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**Application Proof of**

**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)*

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# 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)*

## [REDACTED]

Number of [REDACTED] under the : [REDACTED] H Shares (subject to the [REDACTED])  
Number of [REDACTED] : [REDACTED] H Shares (subject to reallocation)  
Number of [REDACTED] : [REDACTED] H Shares (including [REDACTED] under the [REDACTED]) (subject to reallocation and the [REDACTED])  
Maximum [REDACTED] : HK\$[REDACTED] 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 [REDACTED])  
Nominal value : RMB1.00 per H Share  
Stock code : [●]

*Joint Sponsors, [REDACTED], [REDACTED] and [REDACTED]  
(in alphabetical order)*



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The [REDACTED] is expected to be fixed by agreement between the [REDACTED] (for themselves and on behalf of the [REDACTED]) and our Company on the [REDACTED] or such later date as may be agreed by the [REDACTED] (for themselves and on behalf of the [REDACTED]) and our Company but in any event no later than [REDACTED]. The [REDACTED] will be not more than HK\$[REDACTED] per [REDACTED] and is currently expected to be not less than HK\$[REDACTED] per [REDACTED]. [REDACTED] for [REDACTED] are required to pay, on application, the Maximum [REDACTED] of HK\$[REDACTED] for each [REDACTED] together with brokerage of 1%, SFC transaction levy of 0.0027% and [REDACTED] fee of 0.005%, subject to refund if the [REDACTED] should be less than HK\$[REDACTED]. If, for any reason, the [REDACTED] is not agreed between the [REDACTED] (for themselves and on behalf of the [REDACTED]) and our Company on or before [REDACTED], the [REDACTED] (including the [REDACTED]) will not proceed and will lapse.

The [REDACTED] (for themselves and on behalf of the [REDACTED]) may, with our consent, reduce the number of [REDACTED] being offered under the [REDACTED] and/or the indicative [REDACTED] range below as stated in this document at any time on or prior to the morning of the last day for lodging applications under the [REDACTED]. 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 [REDACTED]. 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 [REDACTED]” and “How to Apply for [REDACTED] and [REDACTED]”.

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 V — Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions” and “Appendix VI — Summary of the Articles of Association of the Company” to this document. Prior to making an investment decision, potential investors should consider carefully all of the information set out in this document, including the risk factors set out in “Risk Factors”.

The obligations of the [REDACTED] under the [REDACTED] are subject to termination by the [REDACTED] (for themselves and on behalf of the [REDACTED]) if certain grounds arise prior to 8:00 a.m. on the [REDACTED]. Further details of such circumstances are set out in “[REDACTED] — [REDACTED] arrangements and expenses — Grounds for Termination”.

The [REDACTED] 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 [REDACTED] are being [REDACTED] (i) solely to QIBs as defined in Rule 144A pursuant to an exemption from registration under the U.S. Securities Act and (ii) outside the United States in offshore transactions in accordance with Regulation S.

\* For identification purposes only

[REDACTED]

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

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[REDACTED]

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

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[REDACTED]

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

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[REDACTED]

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**IMPORTANT NOTICE TO PROSPECTIVE [REDACTED]**

*This document is issued by us solely in connection with the [REDACTED], the [REDACTED], the [REDACTED] and the [REDACTED] and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the [REDACTED] and the [REDACTED] offered by this document pursuant to the [REDACTED] and the [REDACTED]. This document 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 [REDACTED] of the [REDACTED] in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this document in any jurisdiction other than Hong Kong. The distribution of this document for purposes of a [REDACTED] and the [REDACTED] and sale of the [REDACTED] 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.*

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## SUMMARY

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

### 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 2017, we disbursed 16,447 retail loans for the purchase of luxury-brand cars with an aggregate principal amount of RMB3,753.1 million, accounting for 88.2% of the number of retail loans we disbursed in total and 95.0% 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 in the same period, according to the CIC Report.

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. Our dealer network had 986 dealers as of June 30, 2018, covering 159 cities in China, comprising Beijing, Shanghai, Shenzhen, Guangzhou as well as 36 second-tier cities and 119 third-tier and other lower-tier cities. Furthermore, we established strategic cooperation with certain luxury-brand automakers to expand our customer base.

Since our inception, we have continued to diversify our funding sources. As an AFC licensed by the CBIRC, we have access to a variety of funding sources, such as inter-bank borrowing and the national inter-bank lending market, which are otherwise unavailable to non-CBIRC licensed entities.

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 monitor loan delinquency status. We launched an automated retail loan review and approval system in March 2018. Since then, up till June 30, 2018, nearly



## **SUMMARY**

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40% of successful retail loan applications were approved by an automated process and the retail loans can be disbursed within hours after being approved. For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, our non-performing loan ratio was 0.03%, 0.37%, 0.28% and 0.24%, 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 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 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 monthly lease payments. Under our joint retail loan business, we cooperate 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.

For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, we disbursed 6,281, 15,548, 18,654 and 28,012 self-operated retail loans, and generated revenue of RMB42.8 million, RMB248.3 million, RMB387.6 million, and RMB351.7 million, respectively. The gross outstanding balance of our retail loan business as of December 31, 2015, 2016, 2017 and June 30, 2018 was RMB1,298.6 million, RMB3,418.2 million, RMB5,032.2 million and RMB7,577.2 million, respectively.

***Retail loan facilitation business.*** To satisfy 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 preparation of loan applications, and earn service fees from these customers when they enter into loan agreements with the commercial banks. During the loan application review process, these commercial banks 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, 2015, 2016 and 2017 and the six months ended June 30, 2018, we facilitated 859, 20,946, 26,655 and 17,045 retail loans, and generated fee and commission income of RMB23.7 million, RMB168.2 million, RMB195.9 million and RMB114.3 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.

## **SUMMARY**

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For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, we generated interest income of RMB7.5 million, RMB28.5 million, RMB40.9 million and RMB18.9 million from our dealer loan business, respectively. The gross outstanding balance of our dealer loan business as of December 31, 2015, 2016, 2017 and June 30, 2018 was RMB486.3 million, RMB355.6 million, RMB916.0 million and RMB325.3 million, respectively.

### **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 June 30, 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.

### **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 pursue the following strategies to further grow our business:

- expand and optimize our dealer network;
- optimize our product and service portfolio;
- enhance our operational and management capabilities;
- enhance our technological capabilities; and
- further diversify our funding sources.

## **SUMMARY**

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### **RISK FACTORS**

Our business and the [REDACTED] 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 [REDACTED] in the [REDACTED]. 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.
- 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.
- If we are unable to deliver satisfactory experience to our customers or otherwise fail to attract or retain our customer base, our results of operations may be adversely affected.
- We face significant competition, and some of our competitors may have greater resources or stronger brand recognition than us.
- 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.

### **RISK MANAGEMENT**

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. See “Risk Management” in this document for further details.

### **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 [REDACTED], ZhengTong will hold approximately

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**SUMMARY**

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[REDACTED]% of our issued share capital, assuming the [REDACTED] is not exercised, and [REDACTED]% of our issued share capital, assuming the [REDACTED] is exercised in full. Therefore, the Wang Family Trusts Founders, Joy Capital and ZhengTong will continue to be our Controlling Shareholders upon [REDACTED].

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

We [have entered] into two non-exempt continuing connected transactions with the Remaining Group, namely the Revolving Loan Facility Framework Agreement and the Administrative Cost Reimbursement 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 document for further details.

**SUMMARY HISTORICAL FINANCIAL INFORMATION**

You should read the summary historical financial information set forth below in conjunction with our financial information included in the Accountants’ Report set forth in Appendix I to this document, which is prepared in accordance with HKFRS, and the sections headed “Financial Information” and “Assets and Liabilities” of this document.

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

	Period from March 11 to December 31,	Year ended December 31,		Six months ended June 30,	
	2015	2016	2017	2017	2018
	(RMB in thousands)				
	(unaudited)				
Net interest income . . . . .	34,952	159,192	254,832	114,475	214,251
Net fee and commission income . . . . .	23,690	169,314	204,418	93,977	130,078
Other net income . . . . .	19,330	3,913	2,710	3,945	38,536
<b>Operating Income</b> . . . . .	<b>77,972</b>	<b>332,419</b>	<b>461,960</b>	<b>212,397</b>	<b>382,865</b>
Operating expenses . . . . .	(33,031)	(67,879)	(70,042)	(29,630)	(51,729)
Impairment losses . . . . .	(11,819)	(31,795)	(43,395)	(877)	(32,373)
<b>Profit before taxation</b> . . . . .	<b>33,122</b>	<b>232,745</b>	<b>348,523</b>	<b>181,890</b>	<b>298,763</b>
<b>Net Profit</b> . . . . .	<b>24,782</b>	<b>174,485</b>	<b>260,773</b>	<b>136,391</b>	<b>224,074</b>

**SUMMARY**

**Selected Data from Statements of Financial Position**

	As of December 31,			As of June 30,
	2015	2016	2017	2018
	Amount	Amount	Amount	Amount
(RMB in thousands, except percentage)				
<b>Assets</b>				
Deposits with banks and other financial institutions . . . . .	148,996	239,879	270,494	110,370
Loans and advances to customers . . . . .	<u>1,773,085</u>	<u>3,736,577</u>	<u>5,869,004</u>	<u>7,670,938</u>
<b>Total Assets</b> . . . . .	<u>1,956,256</u>	<u>4,054,940</u>	<u>6,292,416</u>	<u>8,134,161</u>
<b>Liabilities</b>				
Placements from banks and other financial institutions . . . . .	1,357,500	3,232,885	4,020,000	4,854,583
Guarantee deposits . . . . .	53,545	27,642	78,894	53,367
Other liabilities . . . . .	12,089	40,754	56,598	146,355
Deposits from shareholders . . . . .	—	—	—	793,000
<b>Total Liabilities</b> . . . . .	<u>1,431,474</u>	<u>3,355,673</u>	<u>4,232,376</u>	<u>5,879,511</u>

**Selected Data from Cash Flow Statements**

	Period from	Year ended December 31,		Six months ended	
	March 11 to	December 31,		June 30,	
	December 31,	2016	2017	2017	2018
(RMB in thousands)					
(unaudited)					
Net cash (used in) / generated from operating activities . . .	(334,463)	99,455	(1,062,771)	(315,420)	(158,092)
Net cash used in investing activities . . . . .	(19,581)	(6,537)	(4,066)	(744)	(3,303)
Net cash generated from financing activities . . . . .	<u>500,000</u>	—	<u>1,100,000</u>	<u>200,000</u>	—
Net increase/(decrease) in cash and cash equivalents . .	145,956	92,918	33,163	(116,164)	(161,395)
Cash and cash equivalents at beginning of the year/period	—	<u>145,956</u>	<u>238,874</u>	<u>238,874</u>	<u>272,037</u>
Cash and cash equivalents at the end of the year/period .	<u>145,956</u>	<u>238,874</u>	<u>272,037</u>	<u>122,710</u>	<u>110,642</u>

## SUMMARY

### 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 period from March		For the Six Months Ended		
	11 to	For the Year Ended	June 30,		
	December 31,	December 31,			
	2015	2016	2017	2017	2018
				(unaudited)	
Net interest spread <sup>(1)</sup> . . . . .	3.11%	4.02%	3.80%	4.48%	3.64%
Net interest margin <sup>(2)</sup> . . . . .	5.11%	5.17%	5.55%	5.67%	5.65%
Return on total assets <sup>(3)</sup> . . . . .	1.57%	5.81%	5.04%	N/A	6.21%
Return on equity <sup>(4)</sup> . . . . .	5.84%	28.51%	18.90%	N/A	20.77%

*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 assets equals net profit for the period divided by the average of the opening and closing balances of total assets of the period (in the case of 2016 and 2017, and on an annualized basis in the case of the six months ended June 30, 2018); or divided by the closing balance of total assets of the period and on an annualized basis (in the case of 2015).
- (4) Return on equity equals net profit for the period divided by the average of the opening and closing balances of total equity of the period (in the case of 2016 and 2017, and on an annualized basis in the case of the six months ended June 30, 2018); or divided by the closing balance of total equity of the period and on an annualized basis (in the case of 2015).

The following table sets forth certain capital adequacy indicators as of the dates indicated, calculated in accordance with the requirements of the PRC banking regulatory authorities and applicable accounting standards. For details, please see “Financial Information—Capital Management—Capital Adequacy” and Note 25 to the Accountants’ Report set forth in Appendix I to this document.

	As of December 31,			As of June 30,
	2015	2016	2017	2018
(RMB in thousands, except percentage)				
<b>Capital adequacy indicators</b>				
Core tier-one capital adequacy ratio <sup>(1)</sup> . . . . .	30.81%	19.98%	37.12%	32.45%
Tier-one capital adequacy ratio <sup>(2)</sup> . . . . .	30.81%	19.98%	37.12%	32.45%
Capital adequacy ratio <sup>(3)</sup> . . . . .	31.50%	20.66%	37.89%	33.59%
Net core tier-one capital . . . . .	512,065	686,807	2,042,627	2,239,210
Net capital base . . . . .	523,435	709,924	2,085,206	2,317,676
Total risk weighted assets . . . . .	1,661,779	3,436,641	5,503,024	6,900,874

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**SUMMARY**

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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—Regulation 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—Regulation 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—Regulation of Capital Adequacy.”

**[REDACTED]**

	<b>Based on an [REDACTED] of HK\$[REDACTED]</b>	<b>Based on an [REDACTED] of HK\$[REDACTED]</b>
Market capitalization of our Shares <sup>(1)</sup> . . . . .	HK\$[REDACTED] million	HK\$[REDACTED] million
Unaudited pro forma adjusted net tangible asset value per Share <sup>(2)</sup> . . . . .	HK\$[REDACTED]	HK\$[REDACTED]

*Notes:*

- (1) The calculation of market capitalization is based on the assumption that [REDACTED] Shares will be in issue immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised), including [REDACTED] H Shares to be issued pursuant to the [REDACTED], [REDACTED] H Shares to be converted from Unlisted Foreign Shares by ZhengTong and [REDACTED] 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 “[REDACTED] Financial Information” set out in Appendix II to in this document and on the basis of [REDACTED] Shares in issue immediately following the completion of the [REDACTED], assuming that the [REDACTED] has been completed on June 30, 2018 and that the [REDACTED] is not exercised.

**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 a number of factors, including our earnings and financial condition, operating requirements, capital requirements; legal restrictions on the payment of dividends, including appropriations to general risk reserve and other limitations under PRC laws; and general business conditions and other factors that our board of Directors deems relevant. See “Financial Information—Dividend Policy”.

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

## **SUMMARY**

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### **[REDACTED]**

This document is published in connection with the [REDACTED] as part of the [REDACTED]. The [REDACTED] comprises:

- (i) the [REDACTED] of [REDACTED] H Shares (subject to reallocation) in Hong Kong as described in “Structure of the [REDACTED] — The [REDACTED]” in this document; and
- (ii) the [REDACTED] of an aggregate of initially [REDACTED] H Shares (including [REDACTED] under the [REDACTED]) (subject to reallocation and the [REDACTED]), (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 [REDACTED] initially being offered under the [REDACTED], [REDACTED] are available for subscription by the Qualifying ZhengTong Shareholders under the [REDACTED] as the Assured Entitlement.

The [REDACTED] will represent [REDACTED] of the issued share capital of our Company immediately following the completion of the [REDACTED], assuming the [REDACTED] is not exercised.

### **[REDACTED]**

Assuming an [REDACTED] of HK\$[REDACTED] per H Share, being the mid-point of the [REDACTED] range stated in this document, we estimate that we will receive net proceeds from the [REDACTED] of approximately HK\$[REDACTED] million after deduction of [REDACTED] fees and other estimated expenses in connection with the [REDACTED]. We expect to use the net proceeds from the [REDACTED] to strengthen our capital base to support the ongoing growth of our business. Specifically, [REDACTED]% of the net proceeds to be received from the [REDACTED] will be used to support the development of our business with External Customers. For further details, see “Future Plans and [REDACTED].”

### **[REDACTED]**

Our [REDACTED] mainly include [REDACTED] and professional fees paid to legal advisers and the reporting accountants for their services rendered in relation to the [REDACTED] and the [REDACTED]. Assuming an [REDACTED] of HK\$[REDACTED] per H Share, being the midpoint of the proposed [REDACTED] range as stated in this document, and the [REDACTED] is not exercised, [REDACTED] expenses to be borne by us are estimated to be approximately HK\$[REDACTED] million (or approximately RMB[REDACTED] million). As of June 30, 2018, we had incurred [REDACTED] of RMB[REDACTED] million which are expected to be accounted for as a deduction from equity. The [REDACTED] will be either charged to our income statement or recorded as [REDACTED] service fees that will be charged against equity upon a successful [REDACTED].

The [REDACTED] above are the latest practicable estimate and are provided for reference only, and actual amounts may differ. Our Directors do not expect [REDACTED] 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, 2018.



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## SUMMARY

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### PROFIT ESTIMATE

For the purpose of illustrating the effect of the [REDACTED] as if it had taken place on January 1, 2018, our [REDACTED] estimated earnings per Share for the year [ended] December 31, 2018 has been prepared on the basis of the notes set out below. This [REDACTED] estimated earnings per Share has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not provide a true picture of our financial results for the year [ended] December 31, 2018 or for any future period.

Estimated profit attributable to owners of the Company for the year [ended] December 31, 2018 <sup>(1)</sup> .....	Not less than RMB[●] million
[REDACTED] estimated earnings per Share for the year [ended] December 31, 2018 <sup>(2)</sup> .....	Not less than RMB[●]

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*Notes:*

- (1) The bases on which the above profit estimate has been prepared are summarized in Appendix III to this document. The Directors have prepared the estimated profit attributable to owners of the Company for the year [ended] December 31, 2018 based on the audited results of the Company for the [●] months [ended] [●], 2018, the unaudited results based on the management accounts of the Company for the remaining [●] months [ended] December 31, 2018.
- (2) The [REDACTED] estimated earnings per Share is calculated by dividing the estimated profit attributable to owners of the Company for the year [ended] December 31, 2018 by [REDACTED] Shares, assuming that the [REDACTED] were completed on January 1, 2018 and the total of [REDACTED] Shares were in issue and outstanding during the entire year, without taking into account any Shares which may be allotted and issued upon the exercise of the [REDACTED].

### RECENT DEVELOPMENTS

Subsequent to the end of the Track Record Period and up to the Latest Practicable Date, we expanded into 16 additional cities in China and further broadened our dealer network by collaborating with more than 200 additional dealers. Our Directors have confirmed that there has been no material adverse change in our financial, operational or trading position since June 30, 2018 and up to the date of this document.

### 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 document for further details of the Spin-off.

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## **DEFINITIONS AND GLOSSARY**

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

<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 — 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  [REDACTED]
<b>“Articles” or “Articles of Association”</b>	the articles of association of our Company, which are still subject to the CBIRC’s approval and shall become effective on the Listing Date, as amended from time to time, a summary of which is set out in Appendix VI to this document
<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 [REDACTED] on an assured basis pursuant to the [REDACTED] 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  [REDACTED]

## DEFINITIONS AND GLOSSARY

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[REDACTED]

<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

[REDACTED]

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## DEFINITIONS AND GLOSSARY

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[REDACTED]

<b>“China” or “PRC”</b>	the People’s Republic of China, except where the context requires otherwise and only for the purposes of this document, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
<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

## **DEFINITIONS AND GLOSSARY**

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<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
<b>“Dongfeng”</b>	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 [REDACTED], and one of our Promoters
<b>“EIT”</b>	enterprise income tax of the PRC
<b>“EIT Law”</b>	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
<b>“Exchange Participant(s)”</b>	has the meaning ascribed thereto under the Listing Rules
<b>“External Customer(s)”</b>	the customer(s) of External Dealers
<b>“External Dealer(s)”</b>	auto dealer(s) other than ZhengTong Dealers
<b>“GDP”</b>	gross domestic product
<b>“GFA”</b>	gross floor area

[REDACTED]

<b>“H Share(s)”</b>	ordinary shares issued by us, with Renminbi denominated 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
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[REDACTED]

<b>“HKFRS”</b>	Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants
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[REDACTED]

## DEFINITIONS AND GLOSSARY

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[REDACTED]

<b>“Hong Kong” or “HK”</b>	the Hong Kong Special Administrative Region of the People’s Republic of China
<b>“Hong Kong dollars” or “HK dollars” or “HK\$”</b>	Hong Kong dollars, the lawful currency of Hong Kong

[REDACTED]

<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
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[REDACTED]

<b>“Indebtedness Date”</b>	September 30, 2018
<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

**DEFINITIONS AND GLOSSARY**

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[REDACTED]

## DEFINITIONS AND GLOSSARY

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<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>	November 16, 2018 being the latest practicable date for ascertaining certain information in this document before its publication  [REDACTED]
<b>“Listing Committee”</b>	the Listing Committee of the Stock Exchange  [REDACTED]
<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 [REDACTED]”</b>	HK\$[REDACTED] per H Share (being the high end of the [REDACTED] range stated in this document)
<b>“MOF”</b>	the Ministry of Finance of the PRC (中華人民共和國財政部)
<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)



## DEFINITIONS AND GLOSSARY

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<b>“Non-competition Undertaking”</b>	the non-competition undertaking dated [●] entered into between the Company and the Controlling Shareholders, as referred to in “Relationship with Controlling Shareholders — No Competition with Controlling Shareholders — Non-competition Undertaking”
<b>“Nomination Committee”</b>	nomination committee of the Board
<b>“Non-Qualifying ZhengTong Shareholder(s)”</b>	ZhengTong Shareholder(s) whose name(s) appeared in the register of members of ZhengTong on the Record Date and whose addresses as shown in such register are in any of the Specified Territories and any ZhengTong Shareholders or Beneficial ZhengTong Shareholders at that time who are otherwise known by ZhengTong to be resident in any of the Specified Territories

[REDACTED]

<b>“PBOC”</b>	the People’s Bank of China (中國人民銀行), the central bank of the PRC
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## DEFINITIONS AND GLOSSARY

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“PRC Company Law”	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
“PRC GAAP”	generally accepted accounting principles in the PRC
“PRC Legal Advisors”	Jingtian & Gongcheng, the PRC legal advisors to our Company

[REDACTED]

“Promoters”	the promoters of the Company, namely ZhengTong and Dongfeng
“[REDACTED]”	this [REDACTED] being issued in connection with the [REDACTED]
“province”	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
“QIB”	a qualified institutional buyer within the meaning of Rule 144A
“Qualifying ZhengTong Shareholder(s)”	ZhengTong Shareholder(s), whose name(s) appeared on the register of members of ZhengTong on the Record Date, excluding the Non-Qualifying ZhengTong Shareholders

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## **DEFINITIONS AND GLOSSARY**

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<b>“Record Date”</b>	[REDACTED], being the record date for determining the Assured Entitlement of the Qualifying ZhengTong Shareholders to the [REDACTED]
<b>“Regulation S”</b>	Regulation S under the U.S. Securities Act
<b>“Relevant Person(s)”</b>	the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], ZhengTong, any of their or the Company’s respective directors, officers or representatives or any other parties involved in the [REDACTED]
<b>“Remuneration and Evaluation Committee”</b>	remuneration and evaluation committee of the Board
<b>“Remaining Group”</b>	ZhengTong and its subsidiaries, excluding our Company
	[REDACTED]
<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 — 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)

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## **DEFINITIONS AND GLOSSARY**

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<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
<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>“Shareholder(s)”</b>	holder(s) of the Share(s)
<b>“Share(s)”</b>	ordinary share(s) in the capital of our Company with a nominal value of RMB1.00 each
<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>“Specified Territories”</b>	[●] and the PRC
<b>“[REDACTED]”</b>	the separate [REDACTED] of our [REDACTED] on the Main Board, which is expected to be effected by way of the [REDACTED], including the [REDACTED]  [REDACTED]
<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 period from March 11, 2015 (date of establishment of our Company) to December 31, 2015, the years ended December 31, 2016 and 2017, and the six months ended June 30, 2018

[REDACTED]

## DEFINITIONS AND GLOSSARY

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“Unlisted Foreign Shares”	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
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“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
“VAT”	value-added tax
“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

[REDACTED]

“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 Dealers with which we cooperated
“ZhengTong Group”	ZhengTong and its subsidiaries
“%”	per cent

## **DEFINITIONS AND GLOSSARY**

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In this document:

*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 document, 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 document 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*

## **FORWARD-LOOKING STATEMENTS**

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Certain statements in this document 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 document), 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;

## **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 document under the heading “Risk Factors”.

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution [REDACTED] 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 document. Any such intentions may change in light of future developments.

