on the arrangements in force as of the Latest Practicable Date, it is estimated that the total remuneration before tax payable to the Directors and Supervisors for 2019 will be approximately RMB3.4 million.

No remuneration was paid by the Company to the Directors, Supervisors or the five highest individuals as inducement to join or upon joining the Company or as a remuneration for loss of office in respect of the years ended December 31, 2016, 2017 and 2018. Furthermore, none of the Directors or Supervisors had waived or agreed to waive any remuneration during the same periods.

Save as disclosed above, the Company did not have any other amount paid or payable to the Directors for the years ended December 31, 2016, 2017 and 2018.

### 3. Disclosure of Interests

#### (a) *Interests of the Directors, Supervisors and chief executives of our Company*

None of the Directors, Supervisors or chief executive of the Company has any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register of interests referred to in section 352 of the SFO, or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, in each case once the H Shares are listed on the Stock Exchange. For this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors.

#### (b) *Interests of the Substantial Shareholders*

Save as disclosed in “Substantial Shareholders” in this prospectus, our Directors are not aware of any other person who will, immediately following the completion of the Global Offering have an interest or short position in the Shares or the underlying Shares which are required to be disclosed to our Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at the general meetings of our Company.

### 4. Related Party Transactions

During the two years preceding the date of this prospectus, we have engaged in the material related party transactions as described in Note 29 to the financial information in the Accountants’ Report set out in Appendix I to this prospectus.

### 5. Personal Guarantees

Our Directors and Supervisors have not provided personal guarantees in favor of lenders in connection with banking facilities granted to us.

### 6. Disclaimers

Save as disclosed in this prospectus:

- (a) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation) between the Directors and the Company;

- (b) none of the Directors, Supervisors or the experts named in “— Consents of experts” has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to the Company, or are proposed to be acquired or disposed of by or leased to the Company;
- (c) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any Shares in or debentures of the Company within the two years ended on the date of this prospectus;
- (d) none of the Directors or Supervisors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Company taken as a whole;
- (e) taking no account of any Shares which may be taken up under the Global Offering and allotted and issued pursuant to the exercise of the Over-Allotment Option, so far as is known to any Director, Supervisor or chief executive of the Company, no other person (other than a Director or chief executive of the Company) will, immediately following completion of the Global Offering, have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company; and
- (f) none of the Directors, Supervisor or chief executive of the Company has any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or will be required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange once the Shares are listed thereon.

## **D OTHER INFORMATION**

### **1. Estate duty**

We have been advised that no material liability for estate duty under the PRC law is likely to fall upon us.



**2. Litigation**

Save as disclosed in this prospectus, the Company is not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company that would have a material adverse effect on our Company's results of operations or financial condition.

**3. Preliminary Expenses**

The preliminary expenses of the Global Offering are estimated to be approximately RMB1.1 million and are payable by our Company.

**4. Agency Fees or Commissions**

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company.

**5. Joint Sponsors**

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein and any Shares falling to be issued pursuant to the Global Offering and the exercise of the Over-allotment Option. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

China International Capital Corporation Hong Kong Securities Limited satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

Credit Suisse Trust Limited, an affiliate of Credit Suisse (Hong Kong) Limited, is the trustee of the Wang Family Trusts, and the Wang family members are the discretionary beneficiaries of the Wang Family Trusts. As such, Credit Suisse Trust Limited, acting in its capacity as trustee, is regarded as a close associate of the Wang Family Trusts Founders and a core connected person of the Company (as defined under the Listing Rules). Credit Suisse (Hong Kong) Limited is not an independent sponsor according to the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

The Joint Sponsors' fee in relation to the Listing is US\$1.00 million.

**6. No Material Adverse Change**

Our Directors believe that there has been no material adverse change in the financial or trading position since December 31, 2018 (being the date on which the latest audited combined financial statements of the Company were made up).