All forward-looking statements in this document 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 document, 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 [REDACTED]. 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 RMB78.0 million for the year ended December 31, 2015 to RMB332.4 million and RMB462.0 million for the years ended December 31, 2016 and 2017, respectively, representing a CAGR of 143.4%, primarily attributable to the growth of our retail loan business. Our operating income amounted to RMB382.9 million for the six months ended June 30, 2018, increasing by 80.3% from RMB212.4 million for the same period in 2017. 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 ensure that the development of our sales network, risk management 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 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.

## **RISK FACTORS**

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- As the auto finance industry matures and competition intensifies, we may not be able to timely or efficiently adjust our strategies and plans which allows 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 June 30, 2018, our sales network consisted of 986 dealers, including 111 ZhengTong Dealers and 875 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 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 dealers within our sales network, resulting in their failure to serve their end customers, 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.
- We face competition from other participants in the auto finance industry who may offer dealers more favourable terms under their customer referral arrangements. Dealers we work with may decide to terminate their cooperation with us and work with our competitors instead.

## **RISK FACTORS**

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- We may not be able to effectively manage 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 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 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.

## **RISK FACTORS**

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

ZhongTong has been our 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 [REDACTED] and will continue to cooperate with ZhengTong and other ZhengTong affiliates. Our Controlling Shareholders will be able to exercise approximately [REDACTED]% of the voting rights of our Company immediately after the completion of the [REDACTED] (assuming the [REDACTED] 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 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 loan product portfolio, and any changes in such allowances are charged to our statement of profit or loss. As of December 31, 2015, 2016 and 2017 and June 30, 2018, our allowance for impairment loss of loans and advances to customers was RMB11.8 million, RMB37.2 million, RMB59.1 million and RMB113.1 million, respectively. Our provision for impairment losses ratio, which is calculated by dividing the amount of the allowance for impairment losses on loans and advances by the total amount of loans and advances, was 0.66%, 0.99%, 1.00% and 1.45%, respectively, as of December 31, 2015, 2016 and 2017 and June 30, 2018. See Note 27 to the Accountants’ Report set forth in Appendix I in this document 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.

## **RISK FACTORS**

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**If we are unable to deliver satisfactory experience to our customers or otherwise fail to attract or retain our customer base, our results of operations may be adversely affected.**

We believe that our customer base is at the core of our business and our ability to provide customers with high-quality customer experience is critical to our success. Our business prospects and continuing revenue growth depend largely on our ability to retain and expand our customer base. If we fail to deliver satisfactory customer experience or continue to develop new products and services for our customers, our customers may choose to obtain financing from our competitors instead, and dealers we work with may, as a result, choose to reduce or discontinue their cooperation with us, which would adversely affect our results of operations.

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 dealers we work with to provide satisfactory customer service. We cannot ensure that our new products and services will be well received, we may incur financial losses and reputational damage, and our results of operations could be materially and adversely affected.

**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, banks may have access to greater capital resources and lower funding costs through deposits and other resources we do not have, allowing them to provide auto finance loans at more attractive rates.

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 such could have a material adverse effect on our business, financial conditions and results of operations.

**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 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 reduce our ability to

## **RISK FACTORS**

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disburse new loans at competitive rates and to meet our liquidity requirements. For the years ended December 31, 2015, 2016 and 2017 and six months ended June 30, 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 4.56%, 5.08%, 5.45% and 5.76%, 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 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 asset-backed securities. We applied to the CBIRC for 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 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.**

We provide retail loans to customers to facilitate their car purchase. We offer retail loan products with different interest rates and payment terms that are tailored according to our customers’ needs and credit profile. However, these products and other new products that we introduce may not be sufficiently attractive to certain customers in respect of interest rate level, 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. 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 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 the 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

## **RISK FACTORS**

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and our relationships with our financing partner 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 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 increasing 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 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 or 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, some of which may be beyond

## **RISK FACTORS**

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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 or 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. As of December 31, 2015, 2016 and 2017 and June 30, 2018, the gross balance of our outstanding loans and advances to customers was RMB1,784.9 million, RMB3,773.8 million, RMB5,928.1 million and RMB7,784.0 million, respectively, and our non-performing loan ratio was 0.03%, 0.37%, 0.28% and 0.24% for the same periods, respectively. Our customers and their creditworthiness and ability to make loan payments could be materially and adversely affected for reasons beyond their and our control. As such, 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 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, 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 with proper authorization. However, the PBOC system is limited to loan and repayment records, and does not have 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. 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 business development and assets quality may be adversely affected if we are unable to continue to balance the efficiency and effectiveness of our reviewing and approval process of loan or credit line applications.**

We have set up a standard operational process for reviewing and approving applications for loans and credit lines. We launched an automated retail loan review and approval system in March 2018. Since then, up till June 30, 2018, nearly 40% of the successful retail loan applications were approved by an automated process. For applications subject to manual review, it typically takes us up to one and 15 business days to approve retail loans and dealer loans, respectively. However, with the rapid growth of our business, it may be increasingly challenging for us to balance the efficiency and effectiveness of our reviewing and approval process of loan or credit line applications. If we are unable to promptly review and approve applications, our customers may decide not to use our services and utilize our competitors’ services, which may affect our business growth. However, if we are unable



## **RISK FACTORS**

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to identify risks in our reviewing and approval process, we could extend loans to customers who are not creditworthy or have a higher risk profile, which may affect our assets quality. The occurrence of any of the foregoing may have a material adverse effect on our business, results of operations and financial conditions.

**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 experiences. However, our policies may not be adequate or effective in managing all future risk 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 procedure. In addition, customers and dealers we work with may on their own or collectively use fake identification, forged documentation and/or engage in under fraudulent transactions. Fraud or other misconduct committed by our employees, customers, dealers we work with 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 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 customer, and significant decreases in the residual value of loan collaterals may lower the recoverability of our finance receivables, 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

## **RISK FACTORS**

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successfully locate the cars. According to relevant PRC laws and regulations, upon 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 an 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 a customer will not conceal or otherwise dispose of 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 favourable ruling from the court. Even if we are able to receive a favourable ruling from the court, we 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.

**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 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. 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 offer interest subsidies to their customers who apply retail loans from us for purchasing certain car models. We plan to discontinue this practice after [REDACTED]. 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.

## **RISK FACTORS**

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However, our financial, accounting or other data processing systems may fail to operate adequately or become disabled as a result of events that are beyond our control, including disruption of electrical or communication services. Our computer systems, software, including software licensed from vendors and networks, may be vulnerable to unauthorized access, computer viruses or 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 also may 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 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 consent from our consumers. 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. 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 or 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 may cause customers to lose their trust and confidence in us, materially and adversely affect our reputation, business, financial conditions and results of operations.

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

Our auto finance business is capital intensive and involves 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 those related to capital injections from our shareholders are classified as financing activities. During the Track Record Period, we recorded net operating cash outflows of RMB334.5 million, RMB1,062.8 million and RMB158.1 million in 2015, 2017, and the six months ended June 30,

## **RISK FACTORS**

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2018, respectively, as we experienced a rapid growth. 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 “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.” 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, 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 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 be able to receive anticipated results, and we may incur significant branding costs along the way. If we are unable to maintain and further enhance our brand recognition and reputation and promote 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 adverse effect on our business, financial conditions and results of operations.

## **RISK FACTORS**

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**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 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.

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 and 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 or may be prohibited from using such intellectual property, and we may incur licensing or using 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 the amount of retail loans and dealer loans tend to slow down 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.

**We may be involved in material legal proceedings arising from our operations.**

We may be involved in material legal proceedings from time to time. These are typically claims that arise in the ordinary course of business, including, without limitation, collection procedures against our default customers, other disputes with customers and employment disputes. We cannot assure you that such proceedings and claims will not have a material adverse effect on our business, results of operations and financial conditions. See “—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 customer, and significant decreases in the residual value of our loan collaterals may lower the recoverability of our finance receivables, which may materially and adversely affect our results of operations.”

## **RISK FACTORS**

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### **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.

### **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:

- 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 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 China Association of Automobile Manufacturers, the passenger vehicles sales volume dropped by 5.3%, 4.6%, 12.0% and 13.0% year-on-year basis for the four consecutive months during July and October 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 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 car as consumers would seek or utilize other modes of transportation.

## **RISK FACTORS**

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Gasoline prices experienced increase from 2016 to early 2018 in the global market, and PRC gasoline prices 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 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 decrease in demand for cars and related financing services, which may have a material 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.

**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 which are in constant adjustment and changes. These regulatory authorities carry out periodic inspections, examinations and inquiries in respect of our compliance with the laws, regulations, guidelines and regulatory requirements, which may cover 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 us shall not exceed 15% of our net capital and the outstanding credit balance of any single group customer of us 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 and took effect on January 1, 2018 the loan maturity period (including extensions) 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 are possible, 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 or otherwise conduct our operations.

## **RISK FACTORS**

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Our business activities and growth may be adversely affected if we do not respond to the 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, or restrictions on our activities or revocation of our financing licenses. The occurrence of any of the foregoing could have a material adverse effect on our business, financial conditions and results of operations.

**Failure to obtain, renew, or retain financing licenses, permits or approvals or failure 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 to allow us 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, the licensing requirements within the auto finance industry are constantly evolving and we may be subject to more stringent regulatory requirements due to changes in the political or economic policies in China. We 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 minimum core capital adequacy ratio of 4.0% and a minimum capital adequacy ratio of 8.0%. 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 the capital adequacy ratio under the Auto Finance Company Administrative Measures. As of June 30, 2018, our core tier-one capital adequacy ratio and capital adequacy ratio were 32.45% and 33.59%, 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 net profit and retained earnings. As such, we cannot assure you that we will be able to continue to meet the capital adequacy requirements that CBIRC may impose from time to time.



## **RISK FACTORS**

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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 unfavourable to us or contrary to our business plans. If we fail to meet the applicable capital adequacy requirements, 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 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.

**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 (中國銀保監督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, provides that, with

## **RISK FACTORS**

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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 office. 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 [REDACTED], its related parties and the 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 [REDACTED], its related parties and the 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. AFCs are required to refer to the foregoing measures. Therefore, if any investor fails to obtain the approval of CBIRC for the above 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; (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 CBIRC or its local offices, or as provided for in our Articles of Association in the future, your [REDACTED] in the Company may be materially and adversely affected.

### **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, as well as 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:

- an economic downturn in China or any regional market 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 tension over trade have had and may continue to have an adverse impact on [REDACTED] confidence and 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.

## **RISK FACTORS**

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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 the PRC, 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 regulations are relatively new and continue to evolve, 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 nonbinding 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 and diversion of resources and management attention. All of these uncertainties may limit the legal protections available to our [REDACTED] 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 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 [REDACTED], do not require advance approval from the State Administration of Foreign Exchange (“SAFE”), but 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 continue in the future. In addition, due to the restriction imposed by government foreign exchange regulations and the influence of foreign exchange shortage, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to the Shareholders or to satisfy any other foreign exchange requirements.

## **RISK FACTORS**

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**The national and regional economies 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 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 the register of members of H Shares of our Company (“**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) dated June 28, 2011 issued by the State Administration of Taxation (“**SAT**”), 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 whether there is any 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 IV—Taxation and Foreign Exchange” of this document. 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 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, in practice the PRC tax authorities 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’ [REDACTED] 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

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intend to withhold tax at 10% from dividends payable to non-PRC resident enterprise holders of H Shares (including [REDACTED]). 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 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’ [REDACTED] in H Shares may be materially and adversely affected.

### **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, including during periods in which 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 risk assets. 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 the Shareholders of our Company. 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 2,206.6 square meters in Shanghai, and failed to register one lease agreement with a gross floor area of 1,322.16 square meters. For more details, please refer to the section headed “Business — Properties” in this document.

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 rectify these unregistered lease agreements within a certain period of time and impose a fine of up to RMB10,000 for each unregistered lease agreement if we fail to register the leases during the prescribed period. Our Directors confirmed that, as of the Latest

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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 our Group regarding the non-registration of these lease agreements. However, there is no assurance that the relevant authority will not take any actions or impose fine on us in the future.

**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 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 is on the Company and cannot be delegated to any third party. Therefore, although the Company believes that required amount of the social security insurance and housing provident funds contributions in respect of the affected employees have been made, 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 insurance fund 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. Also, the relevant governmental authority may require the Company to complete its registration for housing provident fund within a given period, and, if the Company fails to do so within the given period, 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. If the relevant employees bring a complaint before the relevant labor authorities, we may be required to pay the arrears amount in full and pay delay penalties. 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 and consequently could 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, beginning January 1, 2019, tax authorities will be responsible for the collection of social insurance contributions in the PRC. The effect of the Reform Plan is uncertain. We cannot guarantee that the amount of social 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.

**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 to take action on the basis of violations 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

## **RISK FACTORS**

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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, 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 an 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 apply to the relevant People’s Court of the PRC or Hong Kong court for recognition and enforcement of the judgment. Although this arrangement became effective on August 1, 2008, its application remains uncertain.

### **RISKS RELATING TO THE [REDACTED]**

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

Prior to the [REDACTED], there was no public market for our H Shares. The initial [REDACTED] range for our H Shares was the result of negotiations among us and the [REDACTED] (on behalf of the [REDACTED]), and the [REDACTED] may differ significantly from the market price for our H Shares following the [REDACTED]. We have applied for the listing of, and 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 [REDACTED] or that the market price of our H Shares will not decline following completion of the [REDACTED]. In addition, there can be no assurance that the [REDACTED] 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.

**Since there will be a gap of several days between 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 trading of our H Shares begins.**

The [REDACTED] of our H Shares is expected to be determined on the [REDACTED]. However, our H Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be four Hong Kong business days after the pricing date. As a result, [REDACTED] 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.

## **RISK FACTORS**

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

The [REDACTED] 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 [REDACTED] 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 re-registration of Shares held on our Domestic share register 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 completion of the [REDACTED]. See “[REDACTED]—[REDACTED] Arrangements and Expenses—[REDACTED]—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.

In addition, subject to the approval of the CSRC and other relevant regulatory authorities, all of our 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 domestic share register may be traded, after the conversion, in the form of H Shares on the Stock Exchange after one year of the [REDACTED], which could further increase the supply of our H Shares in the market and could negatively impact the market price of our H Shares.



## **RISK FACTORS**

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**The price and trading volume of the Shares may be volatile, which could result in substantial losses for investors purchasing the Shares in the [REDACTED].**

The price and trading volume of the Shares may be volatile. The market price of the 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, greenfield developments, 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 Shares.

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

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

**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

## **RISK FACTORS**

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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 coverage of 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 document with respect to the PRC, the PRC economy and the industries in which we operate.**

We have derived certain facts, forecasts and other statistics in this document, particularly those relating to the PRC, the PRC economy and the industries 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 [REDACTED] 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 possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, 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.

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

Prior to the publication of this document, there has been press and media coverage regarding us and the [REDACTED] which may or may not include certain information, financial projections, valuations and other information about us and the [REDACTED] that does not appear in our document. 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 other than this document is inconsistent or conflicts with the information contained in this document, we disclaim it. Accordingly, prospective [REDACTED] should not rely on any such information. In making the decision as to whether to purchase the Shares, [REDACTED] should rely only on the information contained in this document and should not rely on any other information.

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

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In preparation for the [REDACTED], 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 [agreed to grant], 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

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

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addition to the authorized representatives of our Company. The Compliance Advisor will provide our Company with professional advice on ongoing compliance with the Listing 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 [REDACTED]. 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 document.

**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;

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

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- (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;
- (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 document 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.

At 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) so that a further partial waiver will not be necessary.

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

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**WAIVER FROM STRICT COMPLIANCE WITH RULE 4.04(1) OF THE LISTING RULES AND EXEMPTION FROM STRICT COMPLIANCE WITH SECTION 342(1)(B) IN RELATION TO PARAGRAPH 27 OF PART I AND PARAGRAPH 31 OF PART II OF THE THIRD SCHEDULE TO THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

Rule 4.04(1) of the Listing Rules requires a listing applicant to include in the prospectus the consolidated results of the listing group in respect of each of the three financial years immediately preceding the issue of the prospectus or such shorter period as may be acceptable to the Stock Exchange.

Section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance provides that, subject to section 342A of the Company (Winding Up and Miscellaneous Provisions) Ordinance, it shall not be lawful for any person to issue, circulate or distribute in Hong Kong any prospectus offering for subscription or purchase shares in a company incorporated outside Hong Kong unless, among other things, the prospectus states the matters specified in Part I of the Third Schedule to the Company (Winding Up and Miscellaneous Provisions) Ordinance and sets out the reports specified in Part II of the Third Schedule to the Company (Winding Up and Miscellaneous Provisions) Ordinance.

Paragraph 27 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (“**Paragraph 27**”) requires the listing applicant to include in the prospectus a statement as to, among others, the gross trading income or sales turnover (as may be appropriate) of the listing applicant during each of the three financial year immediately preceding the issue of the prospectus, including an explanation of the method used for the computation of such income or turnover, and a reasonable break-down between the more important trading activities.

Paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (“**Paragraph 31**”) requires the listing applicant to include in the prospectus a report by its auditors with respect to, among others, its profits and losses and assets and liabilities of the listing applicant in respect of each of the three financial years immediately preceding the issue of the prospectus.

Pursuant to section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFC may issue, subject to such conditions (if any) as the SFC thinks fit, a certificate of exemption from compliance with the relevant requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interests of the investing public and compliance with any or all of such requirements would be irrelevant or unduly burdensome, or is otherwise unnecessary or inappropriate.

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

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We have adopted December 31 as our financial year end date. This document contains the audited financial results of our Company for the years ended December 31, 2015, 2016 and 2017 and the [●] months ended [●], 2018, but does not include the financial results of our Company in respect of the full year immediately preceding the proposed date of issue of this document, being the full year ended December 31, 2018, as required under Rule 4.04(1), Paragraph 27 and Paragraph 31 as the strict compliance with the requirements thereunder would be unduly burdensome and the waiver and exemption thereof would not prejudice the interest of the investing public for the following reasons:

- (a) there would not be sufficient time for us and the reporting accountants to complete the audit work on the financial information for the full year ended December 31, 2018 for inclusion in this document, which shall be issued on or about [●], 2019. If the financial information is required to be audited up to December 31, 2018, we and the reporting accountants would have to undertake a considerable amount of work, costs and expenses to prepare, update and finalise the accountants’ report and the relevant sections of this document will also need to be updated to cover such additional period within a short period of time; and
- (b) our Directors are of the view that the benefits of such additional work to be done by the reporting accountants to the potential [REDACTED] would not justify the additional amount of work, costs and expenses as (i) the accountants’ report covering the years ended December 31, 2017 and the [●]-month period ended [●], 2018, together with the profit estimate of our Company for the year [ended] December 31, 2018 as set out in Appendix III to this document (which complies with Rules 11.17 to 11.19 of the Listing Rules) already provide potential [REDACTED] with adequate and reasonably up- to-date information in the circumstances to form a view on the track record and earnings trend of our Company; and (ii) all information that is necessary for the potential [REDACTED] to make an informed assessment of the activities, assets and liabilities, financial position, management and prospect of our Company has been included in this document.

In light of the above, we have applied for, and the Stock Exchange [has granted] us, a waiver from strict compliance with the requirements under Rule 4.04(1) of the Listing Rules, by permitting the non-inclusion of the financial results of our Company for the full year ended December 31, 2018, subject to the following conditions:

- (a) our Company must [REDACTED] on the Stock Exchange within three months after the latest year end, i.e. on or before March 31, 2019;
- (b) our Company has obtained a certificate of exemption from the SFC on strict compliance with section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to Paragraph 27 and Paragraph 31 (the “**Ordinance Requirements**”);
- (c) a profit estimate for the year [ended] December 31, 2018 (which must comply with Rules 11.17 to 11.19 of the Listing Rules) is included in this document;

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM COMPLIANCE WITH THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

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- (d) a Directors’ statement is included in this document that there is no material adverse change to its financial and trading positions or prospect with specific reference to the trading results from the end of the stub period to the latest financial year end; and
- (e) we shall publish our results announcement for the financial year ended December 31, 2018 no later than March 31, 2019 in compliance with Rule 13.49(1)(ii) of the Listing Rules.

We have also applied for, and the SFC [has granted] us, a certificate of exemption from strict compliance with the Ordinance Requirements by permitting the non-inclusion of the financial results of our Company for the full year ended December 31, 2018, on the ground that strict compliance with the Ordinance Requirements would be unduly burdensome for our Company as there would not be sufficient time for us to prepare the full year financial statements for the year ended December 31, 2018 and for the reporting accountants to complete the audit thereon prior to the issue of this document, and the exemption will not prejudice the interest of the [REDACTED] public on the conditions that:

- (a) this document shall be issued on or about February 28, 2019;
- (b) our Company must [REDACTED] on the Stock Exchange within three months after the latest year end, i.e. on or before March 31, 2019; and
- (c) the particulars of the exemption shall be set out in this document.

We have also included a profit estimate (which complies with Rules 11.17 to 11.19 of the Listing Rules) for the financial year [ended] December 31, 2018 in Appendix III to this document.

Our Directors further confirmed:

- (a) that all information necessary for the public to make an informed assessment of the activities, assets and liabilities, financial position, management and prospects of our Company has been included in this document and that, as such, the waiver granted by the Stock Exchange and the exemption granted by the SFC from strict compliance with Rule 4.04(1) of the Listing Rules and the Ordinance Requirements, respectively, will not prejudice the interests of the [REDACTED] public; and
- (b) that our Company will comply with Rules 13.46(2) and 13.49(1) of the Listing Rules in respect of the publication of annual results and annual report for the year ended December 31, 2018.



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**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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[REDACTED]

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**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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[REDACTED]

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**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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[REDACTED]

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**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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[REDACTED]

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**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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[REDACTED]

**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

**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>		
Dr. Bao Xiaoli (鮑曉莉)	1702A, Block B, Sunshine Beach Garden, 1088 Houhai Road (Shenzhen Bay Section), Nanshan District, Shenzhen, PRC	Chinese
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
Mr. 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 document.

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

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**PARTIES INVOLVED IN THE [REDACTED]**

**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

[REDACTED]

**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

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**Legal Advisors to the  
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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

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**Reporting Accountants and  
Independent Auditor**

**KPMG**

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**Industry Consultant**

**China Insights Consultancy Limited**

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[REDACTED]



**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 document)</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>	Dr. Bao Xiaoli ( <i>Chairman</i> ) Mr. Lin Zheyang Ms. Liang Yanjun
<b>Remuneration and Evaluation Committee</b>	Mr. Lin Zheyang ( <i>Chairman</i> ) Dr. Bao Xiaoli Mr. Koh Tee Choong
<b>Nomination Committee</b>	Mr. Lin Zheyang ( <i>Chairman</i> ) Ms. Liang Yanjun Mr. Koh Tee Choong

**CORPORATE INFORMATION**

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**Risk Management Committee**

Mr. Lin Fan (*Chairman*)  
Mr. Shao Yongjun  
Dr. Bao Xiaoli

[REDACTED]

**Compliance Advisor**

**Altus Capital Limited**  
21 Wing Wo Street  
Central, Hong Kong

**Principal Bankers**

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PRC

**China Construction Bank Corp. Shanghai Pudong Branch**  
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 document, 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, car parc 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 car parc per thousand people is expected to continue increasing to 227.8 units by 2022, representing a CAGR of 8.2% between 2017 and 2022.

## INDUSTRY OVERVIEW

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:

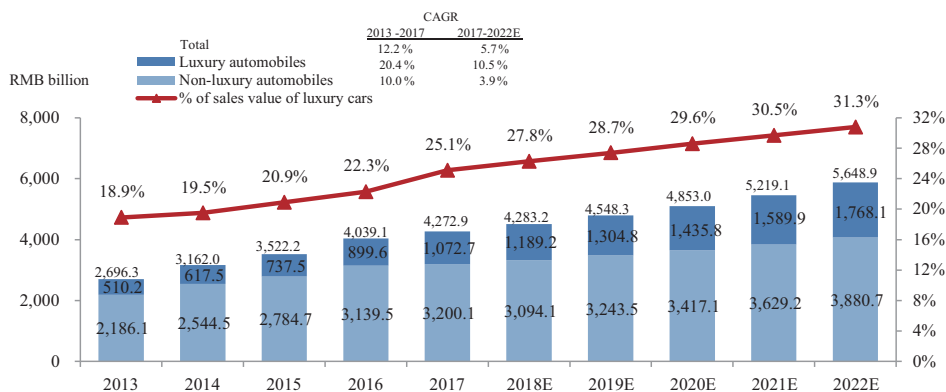
Market Segment	Description	Representative brands	Target customer
Luxury automobile market	<ul style="list-style-type: none"> <li>• Luxury automobiles provide luxurious and highly desirable features, such as refinements in engine features, a higher level of comfort, higher speeds, and greater quality. 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, 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.

## INDUSTRY OVERVIEW

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



Source: China Association of Automobile Manufactures, CIC Report

### 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, secondary dealerships 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

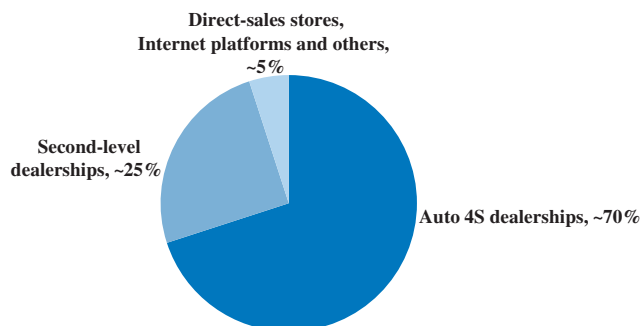
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## INDUSTRY OVERVIEW

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services and ultimately achieve higher cross- and up-selling potentials as well as higher retention rates. In China, 4S dealerships and qualified secondary dealerships 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**



Source: CIC Report

Note: Sales volume of passenger automobiles includes luxury passenger automobiles and non-luxury passenger automobiles.

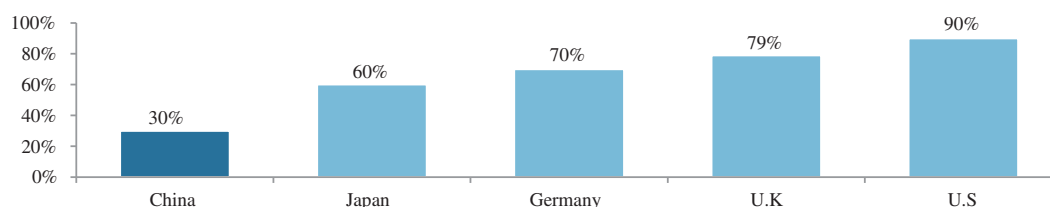
## OVERVIEW OF THE AUTO FINANCE MARKET IN CHINA

### *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 Manufacturers, CIC Report

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## INDUSTRY OVERVIEW

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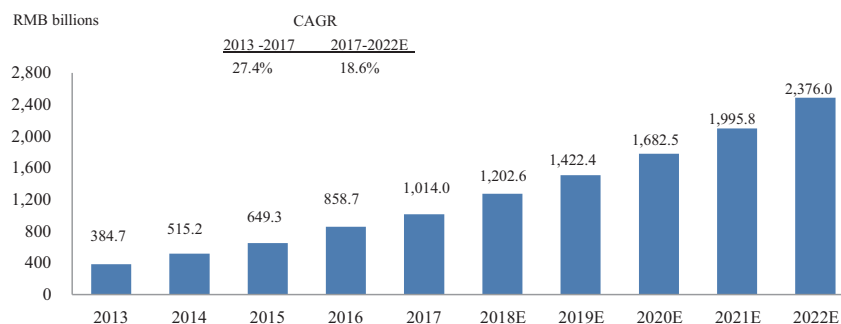
### *Market Size of the Retail Auto Finance Market*

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.

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.

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**



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.

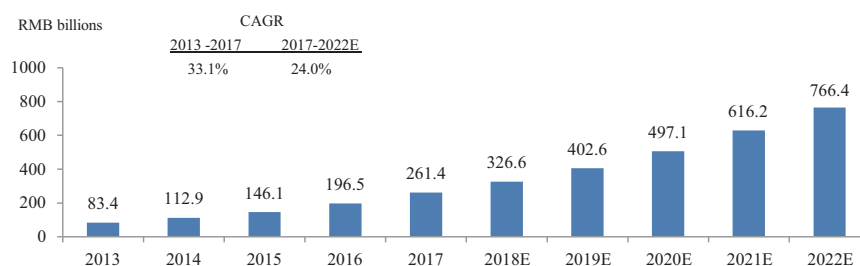
The market share of retail auto finance market for luxury automobile sector (including new and used passenger automobiles) has continued to increase over the past decade. The total loan value of the luxury automobiles market increased from RMB83.4 billion in 2013 to RMB261.4 billion in 2017,

## INDUSTRY OVERVIEW

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.

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



Source: CIC Report

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

The sales channel of 4S dealerships and qualified secondary dealerships 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 secondary dealerships 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.

### 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 and secondary dealerships, 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 secondary dealerships and Internet platforms.



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## INDUSTRY OVERVIEW

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	Luxury automobile	Non-luxury automobile
<b>Repayment capacity</b>	<ul style="list-style-type: none"> <li>• Higher repayment capacity which leads to lower non-performing ratio</li> </ul>	<ul style="list-style-type: none"> <li>• Lower repayment capacity which in turn lowers the revenue</li> </ul>
<b>NPL rate*</b>	<ul style="list-style-type: none"> <li>• 0.20%-0.30%</li> </ul>	<ul style="list-style-type: none"> <li>• 0.30%-0.70%</li> </ul>

*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.

### ***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.

## INDUSTRY OVERVIEW

### 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. However, AFCs have gradually taken up more and more market share to become the largest player in the retail auto finance market. 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 5%. 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
<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 origination 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

### Categories of AFCs

As of June 30, 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 June 30, 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.

## **INDUSTRY OVERVIEW**

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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\* 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.

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

- **4S dealerships and qualified secondary dealerships are expected to remain the key sales channel for auto purchasers**

4S dealerships and qualified secondary dealerships 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 secondary dealerships, which means that retention rate and penetration rate for financing products are both projected to increase in the future.

- **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

## **INDUSTRY OVERVIEW**

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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.

## **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.

## **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.

## **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.



## **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.

## **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.

## **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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### *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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### *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;
- 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;

## **REGULATORY OVERVIEW**

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- 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.

### **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.

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### ***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.

### ***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.

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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 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.



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## REGULATORY OVERVIEW

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### 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
- 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:

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

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

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

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### ***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.

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.

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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.

### ***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.

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### **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 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.

## **REGULATORY OVERVIEW**

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### **Bad Debts Cancellation Supervision**

The Administrative Measures for Cancellation 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 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.

## REGULATORY OVERVIEW

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### 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.
- **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.

## **REGULATORY OVERVIEW**

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### **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.

#### **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.

## **REGULATORY OVERVIEW**

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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.

### **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



## **REGULATORY OVERVIEW**

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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 SUPERVISION OF 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 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,

## **REGULATORY OVERVIEW**

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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, 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 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

## **REGULATORY OVERVIEW**

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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.

The Interim Provisions on the Prohibition of Commercial Bribery Behavior issued by the State Administration for Industry and Commerce (國家工商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.

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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 RMB[REDACTED]. Such capital increase was completed in September 2017.

The Company has been expanding our dealer network, and as of June 30, 2018, our dealer network consisted of 111 ZhengTong Dealers and 875 External Dealers. Our dealer network covered 24 provinces and 159 cities in China, comprising Beijing, Shanghai, Shenzhen, Guangzhou, as well as 36 second-tier cities and 119 third-tier and other lower-tier cities.

### **BUSINESS MILESTONES**

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

<b>Date</b>	<b>Event</b>
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.

## **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 RMB[REDACTED], 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, our board of directors 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 [REDACTED] 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 [REDACTED] Shares and [REDACTED] 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 [REDACTED] shares, of which Dongfeng held [REDACTED] 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.

## **HISTORY AND CORPORATE STRUCTURE**

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The board of directors of ZhengTong believes that the Spin-off and the [REDACTED] 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 [REDACTED] 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 [REDACTED] 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 [REDACTED] 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 [REDACTED] base for the Company as it will be able to attract new [REDACTED] 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 document.

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## HISTORY AND CORPORATE STRUCTURE

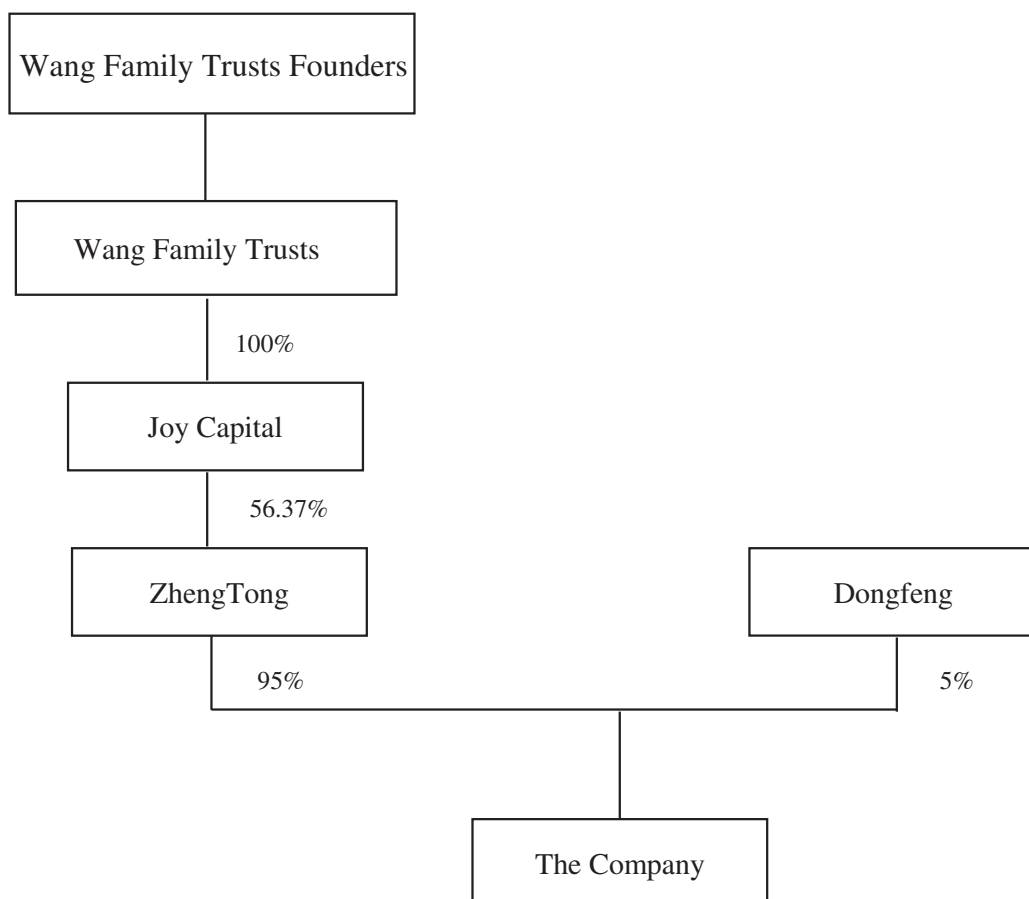
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### Dongfeng

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 [REDACTED], the Shares held by Dongfeng will be counted towards the public float.

### OUR STRUCTURE IMMEDIATELY PRIOR TO THE [REDACTED]

The following diagram illustrates the corporate and shareholding structure of our Company immediately prior to the completion of the [REDACTED]:



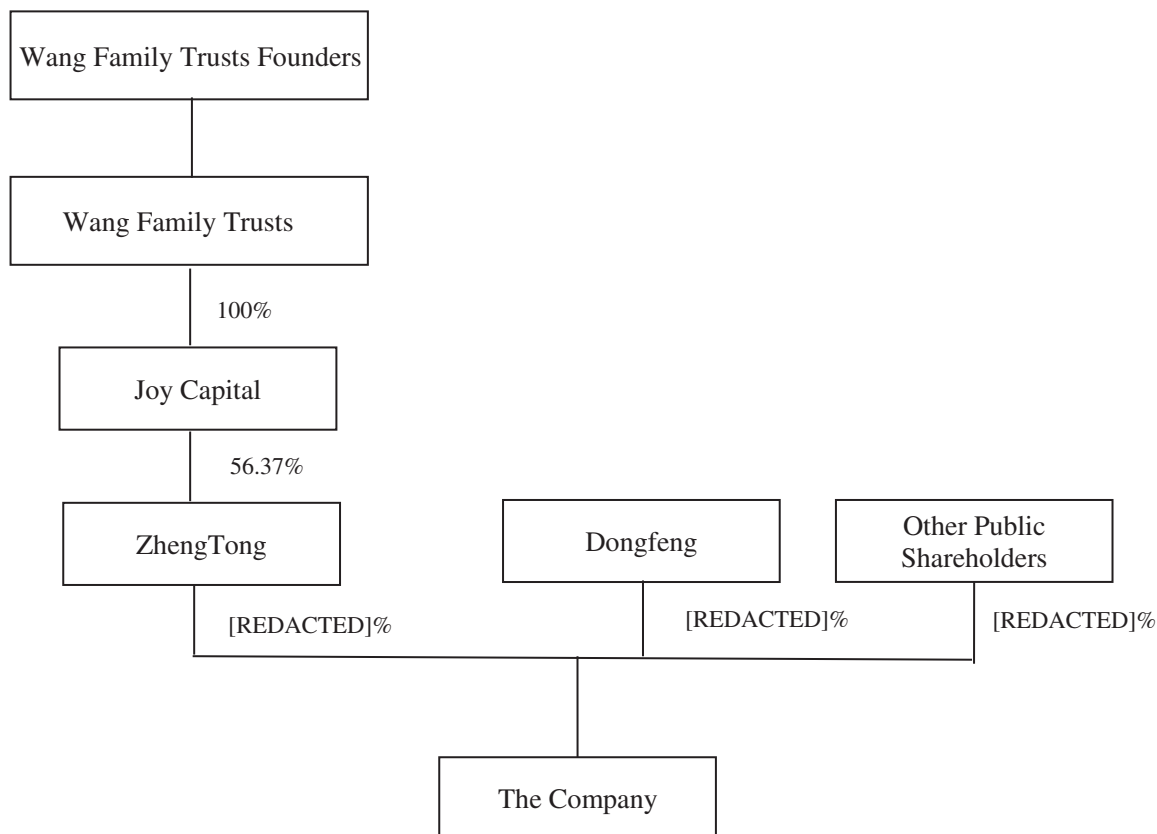
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## HISTORY AND CORPORATE STRUCTURE

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### OUR STRUCTURE IMMEDIATELY FOLLOWING THE [REDACTED]

The following diagram illustrates the corporate and shareholding structure of our Company immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised):





## **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 2017, we disbursed 16,447 retail loans for the purchase of luxury-brand cars with an aggregate principal amount of RMB3,753.1 million, accounting for 88.2% of the number of retail loans we disbursed in total and 95.0% 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 in the same period, according to the CIC Report.

Benefiting from the 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 159 as of December 31, 2015 to 986 as of June 30, 2018. In addition, we have also expanded the geographical coverage of our dealer network, which reached 159 cities in China as of June 30, 2018, comprising Beijing, Shanghai, Shenzhen, Guangzhou as well as 36 second-tier cities and 119 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 to diversify our 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 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 various 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 delinquency status. We launched an automated retail loan review and approval system in March 2018. Since then, up till June 30, 2018, nearly 40% of the successful retail loan applications were approved by an automated process and the retail loans can be disbursed within hours after being approved. For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, our overall non-performing loan ratio was 0.03%, 0.37%, 0.28% and 0.24%, respectively.

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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 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 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 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, 2015, 2016 and 2017 and the six months ended June 30, 2018, we disbursed 6,281, 15,548, 18,654 and 28,012 self-operated retail loans, and generated revenue of RMB42.8 million, RMB248.3 million, RMB387.6 million, and RMB351.7 million, respectively. The gross outstanding balance of our self-operated retail loan business as of December 31, 2015, 2016, 2017 and June 30, 2018 was RMB1,298.6 million, RMB3,418.2 million, RMB5,032.2 million and RMB7,577.2 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 and earn service fees from these customers when they enter into 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, 2015, 2016 and 2017 and the six months ended June 30, 2018, we facilitated 859, 20,946, 26,655 and 17,045 retail loans, and generated fee and commission income of RMB23.7 million, RMB168.2 million, RMB195.9 million and RMB114.3 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.

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For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, we generated interest income of RMB7.5 million, RMB28.5 million, RMB40.9 million and RMB18.9 million from our dealer loan business, respectively. The gross outstanding balance of our dealer loan business as of December 31, 2015, 2016, 2017 and June 30, 2018 was RMB486.3 million, RMB355.6 million, RMB916.0 million and RMB325.3 million, respectively.

### **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 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, 2015, 2016 and 2017 and the six months ended June 30, 2018, 70.9%, 81.9%, 88.2% and 75.0% 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 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 2015 to 2017. Our reported operating income, net profits, and total assets that grew at a CAGR of 143.4%, 224.4% and 79.3% from 2015 to 2017, 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.

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As of June 30, 2018, we had a dealer network of 986 dealers across 159 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.

The expansion of our dealer network has laid a solid foundation for our business growth and contributed significantly to the continued growth of our profitability. During the Track Record Period, the gross outstanding loan balance of our retail loan business increased from RMB1,298.6 million as of December 31, 2015 to RMB7,577.2 million as of June 30, 2018.