## 7. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

## 8. Miscellaneous

- (a) Save as disclosed in this prospectus:
- (i) within the two years preceding the date of this prospectus, no share or loan capital of the Company has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
  - (ii) no share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option; and
  - (iii) our Company has no outstanding convertible debt securities or debentures.
- (b) Our Company has no founder shares, management shares or deferred shares in the capital of the Company.
- (c) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.
- (d) None of the equity and debt securities of our Company is listed or dealt in on any other stock exchange nor is any listing or permission to deal being or proposed to be sought.

## 9. Qualifications of Experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
China International Capital Corporation Hong Kong Securities Limited	A corporation licensed under the SFO to carry on types 1 (dealing in securities), 2 (dealing in futures contracts), 4 (advising on securities), 5 (advising on futures contracts), and 6 (advising on corporate finance) regulated activities
Credit Suisse (Hong Kong) Limited	A corporation licensed under the SFO to carry on types 1 (dealing in securities), 2 (dealing in futures contracts), 4 (advising on securities), 5 (advising on futures contracts), 6 (advising on corporate finance) and 9 (asset management) regulated activities

Name	Qualification
KPMG	Certified public accountants
Jingtian & Gongcheng	Qualified PRC lawyers
China Insights Consultancy Limited	Industry consultant

#### 10. Consents of Experts

Each of the experts listed in “— Qualifications of Experts” has given and has not withdrawn their respective consents to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it appears.

As of the Latest Practicable Date and save as disclosed in the preceding paragraph, none of the experts named in “— Qualifications of Experts” had any shareholding interests in the Company or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company.

#### 11. Promoter

Promoters of the Company are ZhengTong and Dongfeng. Save as disclosed in this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to the above promoters in connection with the Global Offering and the related transactions described in this prospectus within the two years immediately preceding the date of this prospectus.

### E GENERAL

#### 1. Taxation of Holder of our Shares

##### (a) *Hong Kong*

Dealings in Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax. Our Directors have been advised that no material liability for estate duty under the laws of China or Hong Kong would be likely to fall upon the Company.

##### (b) *PRC*

A summary of certain PRC taxation consequences of the ownership of H Shares by an investor who purchases such H Shares in connection with the Global Offering and holds the H Shares as capital assets is set out in Appendix III — Taxation and Foreign Exchange.

(c) *Consultation with professional advisors*

Potential investors in the Global Offering should consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding and disposing of, or dealing in Shares. It is emphasized that none of us, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors and the Underwriters and their respective directors or any other parties involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, persons resulting from the application for, or purchasing, holding and disposal of, or dealing in Shares.

2. **Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of the **WHITE, YELLOW, BLUE** and **GREEN** Application Forms;
- (b) the written consents referred to in “Appendix VI — Statutory and General Information — D. Other Information — 10. Consents of Experts” in this prospectus; and
- (c) copies of the material contract referred to in “Appendix VI — Statutory and General Information — B. Further Information about our Business — 1. Summary of the Material Contract” in this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Kirkland & Ellis at 26th Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (a) our Articles of Association;
- (b) the Accountants’ Report prepared by KPMG, the text of which are set out in Appendix I to this prospectus;
- (c) the audited financial statements of our Company for the three financial years ended December 31, 2016, 2017 and 2018;
- (d) the letter received from KPMG on unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the material contract referred to in “Appendix VI — Statutory and General Information — B. Further Information About Our Business — 1. Summary of the Material Contract” in this prospectus;
- (f) the service contracts referred to in the paragraph headed “1. Particulars of Service Contracts and Letter of Appointment” in Appendix VI to this prospectus;
- (g) the written consents referred to in “Appendix VI — Statutory and General Information — Other Information — Consents of experts” in this prospectus;

- (h) the legal opinions dated this prospectus date prepared by Jingtian & Gongcheng, our PRC Legal Advisors, in respect of certain aspects of the Company and our property interests;
- (i) the industry report prepared by CIC referred to in the section headed “Industry Overview” in this prospectus; and
- (j) the PRC Company Law, the Mandatory Provisions and the Special Regulations together with their unofficial translation.



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