### ***Stable and Diversified Funding Sources***

Since our inception, we have explored 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 development, we can utilize various financing channels, taking into account 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 banks and obtained credit facilities from them. The number of banks with which we had outstanding placements or unutilized credit facilities increased from eight as of December 31, 2015 to 29 as of June 30, 2018. As of December 31, 2015, 2016 and 2017 and June 30, 2018, the outstanding balance of placements from banks and other financial institutions was RMB1,357.5 million, RMB 3,232.9 million, RMB 4,020.0 million and RMB 4,854.6 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 temporary funding needs.
- In May 2018, we applied to the CBIRC for approval to issue asset-backed securities 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 RMB304 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 RMB1,784.9 million as of December 31, 2015 to RMB7,902.5 million as of June 30, 2018.

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### ***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 also try to explore different business models. For example, we were one of the earliest AFCs in China to cooperate with commercial banks to disburse joint retail loans. Utilizing both our own funding and funding from commercial banks, we disbursed an aggregate amount of nil, RMB23.6 million, RMB39.6 million and RMB384.8 million of joint retail loans in 2015, 2016, 2017 and the six months ended June 30, 2018, respectively. Furthermore, we are the first among the 25 AFCs in China to offer direct lease services, according to the CIC Report.

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 cooperation 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, up until June 30, 2018, nearly 40% 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 cooperative 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 operations to applicable PRC regulatory authorities periodically, which focuses 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 the PBOC credit rating system and the public security system, identifies useful risk assessment variables, performs in-depth analysis of actual transaction scenarios, and completes the modeling and decision-making process efficiently. We update this credit risk decision-making model on a regular basis by increasing our data sources, identifying additional risk indicators, and optimizing the decision-making algorithm of the model. Our

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anti-fraud system will utilize credit blacklist information, credit rating, and indebtedness information of the applicants to identify fraudulent loan applications automatically. Following the loan disbursement, our system will closely monitor the customer’s risk profile during the loan term and promptly alert us when the customer’s creditworthiness deteriorates.

In the event of a 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 defaulted customers.

As of December 31, 2015, 2016, and 2017 and June 30, 2018, our non-performing loan ratio was 0.03%, 0.37%, 0.28% and 0.24% respectively, which is lower than industry average, according to the CIC Report.

### ***Experienced Management Team***

Our insightful management team on average has over 20 years of operational and management experience in finance, dealership and technology areas. 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 Chief Operating Officer, has nearly 26 years and 29 years of working 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 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 better 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 expansion 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 is expected to remain as the most prevalent car sales channel in the foreseeable future, we plan to continue to tap on our knowledge of the dealership market to further expand the geographic coverage of our dealer network and increase the number of External Dealers, especially luxury-brand dealers and dealers specializing in used cars. Luxury-brand cars are expected to experience continuous growth and we expect that there will be more customers interested in

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purchasing luxury-brand cars with financing needs. Since this group of customers typically have higher credit rating, the expansion of our luxury-brand dealer network will continue to be our strategic core focus. In particular, we plan to continue to launch products tailored to the purchases of used luxury-brand cars.

### ***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 increasing 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 while limiting our risk exposure. 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 also plan to launch more innovative direct lease products.

### ***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 the management of the dealers, we will continue to evaluate them based on their sales potential and the extent of our collaboration. As our dealer network expands, we will seek to develop a more elaborated evaluation system to grade our dealers and timely adjust our management strategies for dealers of different grades. 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 different employee handbooks catering to different types of work functions. As our business continues to grow, we will keep optimizing our management structure.

### ***Enhance Our Technological Capabilities***

The continued 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 consumer 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. We aim to provide more targeted and customized services to enhance customer experience, and improve our sales and marketing efficiency.

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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 information 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 evaluate the credit risks of loan applicants more accurately and timely and manage 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 specializing in financial technology and big-data risk control, with respect to online traffic conversion and automated screening for qualified loan applicants. 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.

### ***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 plan to issue ABSs and financial bonds on the national inter-bank market to further increase our funding sources and reduce our financing costs. At the same time, we will continue to strengthen our cooperation with commercial 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 of 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.



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

	For the period from March 11 to or as of December 31,	For the year ended or as of December 31,		For the six months ended or as of June 30,
	2015	2016	2017	2018
	(RMB'000)			
<b>Retail Loan Business</b>				
Net interest income .....	27,795	137,698	225,056	200,644
Net fees and commissions .....	23,690	169,314	204,418	130,078
Operating income .....	51,485	307,012	429,474	330,722
Gross outstanding balance of loans as of period end .....	1,298,607	3,418,216	5,032,182	7,577,243
<b>Dealer Loan Business</b>				
Net interest income .....	4,891	15,941	24,365	11,295
Operating income .....	4,891	15,941	24,365	11,295
Gross outstanding balance of loans as of period end .....	486,297	355,567	915,967	325,274

**RETAIL LOAN BUSINESS**

Our retail loan business comprises (i) self-operated retail loan business and (ii) 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. 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 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.

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**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 earn service fees from these customers when they enter into 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.

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 period from March 11 to or as of December 31,		For the year ended or as of December 31,				For the six months ended or as of June 30,	
	2015		2016		2017		2018	
	Self- operated Retail Loan	Retail Loan Facilitation	Self- operated Retail Loan	Retail Loan Facilitation	Self- operated Retail Loan	Retail Loan Facilitation	Self- operated Retail Loan	Retail Loan Facilitation
Revenue <sup>(1)</sup> (RMB in millions) .....	42.8	23.7	248.3	168.2	387.6	195.9	351.7	114.3
Gross outstanding balances of retail loans as of period end (RMB in millions) .....	1,298.6	—	3,418.2	—	5,032.2	—	7,577.2	—
Number of retail loans disbursed/facilitated during the period.....	6,281	859	15,548	20,946	18,654	26,655	28,012	17,045
Amount of retail loans disbursed during the period..... (RMB in millions) .....	1,542.2	—	3,311.1	—	3,950.4	—	4,619.5	—

*Note:*

(1) Including interest income and fee and commission income.

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### Our Sales Network

Leveraging our understanding of the dealership industry, we have established a dealer network which covers 159 cities in 24 provinces as of June 30, 2018 to source and acquire customers. The number of dealers within our sales network grew from 159 as of December 31, 2015 to 986 as of June 30, 2018.

In our early days, 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 have also collaborated with dealer groups. 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,			As of June 30,
	2015	2016	2017	2018
ZhengTong Dealers .....	84	91	100	111
External Dealers .....	75	135	251	875
<b>Total</b> .....	<b>159</b>	<b>226</b>	<b>351</b>	<b>986</b>

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.



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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. 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.

Some of these dealers also provide certain administrative assistance to us with respect to loan applications, loan agreement execution, collateral registration and post-origination process. We reimburse the dealers for these administrative tasks subsequently on an as-incurred basis.

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

- We grade our dealers based on their sales capability and the closeness of our cooperation relationship and take corresponding measures to strengthen our cooperation with 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. As of June 30, 2018, we have 120 business specialists who will visit the dealers’ stores regularly to promote our products and services.
- The dealers shall be liable to us for any loss we incur as a result of the dealer’s failure to perform its due diligence obligation regarding the loan application materials. We have also put in place certain internal standard and criteria to better manage these dealers. Any material non-compliance of our internal standard by dealers may lead to the termination of our cooperation relationship with them. For a more detailed description, see “Risk Management.”

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 strengthen our relationships with them, we ceased commissioning such local agents in November 2016.

### **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

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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.

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 period from March 11 to or as of December 31,		For the year ended or as of December 31,				For the six months ended or as of June 30,	
	2015		2016		2017		2018	
	Standard Retail Loans	Joint Retail Loans	Standard Retail Loans	Joint Retail Loans	Standard Retail Loans	Joint Retail Loans	Standard Retail Loans	Joint Retail Loans
Interest Income (RMB in millions) <sup>(1)</sup> .....	43.6	—	254.7	0.3	385.6	3.9	330.9	10.2
Fee and Commission Income (RMB in millions) .....	—	—	—	0.6	—	8.2	—	15.7
Number of loans disbursed during the period .....	6,281	—	14,988	560	17,906	748	18,881	9,131
Amount of loans disbursed during the period (RMB in millions) <sup>(2)</sup> .....	1,542.2	—	3,287.5	23.6	3,910.8	39.6	4,234.7	384.8
Gross outstanding balance of loans as of period end (RMB in millions) <sup>(3)(4)</sup> .....	1,293.8	—	3,482.1	23.0	5,224.0	48.9	7,514.1	395.2

*Notes:*

- (1) Equals to interest income from our self-operated retail loan business as adjusted by dealers’ administrative costs in loan application.
- (2) For joint retail loans, the amount equals to the portion of loan principal amount funded by our Company.
- (3) For joint retail loans, the amount equals to the outstanding loan balance in proportion to the loan principal amount funded by our Company.
- (4) Equals to the gross outstanding balance of loans as adjusted by interest subsidy from joint promotion arrangement, dealers’ administrative costs in loan application and VAT of direct lease products.

During the Track Record Period, we provided self-operated retail loans for the purchase of over 20 luxury brands, including Porsche, BMW, Mercedes-Benz, Audi, Jaguar and Land Rover, and Volvo. In 2015, 2016, 2017 and the six months ended June 30, 2018, the number of self-operated retail loans we disbursed for the purchase of luxury-brand cars accounted for 70.9%, 81.9%, 88.2% and 75.0% of

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our self-operated retail loans in total. 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:

Brand	For the period from March 11 to or as of December 31,						For the year ended or as of December 31,					
	2015						2016					
	Number of loans disbursed	%	Amount of loans disbursed	%	Gross outstanding balance <sup>(1)</sup>	%	Number of loans disbursed	%	Amount of loans disbursed	%	Gross outstanding balance <sup>(1)</sup>	%
	(RMB million)						(RMB million)					
Luxury brands .....	4,455	70.9	1,236.1	80.2	1,139.3	88.1	12,730	81.9	3,070.0	92.7	3,213.7	91.7
Non-luxury brands.....	1,826	29.1	306.1	19.8	154.5	11.9	2,818	18.1	241.1	7.3	291.4	8.3
<b>Total.....</b>	<b>6,281</b>	<b>100.0</b>	<b>1,542.2</b>	<b>100.0</b>	<b>1,293.8</b>	<b>100.0</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>

Brand	For the year ended or as of December 31,						For the six months ended or as of June 30,					
	2017						2018					
	Number of loans disbursed	%	Amount of loans disbursed	%	Gross outstanding balance <sup>(1)</sup>	%	Number of loans disbursed	%	Amount of loans disbursed	%	Gross outstanding balance <sup>(1)</sup>	%
	(RMB million)						(RMB million)					
Luxury brands .....	16,447	88.2	3,753.1	95.0	4,942.7	93.7	21,016	75.0	4,007.6	86.8	7,121.4	90.0
Non-luxury brands.....	2,207	11.8	197.3	5.0	330.2	6.3	6,996	25.0	611.9	13.2	787.9	10.0
<b>Total.....</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>28,012</b>	<b>100.0</b>	<b>4,619.5</b>	<b>100.0</b>	<b>7,909.3</b>	<b>100.0</b>

Note:

- (1) Equals to the gross outstanding balance of loans as adjusted by interest subsidy from joint promotion arrangement, dealers' administrative costs in loan applications and VAT of direct lease products.

During the Track Record Period, we provided self-operated retail loans to end customers sourced from both the ZhengTong Dealers and External Dealers. 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:

Dealer Type	For the period from March 11 to or as of December 31,						For the year ended or as of December 31,					
	2015						2016					
	Number of loans disbursed	%	Amount of loans disbursed	%	Gross outstanding balance <sup>(1)</sup>	%	Number of loans disbursed	%	Amount of loans disbursed	%	Gross outstanding balance <sup>(1)</sup>	%
	(RMB million)						(RMB million)					
ZhengTong Dealers .....	4,801	76.4	1,196.2	77.6	1,100.3	85.0	11,763	75.7	2,739.3	82.7	2,898.9	82.7
External Dealers...	1,480	23.6	346.0	22.4	193.5	15.0	3,785	24.3	571.8	17.3	606.2	17.3
<b>Total.....</b>	<b>6,281</b>	<b>100.0</b>	<b>1,542.2</b>	<b>100.0</b>	<b>1,293.8</b>	<b>100.0</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>

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Dealer Type	As of/For the year ended December 31,						As of /For the six months ended June 30,					
	2017						2018					
	Number of loans disbursed	%	Amount of loans disbursed	%	Gross outstanding balance <sup>(1)</sup>	%	Number of loans disbursed	%	Amount of loans disbursed	%	Gross outstanding balance <sup>(1)</sup>	%
	(RMB million)						(RMB million)					
ZhengTong Dealers ..	15,230	81.6	3,373.0	85.4	4,508.8	85.5	21,640	77.3	3,326.7	72.0	6,224.4	78.7
External Dealers.....	3,424	18.4	577.4	14.6	764.1	14.5	6,372	22.7	1,292.8	28.0	1,684.9	21.3
<b>Total.....</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>28,012</b>	<b>100.0</b>	<b>4,619.5</b>	<b>100.0</b>	<b>7,909.3</b>	<b>100.0</b>

Note:

- (1) Equals to the gross outstanding balance of loans as adjusted by interest subsidy from joint promotion arrangement, dealers' administrative costs in loan applications and VAT of direct lease products.

**Standard Retail Loan Business**

We provide a diverse range of standard retail loans to customers who seek to purchase cars from dealers within our sales network. In 2015, 2016, 2017 and the six months ended June 30, 2018, we disbursed 6,281, 14,988, 17,906 and 18,881 standard retail loans, with an aggregate principal amount of RMB1,542.2 million, RMB3,287.5 million, RMB3,910.8 million and RMB4,234.7 million, respectively. During the same periods, the interest income generated from our standard retail loan business was RMB43.6 million, RMB254.7 million, RMB385.6 million and RMB330.9 million. 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 2015, 2016, 2017 and the six months ended June 30, 2018, we disbursed 224, 257, 513 and 1,337 standard retail loans for the purchase of used cars, with an aggregate principal amount of RMB161.5 million, RMB44.1 million, RMB122.6 million and RMB242.1 million. As of December 31, 2015, 2016, 2017 and June 30, 2018, the gross outstanding balance of standard retail loans disbursed for the purchase of used cars was RMB20.2 million, RMB45.2 million, RMB125.4 million and RMB270.6 million.

In order to further diversify our product offerings and better meet our end customers' different financing needs, we started to offer direct lease services to end customers for car purchases 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 last two months ended December 31, 2017 and the first six months ended June 30, 2018, we entered into 80 and 666 direct leases, with an aggregate principal amount of RMB23.4 million and RMB128.1 million, respectively. As of December 31, 2017 and June 30, 2018, the gross outstanding balance of our direct leases were RMB23.4 million and RMB138.0 million. For a more detailed discussion of the finance lease receivables, see “Financial Information — Segment Operating Results” and “Financial Information — Liquidity.”



## **BUSINESS**

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### ***Joint Retail Loan Business***

We cooperate with commercial banks from time to time to disburse joint retail loans to customers using both our own funding and funding from commercial banks. We receive interest payment from our end customers for the portion of the loan we fund and bear credit risks for this portion, and service fee from the bank for certain loan-related services we provide.

During the Track Record Period, we worked with two commercial banks to disburse joint retail loans. In 2015, 2016, 2017 and the six months ended June 30, 2018, we disbursed nil, 560, 748, and 9,131 joint retail loans, and funded nil, RMB23.6 million, RMB39.6 million and RMB384.8 million joint retail loans, respectively. During the same periods, the interest income generated from the joint retail loan business was nil, RMB0.3 million, RMB3.9 million and RMB10.2 million, and the fee and commission income generated from the joint retail loan business was nil, RMB0.6 million, RMB8.2 million and RMB15.7 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% portion, 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 is set to expire on December 31, 2018 and is automatically renewable for another three years provided that 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-origination monitoring process, and loan repayment schedules;
- We are responsible for handling the first round of loan application review;
- Should one party decide not to grant 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 depending on various factors including the creditworthiness of the borrower, 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***

During the Track Record Period, we provided various self-operated loan products of different payment structures and down payment ratios to end customers. The loan products we offer to ZhengTong Customers and External Customers are the same with respect to loan application procedures and key terms and we do not offer any preferential benefits, including special discounts or rebates, to ZhengTong Customers.

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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> <p>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.</p>
Down Payment Ratio	20% to 30% at the minimum
Interest Rate (on the Latest Practicable Date)	<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</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>

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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 this arrangement, 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 arrangement has helped us to effectively expand our customer base, increase revenue, and strengthen our relationships with both auto makers and dealers.

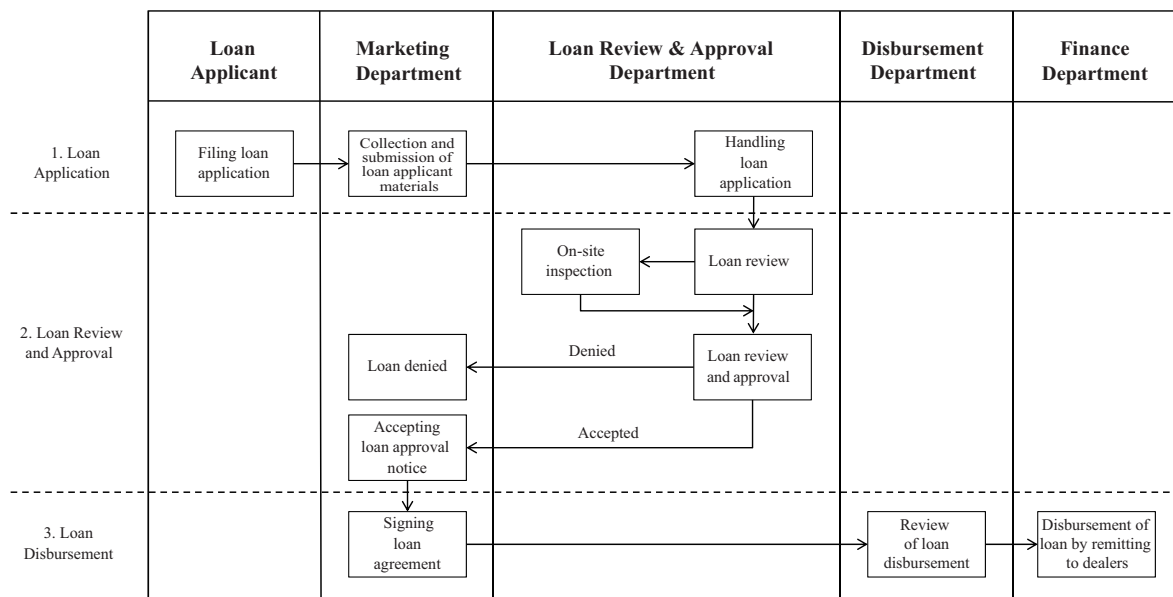
***Joint promotion with automakers.*** We have built strategic cooperation with two luxury-brand automakers, with which we entered into joint promotion agreements. Under our joint promotion agreements with the automakers, the automakers bears a portion of the interest we charge to our end customers for purchasing certain of their car models. The rights and responsibilities of both parties, the applicable interests rate, and the car models, loan products and dealers covered are stated in the agreement. During the Track Record Period and up to the Latest Practicable Date, dealers covered under our joint promotion agreements with automakers consisted exclusively of ZhengTong Dealers. 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.

***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.

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**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. See “Risk Management - Major Risk Management - Credit Risk Management - Retail Loan Credit Risk Management” for a more detailed description.



**Retail Loan Facilitation Business**

We launched our retail loan facilitation business, whereby we provide loan facilitation services to car purchasers with financing needs in March 2015 to seize more business opportunities beyond our own funding. We do not take any credit risk or provide guarantees for such loans. Loan facilitation service is a natural extension of our self-operated retail loan business as we grow our auto finance business allowing us to act as an intermediary between end customers and commercial banks and serve a more extensive array of customers. Leveraging our sales network and close relationships with commercial banks, we refer customers in need of financing to commercial banks, provide various loan-related services and earn service fees from these customers when they get their loans from the commercial banks. During the Track Record Period, the average service fee we charged was approximately RMB7,665. 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 bear any credit risk or provide guarantees for such loans.

## **BUSINESS**

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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.

During the Track Record Period, we worked primarily with several commercial banks to provide retail loan facilitation services. For the years ended December 31, 2015, 2016, 2017 and the six months ended June 30, 2018, we facilitated 859, 20,946, 26,655 and 17,045 retail loans, and generated fee and commission income of RMB23.7 million, RMB168.2 million, RMB195.9 million and RMB114.3 million from our retail loan facilitation business, respectively. We plan to continue to grow our loan facilitation services by leveraging the expansion of our dealer network and the large base of commercial banks in cooperation with us.

### **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.

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. The term of our dealer loan is generally not 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.

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For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, we disbursed 3,274, 5,460, 5,749, and 2,441 dealer loans and generated interest income of RMB7.5 million, RMB28.5 million, RMB40.9 million and RMB18.9 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:

	For the period from March 11 to or as of December 31,		For the year ended or as of December 31,				For the six months ended or as of June 30,	
	2015		2016		2017		2018	
	ZhengTong Dealers	External Dealers	ZhengTong Dealers	External Dealers	ZhengTong Dealers	External Dealers	ZhengTong Dealers	External Dealers
Interest income (RMB in millions)	3.6	3.9	14.5	14.0	27.7	13.2	7.1	11.8
Gross outstanding balances of dealer loans as of period end (RMB in millions)	237.0	249.3	213.4	142.2	716.4	199.6	134.0	191.3
Number of dealer loans disbursed during the period	881	2,393	1,306	4,154	4,310	1,439	1,166	1,275
Amount of dealer loans disbursed during the period (RMB in millions)	396.8	393.3	545.6	741.5	1,695.8	277.9	387.1	413.4

### ***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:

- The loan proceeds shall only be used for the purchase of cars or auto parts and accessories, otherwise the loan interests on the loan portion which is not used for such purpose will be doubled starting from the date of the breach;
- 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;

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- 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, Dr. Bao Xiaoli 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-origination 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 upgrade 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,			As of June 30,	Requirement
	2015	2016	2017	2018	
			(%)		
Core tier-one capital adequacy ratio <sup>(1)</sup> .....	30.81%	19.98%	37.12%	32.45%	≥5%
Tier-one capital adequacy ratio <sup>(2)</sup> .....	30.81%	19.98%	37.12%	32.45%	≥6%
Capital adequacy ratio <sup>(3)</sup> .....	31.50%	20.66%	37.89%	33.59%	≥8%
Liquidity ratio <sup>(4)</sup> .....	3,248.27%	105.62%	235.41%	95.44%	≥25%

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	As of December 31,			As of June 30,	
	2015	2016	2017	2018	Requirement
			(%)		
Overall non-performing loan ratio <sup>(5)</sup> .....	0.03%	0.37%	0.28%	0.24%	≤5%
Provision coverage ratio <sup>(6)</sup> .....	2,638.17%	264.08%	354.69%	607.60%	N/A
Provision for impairment losses ratio <sup>(7)</sup> .....	0.66%	0.99%	1.00%	1.45%	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—Regulation 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—Regulation 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—Regulation 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.”

### 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. We determine interest rates on our loan products by taking into account the creditworthiness of the customers our funding costs, potential impairment



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## BUSINESS

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losses, target operating profits, interest rates of comparable products in the market, and regulatory requirements of loan interest rates. 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.

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. 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.

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.

## CUSTOMERS

Our customers primarily include retail loan customers and dealer loan customers. For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, we disbursed and facilitated in aggregate 7,140, 36,494, 45,309 and 45,057 retail loans, respectively, substantially all of which were to individual customers. During the same periods, we disbursed 3,274, 5,460, 5,749, and 2,441 dealer loans.

In 2015 and 2016, our five largest customers consisted solely of dealers. In 2017 and the six months ended June 30, 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:

### *Period from March 11 to December 31, 2015*

<u>Customers</u>	<u>Business Nature</u>	<u>Revenue Contribution<sup>(1)</sup></u>
Customer A	Zhengtong Dealer	1.79%
Customer B	External Dealer	1.55%
Customer C	Zhengtong Dealer	1.34%
Customer D	External Dealer	1.13%
Customer E	External Dealer	1.07%
<b>Total</b>		<b>6.88%</b>

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*Year ended December 31, 2016*

<b>Customers</b>	<b>Business Nature</b>	<b>Revenue Contribution</b>
Customer D	External Dealer	0.81%
Customer E	External Dealer	0.76%
Customer F	Zhengtong Dealer	0.72%
Customer C	Zhengtong Dealer	0.64%
Customer G	External Dealer	0.60%
<b>Total</b>		<b>3.53%</b>

*Year ended December 31, 2017*

<b>Customers</b>	<b>Business Nature</b>	<b>Revenue Contribution</b>
Customer H	Commercial bank	1.31%
Customer G	External Dealer	0.52%
Customer E	External Dealer	0.51%
Customer I	Zhengtong Dealer	0.44%
Customer B	External Dealer	0.41%
<b>Total</b>		<b>3.19%</b>

*Six Months ended June 30, 2018*

<b>Customers</b>	<b>Business Nature</b>	<b>Revenue Contribution</b>
Customer H	Commercial bank	3.22%
Customer B	External Dealer	0.40%
Customer G	External Dealer	0.37%
Customer E	External Dealer	0.35%
Customer J	External Dealer	0.25%
<b>Total</b>		<b>4.59%</b>

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.”

## **BUSINESS**

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We have established a marketing department in Shanghai and also set up sales teams in over 102 cities as of June 30, 2018, responsible for the development of our business across China. As of June 30, 2018, we had a sales team of 260 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 at a lower capital cost which are 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 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 32 banks in China with which we had outstanding placements or unutilized credit facilities.

### **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.

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As of June 30, 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.

### INSURANCE

We maintain standard insurance in line with industry practice. Our insurance coverage is provided by reputable companies in accordance with commercially reasonable standards. During the Track Record Period, we did not experience any business interruptions which had a material adverse effect on our business. 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 default insurance for our loan products. We require our retail loan end customers to maintain relevant insurance for the car financed and appoint us 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 June 30, 2018, we had 411 full-time employees, all of whom had entered into employment contracts with us. As of June 30, 2018, 9.8% of our employees held Master’s degrees. The following tables shows a breakdown of our employees by function as of June 30, 2018:

<b>Business function</b>	<b>Number of employees</b>	<b>Percentage of total</b>
		(%)
Business operation .....	90	21.9%
Finance and capital .....	14	3.4%
Sales and marketing .....	260	63.3%
Risk management .....	5	1.2%
General and administrative .....	42	10.2%
<b>Total</b> .....	<b>411</b>	<b>100.0%</b>

## **BUSINESS**

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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, 2015, 2016 and 2017 and the six months ended June 30, 2018, our total staff cost was approximately RMB14.0 million, RMB28.0 million, RMB34.8 million and RMB30.2 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 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 document, 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.

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 document.

## **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.

Since our inception, we have been committed to building a comprehensive credit information database of loan applicants. Leveraging this comprehensive database, our algorithm-based credit risk assessment model is able to label loan applicants with different creditworthiness levels based on their credit profile and quickly decide which loan applications shall be approved or denied. After loan disbursement, 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, allowing us to proactively manage loan default risks. We have also purchased from third parties certain IT systems.

In addition, we have adopted various IT safety measures to enhance our information safety management, including firewalls, data encryption and intrusion detection. In addition, we have adopted measures to back up data for our systems and communication networks on a real-time basis to reduce risks arising from system failure. We plan to continue to optimize and upgrade the functionality of our IT system in the future.

## **BUSINESS**

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### **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.

### **INTELLECTUAL PROPERTY**

As of June 30, 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 VII — 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.

### **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 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 2,206.6 square meters. The expiration dates of the relevant lease agreements range from December 15, 2018 to September 30, 2019, all of which have renewal options.

As of June 30, 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 document 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.

As of the Latest Practicable Date, we, as a tenant, did not register one lease agreement with a total gross floor area of 1,322.16 square meters. This lease agreement will expire on December 15, 2018 and we have no intention to renew this agreement upon its expiration. PRC Legal Advisors have advised us that the lack of registration will not affect the validity and enforceability of this lease agreement. However, the relevant government authorities may require us to rectify these unregistered lease agreements within a certain period of time and, if we fail to so rectify during the prescribed period, 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.”

## **BUSINESS**

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### **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.

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, except as disclosed in this document, we have complied with all major PRC laws and regulations in all material respects. 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 provident housing funds for certain employees who are based outside Shanghai.

## **BUSINESS**

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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 provident housing 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 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. We have been exploring various options to rectify such noncompliance and plan to rectify the issue after [REDACTED]. 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.”



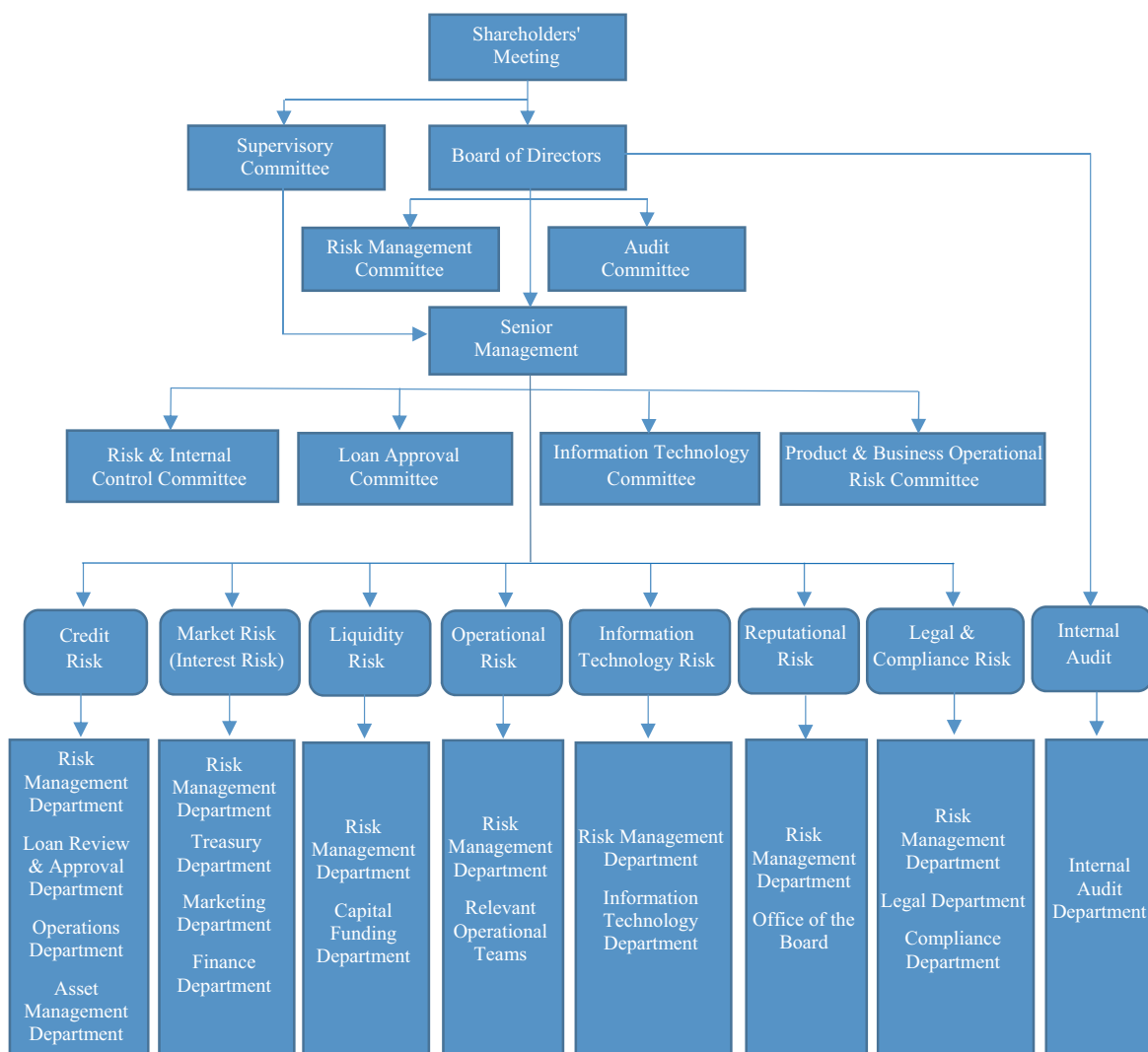
## RISK MANAGEMENT

### 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:



## **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, supervising the implementation of various risk management measures, etc.

## **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-origination 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 of a disbursement center (which in turn consists of a preliminary disbursement review team and a secondary disbursement review team), post-origination management team, file management team, dealer loan monitoring team, and customer service center.

## **RISK MANAGEMENT**

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- **Asset Management Department**, which comprises of a loan collection team, outsourcing management team, and write-off management team.
- **Treasury Department**, which is responsible for liquidity risk management and capital risk management.
- **Marketing Department**, which comprises of 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 origination process. We have stipulated standardized policies and procedures for loan application review and approval, loan disbursement, as well as post-origination management. We seek to improve our overall credit risk management capabilities through a variety of measures, as detailed below.

## **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-origination 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***

Retail loan application materials are typically collected through dealers we work with, who will also perform a preliminary examination of the accuracy and completeness of the application materials.

### ***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. 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 and assisted by our big data analytics.

If we cannot determine whether we should approve or deny a loan application based on the information we have and our analysis of the loan applicant’s loan repayment capability, 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》) if needed.

### ***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 Management Committee, Loan Approval Committee, the general manager, and authorized employees at the Loan Review & Approval Department. In some cases where the amount is over RMB900,000, several approval levels may be involved.

## **RISK MANAGEMENT**

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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 is has gambling addiction or alcohol abuse.

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.

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 certain prescribed amount.

### *Loan Execution*

After the loan application is approved, the loan agreement shall be executed by the applicant in person with the witness by our employee dispatched at 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 employee shall record the execution process by photo or video and shall also verify the identity of guarantor or provider of collaterals, if applicable.

### *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.

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## **RISK MANAGEMENT**

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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-Origination 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) 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.

<u>Classification</u>	<u>Overdue Time</u>	<u>Note</u>
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>

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**RISK MANAGEMENT**

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Classification	Overdue Time	Note
Sub-standard	61-90 days	In any of the circumstances below, the loan should be at least be classified as sub-standard: <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, the 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-origination Management Team at our Operations Department will then complete the acceleration process in our system.

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



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## **RISK MANAGEMENT**

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### *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.

<b>Classification</b>	<b>Loan Collection Method</b>
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.

### *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-origination 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-Origination Management Risk Alert Plan (《批售經銷商貸後管理預警方案》).

## **RISK MANAGEMENT**

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### *Application and Acceptance*

Our Marketing Department is responsible for collecting dealer loan application materials. 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 has engaged in any material breach of contract.

### *Review*

Our Marketing Department collects loan application materials from the dealers we work with, conducts due diligence of 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-origination due diligence report, covering the background, organizational structure, operating scope, and key business strategy of the dealer.

Based on the pre-origination 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.

### *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 of over RMB100 million may only be approved by the Board. The amount of the loans shall be determined based on 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.

We also engage in various risk control measures such as requiring the provision of collaterals or third-party guarantee as a condition for approval.

## **RISK MANAGEMENT**

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### *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 organization that sell cars to the dealer or to the dealer directly if the loan value does not exceed RMB10 million.

### *Post-Origination 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-origination management report and make at least one on-site inspection to External Dealers every six months.
- The Loan Review & Approval Department is responsible for examining the post-origination management report and the on-site inspection records to monitor the dealer assets and financial conditions.
- 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-Origination Management Risk Alert Measures.
- All of our employees shall notify the Risk Management Department any risks they identified from their interactions with the dealer.

## **RISK MANAGEMENT**

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- The Risk Management Department shall, based on the feedback they received and the risk alert scores, and 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 on Bad Books Attraction and Write-off for Financial Enterprises (《金融企業呆帳核銷管理辦法》). We write off 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. During the years ended December 31, 2015, 2016, 2017 and June 30, 2018, we wrote off an aggregate amount of nil, RMB6.4 million, RMB21.8 million and RMB12.7 million loans and advances to customers.

Our Administrative Guidelines for Non-performing Loan Write-Offs specify circumstances under which loans shall be deemed 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.

## **RISK MANAGEMENT**

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Our Board of Directors 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 will examine the reasons why the loan became non-performing and identify the parties who should be held accountable for the impairment loss.

### **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.

Our liquidity risk management in general can be categorized into routine liquidity risk management and emergency 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:** 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;
- **Cash flow management:** Monitor cash flows, identify potential capital gaps and duration mismatch, and prevent undue reliance on short-term funding;
- **Cap management:** 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.;

## **RISK MANAGEMENT**

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- 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;

### ***Emergency 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.

### **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 service, 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., risks 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 conducts static measurements of the repricing and maturity match characteristics of our assets and liabilities and evaluates the potential impact of changes in interest rates. It also periodically submits interest rate gap reports and interest rate risk evaluation reports to our senior management, the Risk Management Committee and 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.

## **RISK MANAGEMENT**

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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.
- closely monitor our various business lines, products, relevant systems, transaction records, and credit limit;
- timely adjust our systems, mechanisms, and procedures based on flaws identified;
- 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 and provide adequate on-board training;
- 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:

- Establishing IT strategies, standards and procedures that are consistent with our overall business plan and strategies, and regularly assessing the effectiveness and efficiency of IT risk management;

## **RISK MANAGEMENT**

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- Standardizing employees’ professional ethical practices and anti-corruption awareness, and strengthening our work culture to raise employees’ awareness of the importance of IT risk management;
- Recruiting talented IT professionals and continuing to invest in the development, operation, maintenance, security management of our IT system and crisis preparation;
- Strengthening internal control, implementing information classification and protection, and standardizing the management of IT outsourcing;
- Regularly conducting audits into our IT risk management and timely rectifying issues identified; and
- Establishing and continuously improving 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:

- Allocating adequate resources to manage our reputational risks;
- Cultivating a culture of reputational risk management across the company and improving employees’ reputational risk awareness;
- Developing reputational risk management mechanisms, policies, and procedures, regularly reviewing reputational risks and preparing reputational risk assessment reports;
- Establishing mechanisms to handle customers complaints, maintaining customer relationships, protecting customer interests and improving customer satisfaction;
- Establishing centralized management of press releases and information disclosure to the public;
- Establishing public opinion monitoring and evaluation mechanisms and timely addressing false or inaccurate media coverage; and



## **RISK MANAGEMENT**

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- Developing and continuously improving contingency plans for events that might affect our reputation, classifying such events into different categories and specifying the authorities and obligations for parties involved.

### **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:

- Requiring 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;
- Adopting standard form agreements for frequent operational activities to reduce legal risks; and
- Conducting 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 type 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 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 noncompliance issues, establishing compliance management framework, and approving compliance risk management working plans. Our Compliance Department is responsible for daily compliance risk management, while our Internal Audit Department conducts compliance audit of our operating activities and works together with the Compliance Department to mitigate our compliance risks.

We carry out compliance risk management mainly through the following measures:

## **RISK MANAGEMENT**

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- Strengthening the culture of compliance across the company and especially among senior management, promoting the value of integrity and honesty, and continuously improving employees’ compliance awareness;
- Providing sufficient resources to support compliance work, establishing a sizable compliance management team with appropriate qualifications, experience, and expertise , specifying the management responsibilities of compliance officers and the Compliance Department;
- Establishing an effective compliance assessment mechanism;
- Staying up to date with the latest developments in laws and regulations, maintaining positive relationships with the regulatory authorities, and timely filing submissions to regulatory authorities;
- Establishing compliance indicator monitoring mechanisms and regularly preparing compliance risk assessment reports;
- Establishing compliance advisory and analysis mechanisms for new business and products prior to their launch;
- Establishing compliance accountability policies, adopting effective rectification measures, and regularly updating relevant compliance policies, procedures, and operational guidelines; and
- Establishing 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 in-charge person for anti-money laundering risk management, responsible for directing the Compliance Department to conduct daily anti-money laundering work. 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:

- Continuing to carry out anti-money laundering training and awareness education;
- Building a sizable, experienced and qualified anti-money laundering team and providing the team with sufficient technical and information access support;

## **RISK MANAGEMENT**

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- Adopting various know-your-customer procedures and maintaining thorough record-keeping;
- Establishing anti-money laundering self-assessment mechanisms, regularly assessing the overall effectiveness of our anti-money laundering internal controls, and promptly adjusting our anti-money laundering efforts based on the results of the assessment;
- Developing an anti-money laundering internal audit mechanism, conducting targeted anti-money laundering internal audits as planned, and timely addressing issues identified; and

## **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, Supervisory Committee, 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, provides the Board with their professional opinions and make decisions within the Board’s authority.
- **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.

## **RISK MANAGEMENT**

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- **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 [REDACTED], ZhengTong will hold approximately [[REDACTED]%) of our issued share capital (assuming the [REDACTED] is not exercised) and [[REDACTED]%) of our issued share capital (assuming the [REDACTED] is exercised in full). Therefore, the Wang Family Trusts Founders, Joy Capital and ZhengTong will be our Controlling Shareholders upon [REDACTED].

### **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. 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 document. At the inception of our business, we strategically focused on developing our business within the network of ZhengTong Dealers 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 innate relationship with ZhengTong Dealers, which helped facilitating a smoother and more efficient execution of the loan disbursement process while advancing our risk control management. As a result, in the first three years of our operating history, we provided more retail loan facilitation services to External Customers, under which we served as an intermediary facilitating loan transactions between end customers and

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**RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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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 period from March 11 to December 31,		For the year ended December 31,			For the six months ended June 30,		
	2015		2016	2017		2018		
Total number of self-operated retail loans disbursed to ZhengTong Customers . . . . .	4,801	100%	11,763	100%	15,230	100%	21,640	100%
Total number of retail loans facilitated to ZhengTong Customers . . . . .	—	—	—	—	—	—	—	—
<b>Total number of loans disbursed/facilitated to ZhengTong Customers . . . . .</b>	<b>4,801</b>	<b>100%</b>	<b>11,763</b>	<b>100%</b>	<b>15,230</b>	<b>100%</b>	<b>21,640</b>	<b>100%</b>
Total number of self-operated retail loans disbursed to External Customers . . . . .	1,480	63.3%	3,785	15.3%	3,424	11.4%	6,372	27.2%
Total number of retail loans facilitated to External Customers . . . . .	859	36.7%	20,946	84.7%	26,655	88.6%	17,045	72.8%
<b>Total number of loans disbursed/facilitated to External Customers . . . . .</b>	<b>2,339</b>	<b>100%</b>	<b>24,731</b>	<b>100%</b>	<b>30,079</b>	<b>100%</b>	<b>23,417</b>	<b>100%</b>

## 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:

	Period from March 11 to December 31,		Year Ended December 31,				Six Months ended June 30,	
	2015		2016		2017		2018	
	RMB	%	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages)							
<b>Interest income <sup>(1)</sup></b>								
ZhengTong Customers . . . . .	30,253	69.4%	204,631	80.2%	311,919	80.1%	272,926	80.0%
External Customers . . . . .	13,355	30.6%	50,411	19.8%	77,590	19.9%	68,104	20.0%
<b>Total</b> . . . . .	43,608	100.0%	255,042	100.0%	389,509	100.0%	341,030	100.0%
<b>Service fee <sup>(2)</sup></b>								
ZhengTong Customers . . . . .	—	—	621	0.4%	8,233	4.0%	15,728	12.1%
External Customers . . . . .	23,665	100.0%	168,213	99.6%	195,920	96.0%	114,296	87.9%
<b>Total</b> . . . . .	23,665	100.0%	168,834	100.0%	204,153	100.0%	130,024	100.0%
<b>Revenue from retail loan business</b>								
ZhengTong Customers . . . . .	30,253	45.0%	205,252	48.4%	320,152	53.9%	288,654	61.3%
External Customers . . . . .	37,020	55.0%	218,624	51.6%	273,510	46.1%	182,400	38.7%
<b>Total</b> . . . . .	67,273	100.0%	423,876	100.0%	593,662	100.0%	471,054	100.0%

Note:

- (1) Equals to interest income from our self-operated retail loan business as adjusted by dealers’ administrative costs in loan application.
- (2) Includes fee and commission income arising from consulting services and joint loan services.

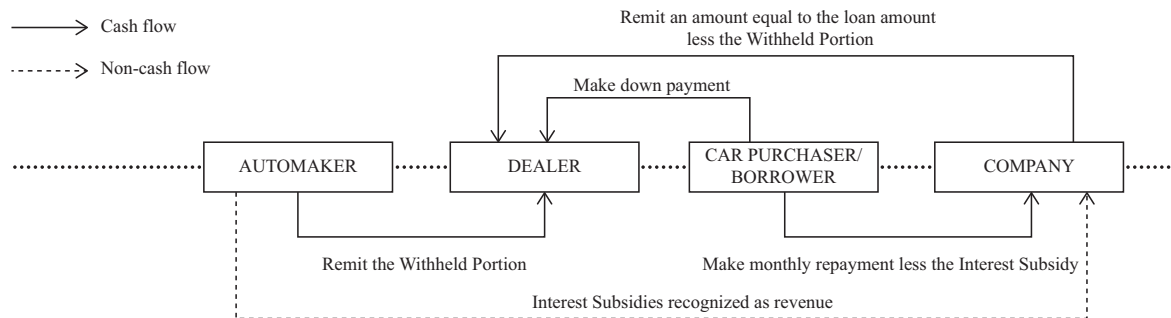
During the Track Record Period, the increase in the amount and proportion of the revenue generated from ZhengTong Customers under the retail loan business was primarily driven by: (1) the continuous development of our self-operated retail loan business; and (2) the difference in the nature and recognition 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.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### *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.

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 nil, RMB99.7 million, RMB152.7 million and RMB84.9 million, respectively, for the years ended December 31, 2015, 2016, 2017 and the six months ended June 30, 2018. Pursuant to applicable accounting policy, we recorded interest income from such Interest Subsidy in an amount of nil, RMB28.2 million, RMB89.0 million and RMB82.3 million, respectively, for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018. See note 29 to the accountant’s report set out in Appendix I to this document. 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.

### *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, nil, RMB80.1 million and RMB121.3 million, respectively, for the years ended December 31, 2015, 2016, 2017 and the six months ended June 30, 2018. The interest income recognized from such Interest Subsidies provided by ZhengTong Dealers



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## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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was nil, nil, RMB12.0 million and RMB49.8 million, respectively, for the years ended December 31, 2015, 2016, 2017 and the six months ended June 30, 2018. We do not plan to undertake any joint promotion arrangement with the ZhengTong Dealers after [REDACTED] in order to focus our marketing effort with the External Dealers. We will continue to recognise interest revenue from the ZhengTong Dealers after [REDACTED] arising from the joint promotion transactions with the ZhengTong Dealers which were concluded and consummated prior to [REDACTED]. Since any further revenue to be recognised under such arrangements is a mere result of accounting treatment, we do not treat the historical joint promotion arrangements with the ZhengTong Dealers as connected transactions upon [REDACTED]. For more details, see “Business — Self-operated Retail Loan Business.”

### ***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. For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, the administrative costs we expensed was nil, RMB0.2 million, RMB3.0 million, and RMB2.6 million, respectively. We expect such administrative service to continue after [REDACTED]. See also “Connected Transactions — Non-Exempt Continuing Connected Transactions — 2. 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. 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 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 RMB1.5 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, 2015, 2016 and 2017 and the six months ended June 30, 2018, the aggregate amount of interest income generated from the Remaining Group was RMB3.6 million, RMB14.5 million,

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

RMB27.7 million and RMB7.1 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 period from March 11 to December 31,	For the Year ended December 31,		For the six months ended June 30,
	2015	2016	2017	2018
	(RMB in millions, except percentages)			
Interest income generated from ZhengTong Dealers and as a percentage of the total interest income	3.6 48.0%	14.5 50.9%	27.7 67.7%	7.1 37.6%
Interest income generated from External Dealers and as a percentage of the total interest income	3.9 52.0%	14.0 49.1%	13.2 32.3%	11.8 62.4%
<b>Total interest income from dealer loan business</b>	<b>7.5</b>	<b>28.5</b>	<b>40.9</b>	<b>18.9</b>

	As of December 31,			As of June 30,
	2015	2016	2015	2018
	(RMB in millions, except percentages)			
Gross outstanding balances of dealer loans disbursed to ZhengTong Dealers and as a percentage of the total gross outstanding balances of dealer loans	237.0 48.7%	213.4 60.0%	716.4 78.2%	134.0 41.2%
Gross outstanding balances of dealer loans disbursed to External Dealers and as a percentage of the total gross outstanding balances of dealer loans	249.3 51.3%	142.2 40.0%	199.6 21.8%	191.3 58.8%
<b>Total gross outstanding balances of dealer loans</b>	<b>486.3</b>	<b>355.6</b>	<b>916.0</b>	<b>325.3</b>

## 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. For a more detailed description, see “Business” in this document.

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## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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### **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.

### **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.

## **NON-COMPETITION UNDERTAKING**

### **Non-competition**

On [●], 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

## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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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 in writing, 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 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.

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## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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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.

### **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);

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (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.

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

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## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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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 [REDACTED].

#### **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 [REDACTED]. Mr. Koh Tee Choong is our non-executive Director and will not be involved in the day-to-day management and operations of our 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 document 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 Retained ZhengTong Group upon [REDACTED]; 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

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## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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“Directors, Supervisors and Senior Management” in this document 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;
- 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;



## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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- 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 [REDACTED].

(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 the [REDACTED].

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 holds any directorship or management position in the ZhengTong Group.

## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS**

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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 [REDACTED]:

- 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 [REDACTED];
- 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 986 dealers as of June 30, 2018, while ZhengTong operates its 4S dealership business through its network of 4S dealership outlets. In addition, as disclosed in “Future Plans and [REDACTED]”, we expect to use [REDACTED]% of the proceeds from the [REDACTED] to support the development of our business with External Customers. We expect to increase revenue from External Customers after [REDACTED]; 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.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### 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. 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 placed by ZhengTong amounted to RMB421.0 million, and the unutilized banking facilities we secured from other commercial banks or third party financial institutions free of any guarantee from ZhengTong is 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 RMB78.0 million in 2015 to RMB462.0 million in 2017, and our net profit for the year increased from RMB24.8 million in 2015 to RMB260.8 million in 2017. We have therefore been in a strong business and financial position before the receipt of the Time Deposits.

In addition, while currently certain of our placements from banks and other financial institutions are guaranteed by the Remaining Group, such guarantees will be released prior to [REDACTED].

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 [REDACTED].

## 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 [REDACTED].

### SUMMARY OF OUR CONNECTED PERSONS

We have entered into certain transactions which will constitute our continuing connected transactions following the [REDACTED] 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,		
			2018	2019	2020
(in RMB million)					
<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. Revolving Loan Facility 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	1,500	1,500	1,500
2. 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	6	15	20

### 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 [●], 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 [REDACTED] and expire on [December 31,

## **CONNECTED TRANSACTIONS**

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2020], subject to early termination by mutual agreement of the parties. The interest rate offered by us 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 RMB793 million as at June 30, 2018, and the balance accounts for approximately 9.75% of our total assets as at June 30, 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.

### **NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

We set out below a summary of the continuing connected transactions for our Company, which 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.

#### **1. Revolving Loan Facility Framework Agreement**

##### ***Description of the Agreement***

On [●], 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 [REDACTED] and expire on [December 31, 2020], 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.

## **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, 2015, 2016 and 2017 and June 30, 2018, the maximum daily outstanding amount of the loans provided by us to the ZhengTong Dealers were RMB237.0 million, RMB269.8 million, RMB939.1 million and RMB716.4 million, respectively. For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, the aggregate amount of interest income derived from the loans provided by us to the ZhengTong Dealers were approximately RMB3.6 million, RMB14.5 million, RMB27.7 million and RMB7.1 million, respectively.

For the years ending December 31, 2018, 2019 and 2020, the maximum outstanding balance of the loans provided by our Company to the ZhengTong Dealers at any time are expected to be RMB1,500 million, RMB1,500 million and RMB1,500 million, respectively. When estimating the annual caps, our Directors have taken into consideration the historical amounts of maximum daily balance of loans granted by us to the ZhengTong Dealers, the future development of the automobile industry, the overall business development of the Company, the future development strategy of the Company and the applicable requirements under applicable PRC laws and regulations.

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. Based on our registered capital contributed by ZhengTong as of the Latest Practicable Date, the cap set out above meets such requirements.

## **CONNECTED TRANSACTIONS**

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### **2. 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 [●], 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 [REDACTED] and expire on [December 31, 2020], 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

## **CONNECTED TRANSACTIONS**

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[REDACTED] we will still have such arrangement in place to facilitate the fast-growing operations of our 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, 2015, 2016 and 2017 and the six months ended June 30, 2018, the administrative costs we expensed was nil, RMB0.2 million, RMB3.0 million and RMB2.6 million, respectively.

For the years ending December 31, 2018, 2019 and 2020, the maximum amounts of reimbursement to be expensed are expected to be RMB6 million, RMB15 million and RMB20 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.

## **WAIVER APPLICATIONS**

### **Revolving Loan Facility Framework Agreement and Administrative Cost Reimbursement 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 both of the Revolving Loan Facility Framework Agreement and 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.

As the transactions under the Revolving Loan Facility Framework Agreement and the Administrative Cost Reimbursement Framework Agreement will continue after the [REDACTED] on a recurring basis, our Directors consider that strict compliance with the announcement requirement 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.



## **CONNECTED TRANSACTIONS**

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[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 the announcement requirement under the Listing Rules in respect of such transactions, provided that the total values of such transactions for each of the years ending December 31, 2018, 2019 and 2020 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:

<b>Name</b>	<b>Age</b>	<b>Date of joining our Company</b>	<b>Date of appointment<sup>1</sup></b>	<b>Position/Title</b>	<b>Roles and responsibilities</b>
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)	59	August 2018	August 2018	Non-executive Director	Provide professional advice and judgments to the Board
Mr. Yin Yaoliang (殷耀亮)	54	July 2018	July 2018	Non-executive Director	Provide professional advice and judgments to the Board
Dr. Bao Xiaoli (鮑曉莉)	43	August 2018	August 2018	Independent Non-executive Director	Give objective and independent opinions on matters decided by the Board
Mr. Lin Zheyang (林哲瑩)	53	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

<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 Construction Bank of China (中國建設銀行). 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 master’s degree in economic law from Wuhan University (武漢大學) in July 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 Construction Bank of China (中國建設銀行) in December 2000.

**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 Science and Technology Limited (深圳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 Yungjun will cease to act as an executive director of ZhengTong upon [REDACTED].

Mr. Shao received a bachelor’s degree 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.

### **Non-executive Directors**

**Mr. Koh Tee Choong (許智俊)**, aged 59, is a non-executive Director. He was appointed as such in August 2018. Mr. Choong 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. Choong 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.

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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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Since January 2017 and up to the Latest Practicable Date, Mr. Choong has served as an executive director and chief executive officer of ZhengTong.

Mr. Choong 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. Choong received a master’s degree in Business Administration from the University of Durham in December 1991 through distant learning. Mr. Choong also obtained a diploma in marketing from The Institute of Marketing in November 1986.

**Mr. Yin Yaoliang (殷耀亮)**, aged 54, 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.

Mr. Yin has over 30 years of accounting and managing experience in the automobile manufacturing industry. 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.

### **Independent non-executive Directors**

**Dr. Bao Xiaoli (鮑曉莉)**, aged 43, is an independent non-executive Director. She was appointed as such in August 2018. Dr. Bao is responsible for giving objective and independent financial opinions on matters decided by the Board. Dr. Bao is our Director who has the appropriate related financial management expertise for the purpose of Rule 3.10(2) of the Listing Rules through her experience listed below.

From October 2004 to December 2006, Dr. Bao was a postdoctoral researcher at Shenzhen Capital Group Co., Ltd. (深圳市創新投資集團有限公司, “**Shenzhen Capital**”), which is associated with Zhejiang University, conducting research on venture capital. From January 2007 to February 2016, she concurrently served as an assistant to the secretary-general and an investment manager of the investment commission, a deputy director of the project management department and deputy secretary-general of the risk control commission at Shenzhen Capital. Since December 2015, Dr. Bao has been concurrently serving several positions at the following entities (collectively referred to as “**Qianhai**”) including as a managing partner of Qianhai Equity Investment Fund (Limited Partnership)\* (前海股權投資基金(有限合夥)) and deputy general manager of Qianhai Fangzhou Asset Management Co., Ltd.\* (前海方舟資產管理有限公司). Since June 2016, Dr. Bao has been serving as a supervisor of Yujiahui Co., Ltd. (禦家匯股份有限公司) (“**Yujiahui**”), an internet and beauty makeup company which is listed on the Shenzhen Stock Exchange (stock code: 300740).

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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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Dr. Bao received a bachelor’s degree in engineering with a major in mold design and manufacturing from Hubei Technology Collage (湖北工學院, currently known as Hubei University of Technology (湖北工業大學)) in June 1997, and received a master’s degree in engineering with a major in material science from Wuhan Automobile Polytechnic University (武漢汽車工業大學, currently known as Wuhan University of Technology (武漢理工大學)) in April 2000, and received a doctoral degree in management with a major in management science, and engineering from Huazhong University of Science and Technology (華中科技大學) in December 2003. Dr. Bao is skilled in analyzing internal control systems and financial reports of a company, and providing financial supervision and consultation while mastering financial and risk analysis tools.

Dr. Bao was awarded as a business management senior economist by Shenzhen Human Resources and Social Security Bureau in March 2011. Such title was awarded to those who (1) are equipped with systematic economical knowledge, (2) have expertise in economic field, (3) have substantial work experience in economy, and (4) are capable of leading the management of medium- to large-sized enterprises.

**Mr. Lin Zheyang (林哲瑩)**, aged 53, 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 foreign investment administration cadre (外資管理幹部) in the Department of Foreign Investment Administration of the MOFCOM, in charge of promoting international trade in goods and 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 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 focusing 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 working at Shenzhen SF Tyson Holdings (Group) Co. Limited (深圳順豐泰森控股(集團)有限公司), a general express delivery company. Since January 2018, he has been serving as its senior vice president. Since December 2016, he has been serving as the vice president and an executive director of SF Express (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, which is listed on the Stock Exchange (stock code: 1182, now known as Success Dragon International Holdings Limited), an information consulting service company.

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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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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 Guanghai 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.

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 document 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.

### **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:

<b>Name</b>	<b>Age</b>	<b>Date of joining our Company</b>	<b>Date of appointment</b>	<b>Position/Title</b>	<b>Roles and responsibilities</b>
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 severed 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 severed 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 December 2009.

Ms. Li received a bachelor’s degree in industrial management engineering from Hunan University (湖南大學) in December 1999.

**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 Hubei 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.

## **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 director 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).

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 president of Hubei Xinrui Automobile Sales 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 president 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 president 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 office 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.

### **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:

<b>Name</b>	<b>Age</b>	<b>Date of joining our Company</b>	<b>Date of appointment<sup>1</sup></b>	<b>Position/Title</b>	<b>Roles and responsibilities</b>
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)	45	August 2017	August 2017	Chief information officer	In charge of the information system management and science 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). From March 2010 to February 2012, Mr. Wang served as a deputy general

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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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manager of the medium-sized and small 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 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 industry and business administration from Shanghai Jiao Tong University (上海交通大學) in July 2004.

**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 issue 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 the Human Resources Department of Hubei Province 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 45, 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 science and technology risk management of the Company.

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).

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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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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** 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 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.

### **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.

#### **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 Dr. Bao Xiaoli, Mr. Lin Zheyang and Ms. Liang Yanjun. All of them are independent non-executive Directors. Dr. Bao Xiaoli 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;

## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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- (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.

### **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;

## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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- (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 Dr. Bao Xiaoli, 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;
- (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;

## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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- (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 contact 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 Dr. Bao Xiaoli. 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;
- (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;

**DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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- (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 approve or review, as authorized by the Board, large amount of credit granted to wholesale customers and large amount of business loans granted to retail customers within the scope of authorization;
- (vii) To approve the write-off of non-performing loans in annual budget according to the Company’s policy on the write-off of non-performing loans; and approve the five-level classification results of the Company’s retail and wholesale loans for every month according to the Company’s five-level loan classification policy;
- (viii) To approve the risk management quantitative tools and major stress test reports;
- (ix) 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;
- (x) To review annual reports on information technology risk management submitted to the CBIRC and its local agencies and submit them to the Board for approval;
- (xi) To establish an effective communication mechanism with other special committees under the Board to ensure that information can be fully shared and supportive of decisions on information technology management;
- (xii) To review the information technology management plan of the Company or adjustment plan thereof, and provide a decision-making basis for information technology investment projects;
- (xiii) To review the commercial terms entered into between the Company and auto manufacturers, car dealers and other cooperation channels; and
- (xiv) To review the development, pricing and marketing strategies of the Company’s financial products.

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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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### **REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 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, nil, RMB1.3 million and RMB0.9 million, respectively.

For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 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 RMB3.8 million, RMB6.2 million, RMB6.5 million and RMB3.6 million, respectively.

For the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 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, 2015, 2016 and 2017 and the six months ended June 30, 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.

In accordance with the effective arrangements as of the Latest Practicable Date, we estimate that we shall pay and grant a remuneration in the aggregate amount of 1.8 million to our Directors and Supervisors for the year ending December 31, 2018.

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, 2015, 2016 and 2017.

### **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 [REDACTED] in a manner different from that detailed in this document or where our business activities, developments or results deviate from any forecast, estimate or other information in this document; and



**DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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- 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 [REDACTED], divided into [REDACTED] Shares of par value RMB1.00 each, including [REDACTED] Domestic Shares and [REDACTED] Unlisted Foreign Shares, with a nominal value of RMB1.00 each.

Assuming the [REDACTED] is not exercised, the share capital of our Company immediately after the [REDACTED] will be as follows:

<u>Description of Shares</u>	<u>Number of Shares</u>	<u>Approximate percentage of share capital</u>
Domestic Shares . . . . .	[REDACTED]	[REDACTED]
H Shares issued pursuant to the [REDACTED] . . . . .	[REDACTED]	[REDACTED]
H Shares to be converted from Unlisted Foreign Shares <sup>(1)</sup> . . . . .	[REDACTED]	[REDACTED]
<b>Total</b> . . . . .	<u>[REDACTED]</u>	<u>[REDACTED]</u>

*Note:*

(1) These H Shares are to be converted from Unlisted Foreign Shares into H Shares and held by an existing Shareholder, ZhengTong. Please see the paragraph entitled “— Conversion of Unlisted Foreign Shares” in this section.

Assuming the [REDACTED] is exercised in full, the share capital of our Company immediately after the [REDACTED] will be as follows:

<u>Description of Shares</u>	<u>Number of Shares</u>	<u>Approximate percentage of share capital</u>
Domestic Shares . . . . .	[REDACTED]	[REDACTED]
H Shares issued pursuant to the [REDACTED] . . . . .	[REDACTED]	[REDACTED]
H Shares to be converted from Unlisted Foreign Shares <sup>(1)</sup> . . . . .	[REDACTED]	[REDACTED]
<b>Total</b> . . . . .	<u>[REDACTED]</u>	<u>[REDACTED]</u>

*Note:*

(1) These H Shares are to be converted from Unlisted Foreign Shares into H Shares and held by an existing Shareholder, ZhengTong. Please see the paragraph entitled “— Conversion of Unlisted Foreign Shares held by ZhengTong” in this section.

## **SHARE CAPITAL**

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### **RANKING**

[Upon completion of the [REDACTED] and after the Unlisted Foreign Shares held by ZhengTong are converted into H Shares, the Shares of our Company will be divided into two categories: Domestic Shares and H Shares. The two 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, and our Domestic Shares may only be subscribed for and traded in Renminbi. 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, 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 as promoter shares (as defined in the PRC Company Law). 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 document 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 VI to this document, our Domestic 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 document. However, the transfer of Domestic Shares is subject to such restrictions as the PRC law may impose from time to time.]

Save for the [REDACTED], we do not propose to carry out any public or private issue or to place securities simultaneously with the [REDACTED] or within six months after the [REDACTED]. We have not approved any share issue plan other than the [REDACTED].

### **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

## **SHARE CAPITAL**

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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 [REDACTED] (whether or not the [REDACTED] 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 [REDACTED].

### **CONVERSION OF OUR UNLISTED FOREIGN SHARES INTO H SHARES**

#### **Conversion of Unlisted Foreign Shares**

As at the date of this document, we have two classes of ordinary shares, Unlisted Foreign Shares and Domestic Shares, which are unlisted Shares. Upon completion of the [REDACTED] and after the Unlisted Foreign Shares held by ZhengTong converted into H Shares, all unlisted Shares are Domestic Shares held by Dongfeng and therefore, the scope of our unlisted Shares will be the same as the scope of our Domestic 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.

## **SHARE CAPITAL**

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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 [REDACTED] to issue H Share certificates. Registration on our H Share Register will be conditional on (i) our [REDACTED] 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 [REDACTED] and the [REDACTED] 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.

### **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 VI — Summary of the Articles of Association of the Company” to this document.

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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 [REDACTED] (but not taking into account any H Shares which may be allotted and issued pursuant to the exercise of the [REDACTED]), 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:

Name of Shareholder	Capacity/ nature of interest	Class of Shares	Number of Shares held	Approximate percentage of shareholding
ZhengTong <sup>(1)</sup>	Beneficial interest	H Share <sup>(2)</sup>	[REDACTED]	[[REDACTED] %]
Joy Capital <sup>(1)</sup>	Interest in a controlled corporation	H Share <sup>(2)</sup>	[REDACTED]	[[REDACTED] %]
Mr. Wang Muqing <sup>(1)</sup>	Founder of a discretionary trust	H Share <sup>(2)</sup>	[REDACTED]	[[REDACTED] %]
Mr. Wang Weize <sup>(1)</sup>	Founder of a discretionary trust	H Share <sup>(2)</sup>	[REDACTED]	[[REDACTED] %]

*Notes:*

(1) ZhengTong is a Controlling Shareholder of the Company and it will directly hold [REDACTED] H Shares converted from Unlisted Foreign Shares immediately following the completion of the [REDACTED], assuming the [REDACTED] is not exercised. The Wang Family Trusts Founders, through the Wang Family Trusts, own all the issued shares of Joy Capital, which in turn was interested in approximately 56.37% of the shares in ZhengTong as at the Latest Practicable Date. Credit Suisse Trust Limited is the trustee of the Wang Family Trusts.

(2) Converted from Unlisted Foreign Shares.

Except as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the [REDACTED] and assuming that the [REDACTED] 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 period from March 11 to December 31, 2015, the year ended December 31, 2016 and 2017, and the six months ended June 30, 2017 and 2018, which are included as Appendix I to this document. 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 document.*

### **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 June 30, 2018, we had total assets of RMB8,134.2 million, loans and advances to customers of RMB7,670.9 million, and placements from banks and other financial institutions of RMB4,854.6 million. We experienced significant growth during the Track Record Period. Our operating income increased from RMB78.0 million for period from March 11 to December 31, 2015 to RMB332.4 million and RMB462.0 million for the years ended December 31, 2016 and 2017, respectively, representing a CAGR of 143.4%. Our operating income grew by 80.3% from RMB212.4 million for the six months ended June 30, 2017 to RMB382.9 million for the same period in 2018. Our net profits increased from RMB24.8 million for the year ended December 31, 2015 to RMB174.5 million and RMB260.8 million for the years ended December 31, 2016 and 2017, respectively, representing a CAGR of 224.4%. Our net profits grew by 64.3% from RMB136.4 million for the six months ended June 30, 2017 to RMB224.1 million for the same period in 2018.

## **FINANCIAL INFORMATION**

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### **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 becomes effective for accounting periods beginning on or after January 1, 2018.

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 document.

### **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 to grow, which will 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



## **FINANCIAL INFORMATION**

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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 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 159 as of December 31, 2015 to 351 as of December 31, 2017 and further to 986 as of June 30, 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.

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### **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) investigate applicants’ credit records through a pre-origination risk management process, (ii) control such credit risk through review process, and (iii) improve our collection on delinquent loans and mitigate the 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 foreclose on collaterals. For a detailed discussion of our risk management system, see “Risk Management.”

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our financial information has 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 document. Except that we adopted HKFRS 9 “*Financial Instruments*” since January 1, 2018, our significant accounting policies 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 document.

### **Change in Accounting Policies**

We have adopted HKFRS 9 “*Financial Instruments*” since January 1, 2018. 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. 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 document.

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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. We have recognized the cumulative effect of initial application as an adjustment to the opening equity as of January 1, 2018. Therefore, comparative information continues to be reported under HKAS 39. 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 document.

### 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:

	For the period from March		For the Year ended or as of		For the Six Months ended	
	11 to or as of	December 31,		or as of June 30,		
	December 31,	December 31,	December 31,	December 31,	December 31,	December 31,
	2015	2016	2017	2017	2018	(unaudited)
Net interest spread <sup>(1)</sup> . . . . .	3.11%	4.02%	3.80%	4.48%	3.64%	
Net interest margin <sup>(2)</sup> . . . . .	5.11%	5.17%	5.55%	5.67%	5.65%	
Return on total assets <sup>(3)</sup> . . . . .	1.57%	5.81%	5.04%	N/A	6.21%	
Return on equity <sup>(4)</sup> . . . . .	5.84%	28.51%	18.90%	N/A	20.77%	
Core tier-one capital adequacy ratio <sup>(5)</sup> . . . . .	30.81%	19.98%	37.12%	28.32%	32.45%	
Capital adequacy ratio <sup>(6)</sup> . . . . .	31.50%	20.66%	37.89%	28.62%	33.59%	

*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 assets equals net profit for the period divided by the average of the opening and closing balances of total assets of the period (in the case of 2016 and 2017, and on an annualized basis in the case of the six months ended June 30, 2018); or divided by the closing balance of total assets of the period and on an annualized basis (in the case of 2015).
- (4) Return on equity equals net profit for the period divided by the average of the opening and closing balances of total equity of the period (in the case of 2016 and 2017, and on an annualized basis in the case of the six months ended June 30, 2018); or divided by the closing balance of total equity of the period and on an annualized basis (in the case of 2015).
- (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—Regulation of Capital Adequacy.”

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- (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—Regulation of Capital Adequacy.”

### RESULTS OF OPERATIONS

The income statement information presented below for the period from March 11 to December 31, 2015, the years ended December 31, 2016 and 2017, and the six months ended June 30, 2017 and 2018 are derived from our financial statements included in the Accountants’ Report set out in Appendix I to this document.

	Period from March 11 to December 31,	Year Ended December 31,		Six Months Ended June 30,	
	2015	2016	2017	2017	2018
	(RMB in thousands)				
	(unaudited)				
Interest income . . . . .	52,462	280,340	424,600	192,032	356,432
Interest expenses . . . . .	(17,510)	(121,148)	(169,768)	(77,557)	(142,181)
<b>Net interest income . . . . .</b>	<b>34,952</b>	<b>159,192</b>	<b>254,832</b>	<b>114,475</b>	<b>214,251</b>
Fee and commission income . . . . .	23,817	170,226	205,323	94,366	130,757
Fee and commission expenses . . . . .	(127)	(912)	(905)	(389)	(679)
<b>Net fee and commission income . . . . .</b>	<b>23,690</b>	<b>169,314</b>	<b>204,418</b>	<b>93,977</b>	<b>130,078</b>
Other net income . . . . .	19,330	3,913	2,710	3,945	38,536
<b>Operating income . . . . .</b>	<b>77,972</b>	<b>332,419</b>	<b>461,960</b>	<b>212,397</b>	<b>382,865</b>
Operating expenses . . . . .	(33,031)	(67,879)	(70,042)	(29,630)	(51,729)
Impairment losses . . . . .	(11,819)	(31,795)	(43,395)	(877)	(32,373)
<b>Profit before taxation . . . . .</b>	<b>33,122</b>	<b>232,745</b>	<b>348,523</b>	<b>181,890</b>	<b>298,763</b>
Income tax . . . . .	(8,340)	(58,260)	(87,750)	(45,499)	(74,689)
<b>Net profit . . . . .</b>	<b>24,782</b>	<b>174,485</b>	<b>260,773</b>	<b>136,391</b>	<b>224,074</b>

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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 any other business which cannot form a single reportable segment). The following table sets forth the segment income from each business segment for the periods indicated:

	Period from March 11 to December 31,				Year ended December 31,				Six months ended June 30,											
	2015		2016		2017		2017		2018		2018									
	Retail Loan Business	Dealer Loan Business	Total	Others	Retail Loan Business	Dealer Loan Business	Total	Others	Retail Loan Business	Dealer Loan Business	Total	Others								
Net interest income . . .	27,795	4,891	2,266	34,952	137,698	15,941	5,553	159,192	225,056	24,365	5,411	254,832	104,548	7,498	2,429	114,475	200,644	11,295	2,312	214,251
Net fee and commission income . . .	23,690	—	—	23,690	169,314	—	—	169,314	204,418	—	—	204,418	93,977	—	—	93,977	130,078	—	—	130,078
Other net income . . .	—	—	19,330	19,330	—	—	3,913	3,913	—	—	2,710	2,710	—	—	3,945	3,945	—	—	38,536	38,536
Operating income . . .	51,485	4,891	21,596	77,972	307,012	15,941	9,466	332,419	429,474	24,365	8,121	461,960	198,525	7,498	6,374	212,397	330,722	11,295	40,848	382,865
Operating expenses . . .	(29,678)	(3,353)	—	(33,031)	(63,530)	(4,349)	—	(67,879)	(65,449)	(4,593)	—	(70,042)	(28,306)	(1,324)	—	(29,630)	(49,716)	(2,013)	—	(51,729)
Impairment losses . . .	(9,388)	(2,431)	—	(11,819)	(32,449)	654	—	(31,795)	(40,458)	(2,802)	(135)	(43,395)	(98)	(779)	—	(877)	(37,878)	5,370	135	(32,373)
Profit before taxation . . .	12,419	(893)	21,596	33,122	211,033	12,246	9,466	232,745	323,567	16,970	7,986	348,523	170,121	5,395	6,374	181,890	243,128	14,652	40,983	298,763

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Operating income from our retail loan business increased by 496.3% from RMB51.5 million in 2015 to RMB307.0 million in 2016 and further by 39.9% to RMB429.5 million in 2017, primarily as a result of the expansion of our retail loan business. Operating income from our retail loan business increased by 66.6% from RMB198.5 million for the six months ended June 30, 2017 to RMB330.7 million for the same period in 2018. Operating income from our retail loan business represented 66.0%, 92.4%, 93.0% and 86.4% of our total operating income in 2015, 2016, 2017, and the six months ended June 30, 2018, respectively.

Operating income from our dealer loan business increased by 225.9% from RMB4.9 million in 2015 to RMB15.9 million in 2016 and further by 52.8% 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 increased by 50.6% from RMB7.5 million for the six months ended June 30, 2017 to RMB11.3 million for the same period in 2018. Operating income from our dealer loan business represented 6.3%, 4.8%, 5.3% and 3.0% of our total operating income in 2015, 2016, 2017, and the six months ended June 30, 2018, respectively.

**PERIOD TO PERIOD COMPARISON OF RESULT OF OPERATIONS**

**Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017**

*Net Interest Income*

The following table sets forth our interest income, interest expenses and net interest income for the periods indicated:

	<b>Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2018</b>
	<b>(RMB in thousands)</b>	
	<b>(unaudited)</b>	
Interest income . . . . .	192,032	356,432
Interest expenses . . . . .	(77,557)	(142,181)
<b>Net interest income . . . . .</b>	<b>114,475</b>	<b>214,251</b>

Our net interest income increased by 87.2% from RMB114.5 million for the six months ended June 30, 2017 to RMB214.3 million for the six months ended June 30, 2018.

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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 periods indicated:

	Six Months Ended June 30,					
	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) (unaudited)						
<b>Interest-earning assets</b>						
Loans and advances to customers . . . . .	3,836,155	189,603	9.89%	7,197,183	349,321	9.71%
Deposits with central bank, banks and other financial institutions . . . . .	201,291	2,429	2.41%	296,903	2,312	1.56%
Finance lease receivables . . . . .	—	—	—	92,802	4,799	10.34%
<b>Total . . . . .</b>	<u>4,037,446</u>	<u>192,032</u>	<u>9.51%</u>	<u>7,586,888</u>	<u>356,432</u>	<u>9.40%</u>

	Six Months Ended June 30,					
	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) (unaudited)						
<b>Interest-bearing liabilities</b>						
Placements from banks and other financial institutions	3,083,457	77,557	5.03%	4,178,039	138,453	6.63%
Deposits from shareholders . . . . .	—	—	—	759,541	3,728	0.98%
<b>Total . . . . .</b>	<u>3,083,457</u>	<u>77,557</u>	<u>5.03%</u>	<u>4,937,580</u>	<u>142,181</u>	<u>5.76%</u>
<b>Net interest income . . . . .</b>		<u>114,475</u>			<u>214,251</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 (on an annualized basis).
- (3) Calculated by dividing the interest expenses by the average balance for the periods indicated (on an annualized basis).

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*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:

	Six Months Ended June 30,	
	2017	2018
	(RMB in thousands)	
	(unaudited)	
Loans and advances to customers . . . . .	189,603	349,321
Deposits with central bank, banks and other financial institutions . .	2,429	2,312
Finance lease receivables . . . . .	—	4,799
<b>Total interest income</b> . . . . .	<b>192,032</b>	<b>356,432</b>

Interest income increased by 85.6% from RMB192.0 million for the six months ended June 30, 2017 to RMB356.4 million for the six months ended June 30, 2018, primarily as a result of increased interest income from retail loans as we expanded our business operations and loan portfolio.

*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:

	Six Months Ended June 30,					
	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)					
	(unaudited)					
Retail loans . . . . .	3,432,167	176,914	10.31%	6,686,198	330,449	9.88%
Dealer loans . . . . .	403,988	12,689	6.28%	510,985	18,872	7.39%
<b>Total</b> . . . . .	<b>3,836,155</b>	<b>189,603</b>	<b>9.89%</b>	<b>7,197,183</b>	<b>349,321</b>	<b>9.71%</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 (on an annualized basis).



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Our interest income from loans and advances to customers increased by 84.2% from RMB189.6 million for the six months ended June 30, 2017 to RMB349.3 million for the six months ended June 30, 2018. The increase was primarily due to the significant increase of the interest income from retail loans by 86.8% from RMB176.9 million for the six months ended June 30, 2017 to RMB330.4 million for the six months ended June 30, 2018.

The average balance of retail loans increased by 94.8% from RMB3,432.2 million for the six months ended June 30, 2017 to RMB6,686.2 million for the six months ended June 30, 2018, while average yield of loans and advances to our customers from retail loans remained relatively stable at 10.31% for the six months ended June 30, 2017 and 9.88% for the six months ended June 30, 2018.

The average balance of loans and advances to our customers from dealer loans increased by 26.5% from RMB404.0 million for the six months ended June 30, 2017 to RMB511.0 million for the six months ended June 30, 2018. The average yield of loans and advances to our customers from dealer loans increased from 6.28% for the six months ended June 30, 2017 to 7.39% for the six months ended June 30, 2018, primarily due to a higher proportion of loan products with relatively high interest rates in the latter period.

### *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 RMB2.4 million for the six months ended June 30, 2017 and RMB2.3 million for the six months ended June 30, 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 RMB4.8 million for the six months ended June 30, 2018, in line with the overall growth of our direct lease business. In the first half of 2018, we had 666 direct lease transactions, with an aggregate principal amount of RMB128.1 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 83.3% from RMB77.6 million for the six months ended June 30, 2017 to RMB142.2 million for the six months ended June 30, 2018, primarily as a result of the increases in (i) the placements from banks and other financial institution to fund our business operations, and (ii) average cost of such placements from 5.03% for the six months ended June 30, 2017 to 6.63% for the same period in 2018, primarily due to increased market 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—Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017—Net Interest Income.”

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### *Interest Expenses from Placements from Banks and Other Financial Institutions*

Our interest expense from placements from banks and other financial institutions increased by 78.5% from RMB77.6 million for the six months ended June 30, 2017 to RMB138.5 million for the six months ended June 30, 2018, primarily due to increases in (i) the average balance of placements from banks and other financial institutions from RMB3,083.5 million for the six months ended June 30, 2017 to RMB4,178.0 million for the same period in 2018 to support the expansion of our business, and (ii) the average cost of placements from banks and other financial institutions from 5.03% for the six months ended June 30, 2017 to 6.63% for the same period in 2018, primarily due to increased market interest rates.

### *Interest Expenses from Deposits from Shareholders*

Our interest expense from deposits from shareholders increased from nil for the six months ended June 30, 2017 to RMB3.7 million for the six months ended June 30, 2018, as a result of the deposits from our shareholders from time to time, which are with a term of three months and a fixed interest rate of 1.10% per annum, respectively.

### *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 six months ended June 30, 2018, we had a net fee and commission income of RMB130.1 million, increasing by 38.4% from RMB94.0 million for the six months ended June 30, 2017, primarily due to (i) an increase by 26.4% in consulting services fee from RMB90.4 million for the six months ended June 30, 2017 to RMB114.3 million for the same period in 2018, as a result of the growth of our retail loan facilitation business, and (ii) an increase by 368.1% in joint retail loan services fee from RMB3.4 million for the six months ended June 30, 2017 to RMB15.7 million for the same period in 2018, as a result of the growth in our joint retail loan businesses.

### *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 876.8% from RMB3.9 million for the six months ended June 30, 2017 to RMB38.5 million for the six months ended June 30, 2018, primarily due to the significant increase in the government grants to support the development of the financial sector we received from the Shanghai government in the first half of 2018.

### *Operating Expenses*

Our operating expenses mainly consisted of staff costs, rental and property management expenses, and tax and surcharges. Our operating expenses increased by 74.6% from RMB29.6 million for the six months ended June 30, 2017 to RMB51.7 million for the six months ended June 30, 2018, primarily due to an increase in our staff costs as a result of increased staff headcount to support our business expansion.

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The following table sets forth key items of our operating expenses for the periods indicated:

	Six Months Ended June 30,	
	2017	2018
	(RMB in thousands)	
	(unaudited)	
Staff costs . . . . .	14,777	30,242
Rental and property management expenses . . . . .	5,521	6,570
Depreciation and amortisation . . . . .	2,809	3,756
Tax and surcharges . . . . .	2,224	2,546
Travel expenses . . . . .	264	1,172
Others . . . . .	4,035	7,443
<b>Total</b> . . . . .	<u>29,630</u>	<u>51,729</u>

### *Impairment Losses*

Our impairment losses increased significantly from RMB0.9 million for the six months ended June 30, 2017 to RMB32.4 million for the six months ended June 30, 2018, primarily as a result of our overall business expansion. We adopted HKFRS 9 since January 1, 2018, which introduces a new impairment model for financial assets. See Note 2(h) to the Accountants’ Report included in this Appendix I to this document. 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, profit before taxation increased by 64.3% from RMB181.9 million for the six months ended June 30, 2017 to RMB298.8 million for the six months ended June 30, 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:

	Six Months Ended June 30,	
	2017	2018
	(RMB in thousands)	
	(unaudited)	
<b>Profit before taxation</b> . . . . .	181,890	298,763
Tax at the statutory rate of 25% . . . . .	45,473	74,691
Effect of non-deductible expenses . . . . .	26	32
Others . . . . .	—	(34)
<b>Total income tax expense</b> . . . . .	<u>45,499</u>	<u>74,689</u>

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Pursuant to the relevant regulations and the EIT Law and Implementation Regulations of the EIT Law, the tax rate of the Company is 25% for the six months ended June 30, 2017 and the same period in 2018. We were not entitled any preferential income tax treatment in the six months ended June 30, 2017 or 2018. Our income tax expense increased by 64.2% from RMB45.5 million for the six months ended June 30, 2017 to RMB74.7 million for the six months ended June 30, 2018, primarily as a result of an increase in our taxable income.

*Net Profit*

As a result of the foregoing, net profit increased from RMB136.4 million for the six months ended June 30, 2017 to RMB224.1 million for the six months ended June 30, 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>

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	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.

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*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>2,846,590</b>	<b>274,787</b>	<b>9.65%</b>	<b>4,312,233</b>	<b>418,973</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.

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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 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.

### *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 1.9 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.

### *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.

### *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

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headcounts to support our business expansion, partially offset by a decrease of RMB5.1 million in tax and surcharges resulting from the replacement of value added tax with business tax.

The following table sets forth key items of our operating expenses for the years indicated:

	<u>Year Ended December 31,</u>	
	<u>2016</u>	<u>2017</u>
	(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> . . . . .	<u>67,879</u>	<u>70,042</u>

*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:

	<u>Year Ended December 31,</u>	
	<u>2016</u>	<u>2017</u>
	(RMB in thousands)	
Profit before taxation . . . . .	232,745	348,523
Tax at the statutory rate of 25%. . . . .	58,186	87,131
Effect of non-deductible expenses . . . . .	74	619
Others . . . . .	—	—
<b>Total income tax expense</b> . . . . .	<u>58,260</u>	<u>87,750</u>



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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. 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.

*Net Profit*

As a result of the foregoing, net profit 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.

**Year Ended December 31, 2016 Compared to the Period from March 11, 2015 to December 31, 2015**

*Net Interest Income*

The following table sets forth our interest income, interest expense and net interest income for the periods indicated:

	<u>Period from March 11 to December 31, 2015</u>	<u>Year Ended December 31,</u>
	<u>2015</u>	<u>2016</u>
	(RMB in thousands)	
Interest income . . . . .	52,462	280,340
Interest expense . . . . .	<u>(17,510)</u>	<u>(121,148)</u>
<b>Net interest income . . . . .</b>	<u><u>34,952</u></u>	<u><u>159,192</u></u>

Our net interest income increased by 355.5% from RMB35.0 million for December 31, 2015 to RMB159.2 million for the year ended December 31, 2016.

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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, and the average yield of those interest-earning assets and the average cost of those interest-bearing liabilities for the periods indicated:

	Period from March 11 to December 31,			Year Ended December 31,		
	2015			2016		
	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 . . . . .	627,602	50,197	8.00%	2,846,590	274,787	9.65%
Deposits with central bank, banks and other financial institutions . . . . .	56,392	2,265	4.02%	232,394	5,553	2.39%
Finance lease receivables . . .	—	—	—	—	—	—
<b>Total . . . . .</b>	<u>683,994</u>	<u>52,462</u>	7.67%	<u>3,078,984</u>	<u>280,340</u>	9.10%

	Period from March 11 to December 31,			Year Ended December 31,		
	2015			2016		
	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 . . . . .	383,914	17,510	4.56%	2,385,373	121,148	5.08%
Deposits from shareholders .	—	—	—	—	—	—
<b>Total . . . . .</b>	<u>383,914</u>	<u>17,510</u>	4.56%	<u>2,385,373</u>	<u>121,148</u>	5.08%
<b>Net interest income . . . . .</b>		<u>34,952</u>			<u>159,192</u>	

*Notes:*

- (1) Average balance for the period from March 11 to December 31, 2015 is calculated by totaling the outstanding balance as of the end of each day in the second half of 2015 and dividing by the days in the period, because we did not begin to record the daily outstanding balances in the first half of 2015. Average balance for 2016 is calculated by totaling the daily outstanding balance in 2016 and dividing by 365 days.
- (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.

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*Interest Income*

The following table sets forth a breakdown of our interest income for the periods indicated:

	<u>Period from March 11 to December 31, 2015</u>	<u>Year Ended December 31,</u>
	<u>2015</u>	<u>2016</u>
(RMB in thousands)		
Loans and advances to customers . . . . .	50,197	274,787
Deposits with central bank, banks and other financial institutions . . . . .	2,265	5,553
Finance lease receivables . . . . .	—	—
<b>Total interest income . . . . .</b>	<u>52,462</u>	<u>280,340</u>

Interest income increased by 434.4% from RMB52.5 million for the year ended December 31, 2015 to RMB280.3 million for the year ended December 31, 2016, primarily attributable to the significant increase in our loans and advances to customers, as we experienced rapid business growth.

*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 periods indicated:

	<u>Period from March 11 to December 31,</u>			<u>Year Ended December 31,</u>		
	<u>2015</u>			<u>2016</u>		
	<u>Average balance<sup>(1)</sup></u>	<u>Interest income</u>	<u>Average yield<sup>(2)</sup></u>	<u>Average balance<sup>(1)</sup></u>	<u>Interest income</u>	<u>Average yield<sup>(2)</sup></u>
(RMB in thousands, except percentages)						
Retail loans . . . . .	503,170	42,685	8.48%	2,405,197	246,276	10.24%
Dealer loans . . . . .	124,432	7,512	6.04%	441,393	28,511	6.46%
<b>Total . . . . .</b>	<u>627,602</u>	<u>50,197</u>	8.00%	<u>2,846,590</u>	<u>274,787</u>	9.65%

*Notes:*

- (1) Average balance for the period from March 11 to December 31, 2015 is calculated by totaling the outstanding balance as of the end of each day in the second half of 2015 and dividing by the days in the period, because we did not begin to record the daily outstanding balances in the first half of 2015. Average balance for 2016 is calculated by totaling the daily outstanding balance in 2016 and dividing by 365 days.
- (2) Calculated by dividing the interest income by the average balance for the periods indicated.

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Our interest income from loans and advances to customers increased by 447.4% from RMB50.2 million for the year ended December 31, 2015 to RMB274.8 million for the year ended December 31, 2016. This increase was primarily due to an increase by 477.0% in the interest income from retail loans from RMB42.7 million for the year ended December 31, 2015 to RMB246.3 million for the year ended December 31, 2016, primarily as a result of the expansion of our retail loan business in 2016. Interest income from dealer loans increased by 279.5% from RMB7.5 million for the year ended December 31, 2015 to RMB28.5 million for the year ended December 31, 2016, primarily as a result of the expansion of our dealer loan business in 2016.

The average yield of loans and advances to customers in our retail loan business was 8.48% for the period from March 11 to December 31, 2015, lower than that for 2016, primarily because the interest income for 2015 was for a period of less than one year, as we launched our business in March 2015.

### *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 increased by 145.2% from RMB2.3 million for the year ended December 31, 2015 to RMB5.6 million for the year ended December 31, 2016, primarily due to an increase in our deposits with central bank, banks and other financial institutions from RMB153.5 million as of December 31, 2015 to RMB244.2 million as of December 31, 2016.

### *Interest Income Finance Lease Receivables*

We had nil interest income from finance lease receivables for 2015 and 2016, respectively, as our finance lease business was not launched until 2017.

### *Interest Expense*

Our interest expenses, which consisted solely of those from placements from banks and other financial institutions for the periods, increased by 591.9% from RMB17.5 million for the year ended December 31, 2015 to RMB121.1 million for the year ended December 31, 2016, primarily due to increases in (i) the average balance of placements from banks and other financial institutions from RMB383.9 million for 2015 to RMB2,385.4 million for 2016, being used to support the growth of our business; and (ii) the average cost on such fund affected by the increased prevailing market interest rates. We had nil deposits from shareholders in 2015 and 2016, 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, 2016 Compared to the Period from March 11, 2015 to December 31, 2015—Net Interest Income.”

### *Net Fee and Commission Income*

We had a net fee and commission income of RMB169.3 million for the year ended December 31, 2016, representing an increase by 614.7% from RMB23.7 million for the year ended December 31, 2015. The increased net fee and commission income was primarily due to the increase in the overall service fees we charged on the loan products originated through us, in the line with the expansion of our retail loan facilitation business.

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*Other Net Income*

Our other net income, which primarily includes government grants and exchange gains, net of certain non-operating expenses, decreased significantly by 79.8% from RMB19.3 million for the year ended December 31, 2015 to RMB3.9 million for the year ended December 31, 2016, primarily as a result of the reduced amount of the government grants we received in 2016.

*Operating Expenses*

Our operating expenses mainly consisted of staff costs, rent and property management expenses, tax and surcharges, and others. Our operating expenses increased significantly by 105.5% from RMB33.0 million for the year ended December 31, 2015 to RMB67.9 million for the year ended December 31, 2016, primarily as a result of (i) an increase of RMB14.0 million in staff costs, primarily due to the increase in headcounts to support our rapid business expansion; (ii) an increase of RMB8.1 million in rental and property management expenses associated with our business expansion; and (iii) an increase of RMB7.5 million in tax and surcharges caused by the increase in our taxable income.

The following table sets forth key items of our operating expenses for the periods indicated:

	<b>Period from March 11 to December 31,</b>	<b>Year Ended December 31,</b>
	<b>2015</b>	<b>2016</b>
	<b>(RMB in thousands)</b>	
Staff costs . . . . .	13,965	27,957
Rental and property management expenses . . . . .	5,020	13,073
Tax and surcharges . . . . .	4,238	11,752
Others . . . . .	9,808	15,097
<b>Total</b> . . . . .	<b>33,031</b>	<b>67,879</b>

*Impairment Losses*

Our impairment losses increased by 169.0% from RMB11.8 million for the year ended December 31, 2015 to RMB31.8 million for the year ended December 31, 2016, in line with our business expansion.

*Profit before Taxation*

As a result of the foregoing, profit before taxation increased significantly by 602.7% from RMB33.1 million for the year ended December 31, 2015 to RMB232.7 million for the year ended December 31, 2016.

*Income Tax Expense*

The following table sets forth the applicable PRC enterprise income tax paid for the periods indicated:

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	Period from March 11 to December 31,	Year Ended December 31,
	2015	2016
	(RMB in thousands)	
Profit before taxation . . . . .	33,122	232,745
Tax at the statutory rate of 25% . . . . .	8,281	58,186
Effect of non-deductible expenses . . . . .	56	74
Others . . . . .	3	—
<b>Total income tax expense . . . . .</b>	<b>8,340</b>	<b>58,260</b>

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 2015 or 2016. Our income tax expense increased significantly by 598.6% from RMB8.3 million for the year ended December 31, 2015 to RMB58.3 million for the year ended December 31, 2016, primarily as a result of an increase in our taxable income.

*Net Profit*

As a result of the foregoing, net profit increased from RMB24.8 million for the year ended December 31, 2015 to RMB174.5 million for the year ended December 31, 2016.

**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, 2015, 2016 and 2017 and June 30, 2018, we had RMB146.0 million, RMB238.9 million, RMB272.0 million and RMB110.6 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, 2015, 2016 and 2017 and June 30, 2018, the outstanding balance of placements from banks and other financial institutions, being our major funding sources, was RMB1,357.5 million, RMB3,232.9 million, RMB4,020.0 million and RMB4,854.6 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;

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- 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 29 as of June 30, 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 RMB1.7 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 our remaining contractual maturities of our financial assets in comparison with the financial liabilities, and our net liquidity gap, as of the dates indicated:

As of June 30, 2018							
	Repayable						Carrying amount
	on demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Total amount	
(RMB in thousands)							
<b>Assets</b>							
Cash and deposits with central bank . . . . .	49,836	—	—	—	—	49,836	49,836
Deposits with banks and other financial institutions . . . . .	110,370	—	—	—	—	110,370	110,370
Loans and advances to customers . . . . .	15,155	398,495	798,673	3,346,167	4,080,030	8,638,520	7,670,938
Finance lease receivables . . . . .	4,887	3,964	7,929	35,680	74,414	126,874	113,242
Other assets . . . . .	17,547	53,030	—	—	—	70,577	70,577
<b>Total</b> . . . . .	<u>197,795</u>	<u>455,489</u>	<u>806,602</u>	<u>3,381,847</u>	<u>4,154,444</u>	<u>8,996,177</u>	<u>8,014,963</u>
<b>Liabilities</b>							
Placements from banks and other financial institutions . . . . .	—	(552,735)	(785,479)	(3,247,143)	(463,757)	(5,049,114)	(4,854,583)
Guarantee deposits . . . . .	(38,124)	—	—	—	(15,243)	(53,367)	(53,367)
Deposits from shareholders . . . . .	—	(616,433)	(177,494)	—	—	(793,927)	(793,000)
Other liabilities . . . . .	(93,589)	(2,686)	(21,584)	(24,158)	—	(142,017)	(142,017)
<b>Total</b> . . . . .	<u>(131,713)</u>	<u>(1,171,854)</u>	<u>(984,557)</u>	<u>(3,271,301)</u>	<u>(479,000)</u>	<u>(6,038,425)</u>	<u>(5,842,967)</u>
<b>Net liquidity gap</b> . . . . .	<u>66,082</u>	<u>(716,365)</u>	<u>(177,955)</u>	<u>110,546</u>	<u>3,675,444</u>	<u>2,957,752</u>	<u>2,171,996</u>

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As of December 31, 2017							
	Repayable					Total amount	Carrying amount
	on demand	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 . . . . .	7,003	—	—	—	—	7,003	7,003
Deposits with banks and other financial institutions . . . . .	270,494	—	—	—	—	270,494	270,494
Loans and advances to customers and interest receivables . . . . .	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 . . . . .	(14,861)	(5,959)	(5,008)	(9,120)	—	(34,948)	(34,948)
<b>Total</b> . . . . .	<u>(91,276)</u>	<u>(357,189)</u>	<u>(759,196)</u>	<u>(3,081,073)</u>	<u>(2,479)</u>	<u>(4,291,213)</u>	<u>(4,133,842)</u>
<b>Net liquidity gap</b> . . . . .	<u>204,537</u>	<u>(65,996)</u>	<u>(96,159)</u>	<u>(51,072)</u>	<u>2,599,672</u>	<u>2,590,982</u>	<u>2,072,715</u>

As of December 31, 2016							
	Repayable					Total amount	Carrying amount
	on demand	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 and interest receivables . . . . .	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>—</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>



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As of December 31, 2015

	Repayable on demand	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 . . . . .	4,473	—	—	—	—	4,473	4,473
Deposits with banks and other financial institutions . . . . .	145,956	—	—	—	3,132	149,088	148,996
Loans and advances to customers and interest receivables . . . . .	1,677	51,479	102,786	970,630	794,129	1,920,701	1,773,085
Other assets . . . . .	5,005	7,704	—	—	—	12,709	12,709
<b>Total</b> . . . . .	<u>157,111</u>	<u>59,183</u>	<u>102,786</u>	<u>970,630</u>	<u>797,261</u>	<u>2,086,971</u>	<u>1,939,263</u>
<b>Liabilities</b>							
Placements from banks and other financial institutions . . . . .	—	(17,712)	(46,338)	(1,149,068)	(199,884)	(1,413,002)	(1,357,500)
Guarantee deposits . . . . .	(53,545)	—	—	—	—	(53,545)	(53,545)
Other liabilities . . . . .	(5,147)	—	(4,385)	(286)	(31)	(9,849)	(9,849)
<b>Total</b> . . . . .	<u>(58,692)</u>	<u>(17,712)</u>	<u>(50,723)</u>	<u>(1,149,354)</u>	<u>(199,915)</u>	<u>(1,476,396)</u>	<u>(1,420,894)</u>
<b>Net liquidity gap</b> . . . . .	<u>98,419</u>	<u>41,471</u>	<u>52,063</u>	<u>(178,724)</u>	<u>597,346</u>	<u>610,575</u>	<u>518,369</u>

**Cash Flows**

The following table sets forth a summary of our cash flows for the periods indicated:

	Period from March 11 to December 31,	Year Ended December 31,		Six Months Ended June 30,	
	2015	2016	2017	2017	2018
(RMB in thousands)					
(unaudited)					
Net cash (used in) / generated from operating activities . . . . .	(334,463)	99,455	(1,062,771)	(315,420)	(158,092)
Net cash used in investing activities	(19,581)	(6,537)	(4,066)	(744)	(3,303)
Net cash generated from financing activities . . . . .	<u>500,000</u>	—	<u>1,100,000</u>	<u>200,000</u>	—
Net increase in cash and cash equivalents . . . . .	145,956	92,918	33,163	(116,164)	(161,395)
Cash and cash equivalents at beginning of the period . . . . .	—	145,956	238,874	238,874	272,037
Cash and cash equivalents at the end of the year/period . . . . .	<u>145,956</u>	<u>238,874</u>	<u>272,037</u>	<u>122,710</u>	<u>110,642</u>

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## **FINANCIAL INFORMATION**

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### *Net Cash (Used in) / Generated from 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.”

Net cash used in operating activities was RMB158.1 million for the six months ended June 30, 2018. We had profit before taxation of RMB298.8 million, which were adjusted by impairment losses of RMB32.4 million, and depreciation and amortization of RMB3.8 million. Movements in working capital primarily consisted of (i) an increase in loans and advances to customers of RMB1,868.6 million as a result of our business expansion; (ii) a decrease in guarantee deposits of RMB25.5 million, (iii) an increase in placements from banks of RMB834.6 million, (iv) an increase in deposits from shareholders of RMB793.0 million, and (v) an increase in other assets of RMB37.1 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. Movements in working capital primarily consisted of (i) an increase in loans and advances to customers of RMB2,175.6 million as a result of our business expansion; (ii) an increase in guarantee deposits of RMB51.3 million, attributable to increases in our dealer loan balance, (iii) an increase in placements from banks and other financial institutions of RMB787.1 million, (iv) an increase in finance lease receivables of RMB20.0 million, and (v) an increase in other operating liabilities of RMB10.4 million.

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. Movements in working capital primarily consisted of (i) an increase in loans and advances to customers of RMB1,995.3 million as a result of our business expansion; (ii) a decrease in guarantee deposits of RMB25.9 million, in line with decreases in our dealer loan balance, (iii) an increase in placements from banks and other financial institutions of RMB1,875.4 million, (iv) an increase in other operating assets of RMB22.4 million, and (v) an increase in other operating liabilities of RMB28.7 million.

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Net cash used in operating activities was RMB334.5 million for the year ended December 31, 2015. We had profit before taxation of RMB33.1 million, which were adjusted by impairment losses of RMB11.8 million, and depreciation and amortization of RMB2.8 million. Movements in working capital primarily consisted of (i) an increase in loans and advances to customers of RMB1,784.9 million as a result of our business expansion; (ii) an increase in guarantee deposits of RMB53.5 million, (iii) an increase in placements from banks and other financial institutions of RMB1,357.5 million, (iv) an increase in other operating assets of RMB12.9 million, and (v) an increase in other operating liabilities of RMB12.1 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 RMB3.3 million in the six months ended June 30, 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 used in investing activities was RMB19.6 million in the year ended December 31, 2015, which was primarily for purchase of office equipment and software.

### *Net Cash Generated from Financing Activities*

Our cash generated from financing activities consisted of proceeds from capital injection from shareholders.

We had nil net cash generated from financing activities for the six months ended June 30, 2018.

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.

Net cash generated from financing activities was RMB500.0 million for the year ended December 31, 2015, as a result of the capital injection from our shareholders.

### **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 RMB5.1 billion. The terms of these placements from banks and other financial institutions range from three to 24 months, and expire at various times throughout the year.

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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. As of the Indebtedness Date, we had unutilized banking facilities of RMB1.7 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, 2015, 2016, 2017 and June 30, 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,			As of June 30,
	2015	2016	2017	2018
	(RMB in thousands, except percentage)			
<b>Capital adequacy indicators</b>				
Core tier-one capital adequacy ratio <sup>(1)</sup> . . .	30.81%	19.98%	37.12%	32.45%
Tier-one capital adequacy ratio <sup>(2)</sup> . . . . .	30.81%	19.98%	37.12%	32.45%
Capital adequacy ratio <sup>(3)</sup> . . . . .	31.50%	20.66%	37.89%	33.59%
Net core tier-one capital . . . . .	512,065	686,807	2,042,627	2,239,210
Net capital base . . . . .	523,435	709,924	2,085,206	2,317,676
Total risk weighted assets . . . . .	1,661,779	3,436,641	5,503,024	6,900,874

*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—Regulation of Capital Adequacy.”

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- (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—Regulation 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—Regulation of Capital Adequacy.”

**CAPITAL EXPENDITURES**

Our capital expenditures during the Track Record Period primarily consisted of expenditures on 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.

We had total capital expenditures of RMB19.6 million in 2015, primarily consisting of purchase of computer software. Our total capital expenditures in 2016, 2017 and the six months ended June 30, 2018 were RMB6.5 million, RMB4.1 million and RMB3.3 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:

	As of December 31,			As of June 30,
	2015	2016	2017	2018
	(RMB in thousands)			
Within 1 year (inclusive) . . . . .	10,464	8,239	11,674	8,265
1 — 2 years (inclusive) . . . . .	7,066	11,301	3,492	1,163
2 — 3 years (inclusive). . . . .	6,960	3,484	—	—
<b>Total</b> . . . . .	<b>24,490</b>	<b>23,024</b>	<b>15,166</b>	<b>9,428</b>

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.

**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.

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**RELATED PARTY TRANSACTIONS**

During the Track Record Period, we entered into transactions with our related parties, being the ZhengTong Group and its fellow subsidiaries, such as taking deposits from, disbursing retail and dealer loans to, and conducting joint promotion arrangements with, such related parties. For details of the joint promotion arrangements.

The following table sets forth our significant related party transactions for the periods indicated:

	Period from March 11 to December 31,	Year ended December 31,		Six months ended June 30,
	2015	2016	2017	2018
	(RMB in thousands)			
Interest subsidies . . . . .	—	99,722	232,850	206,204
Interest income . . . . .	3,609	42,558	126,828	137,015
Interest expenses . . . . .	—	—	(2)	(3,728)
Operating expenses . . . . .	—	—	—	(11)
Additions of deposits from shareholders . . .	—	—	50,000	1,977,000
Decrease of deposits from shareholders . . .	—	—	(50,000)	(1,184,000)

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 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

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ZhengTong Dealers as a pass-through. The following table sets forth a breakdown of the Interest Subsidies during the periods indicated:

	Period from March 11 to December 31,	Year Ended December 31,		Six Months ended June 30,
	2015	2016	2017	2018
	(RMB in thousands)			
<b>Interest Subsidies</b>				
Interest Subsidies from ZhengTong dealers . . . . .	—	—	80,110	121,329
Interest Subsidies from automaker . . . . .	—	99,722	152,740	84,875
<b>Total</b> . . . . .	—	99,722	232,850	206,204

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:

	Period from March 11 to December 31	Year Ended December 31,		Six Months ended June 30,
	2015	2016	2017	2018
	(RMB in thousands)			
<b>Interest income</b>				
Interest subsidies from ZhengTong Dealers . . . . .	—	—	12,022	49,808
Interest subsidies from automaker . . . . .	—	28,227	89,025	82,252
Retail and dealer loans. . . . .	3,609	14,331	25,781	4,955
<b>Total</b> . . . . .	3,609	42,558	126,828	137,015

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The following table sets forth our balances with related parties as of the dates indicated:

	As of December 31,			As of June 30,
	2015	2016	2017	2018
	(RMB in thousands)			
<b>Assets</b>				
Loans and advances to customers . . . . .	237,000	213,383	785,979	147,312
Subsidies for retail loans <sup>(1)</sup> . . . . .	—	(71,495)	(203,298)	277,442
Mortgage service fees <sup>(1)</sup> . . . . .	—	2,197	6,225	5,716
Other assets . . . . .	1,639	1,072	4,637	892
<b>Liabilities</b>				
Guarantee deposits . . . . .	(25,000)	(11,133)	(59,465)	(20,267)
Deposits from shareholders . . . . .	—	—	—	(793,000)
Other liabilities . . . . .	(896)	(916)	(940)	(4,644)
Off-balance sheet items				
Guarantees received for dealer loans <sup>(2)</sup> . . . . .	237,000	213,383	716,401	134,032
Guarantees received for placements from banks and other financial institutions <sup>(3)</sup> . . . . .	920,000	1,750,000	1,550,000	2,085,000

*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.

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 document.

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 document. 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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**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,		
	2015	2016	2017
	(RMB in thousands)		
<b>Gross Balance of loans and advances to customers</b>			
Impaired . . . . .	448	14,089	16,667
Overdue but not impaired . . . . .	8,201	9,509	28,690
Neither overdue nor impaired. . . . .	1,776,255	3,750,185	5,882,763
<b>Subtotal</b> . . . . .	<b>1,784,904</b>	<b>3,773,783</b>	<b>5,928,120</b>
<b>Less:</b>			
Allowances for impairment losses			
— Impaired . . . . .	(351)	(12,460)	(16,090)
— Overdue but not impaired . . . . .	(6,620)	(8,095)	(17,876)
— Neither overdue nor impaired . . . . .	(4,848)	(16,651)	(25,150)
<b>Subtotal</b> . . . . .	<b>(11,819)</b>	<b>(37,206)</b>	<b>(59,116)</b>
<b>Net balance</b> . . . . .	<b>1,773,085</b>	<b>3,736,577</b>	<b>5,869,004</b>

As of December 31, 2015, 2016 and 2017, the gross balance of loans and advances to customers that were neither overdue nor impaired was RMB1,776.3 million, RMB3,750.2 million, and RMB5,882.8 million, respectively, representing 99.5%, 99.4%, and 99.2% of our gross balance of loans and advances to customers as of the respective dates.

As of December 31, 2015, 2016 and 2017, the gross balance of loans and advances to customers that were impaired was RMB0.4 million, RMB14.1 million, and RMB16.7 million, respectively, representing 0.0%, 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 RMB11.8 million as of December 31, 2015 to RMB37.2 million as of December 31, 2016, and further 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.

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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:

	30 June 2018		
	Loans and advances to customers	Finance lease receivables	Total
	RMB'000	RMB'000	RMB'000
<b>Gross balance are assessed for 12-month ECL</b>			
— Neither overdue nor credit-impaired	7,743,074	110,591	7,853,665
	-----	-----	-----
<b>Gross balance are not credit-impaired and assessed for lifetime ECL</b>			
— Overdue but not credit-impaired	22,004	7,919	29,923
— Neither overdue nor credit-impaired	320	—	320
	-----	-----	-----
Sub-total	22,324	7,919	30,243
	-----	-----	-----
<b>Gross balance are credit-impaired and assessed for lifetime ECL</b>			
— Overdue and credit-impaired	18,609	—	18,609
	-----	-----	-----
Allowances for impairment losses	(113,069)	(5,268)	(118,337)
	-----	-----	-----
Net value	<u>7,670,938</u>	<u>113,242</u>	<u>7,784,180</u>

For a more detailed description on the carrying amount of loss of loans and advances to customers as of January 1, 2018 and June 30, 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 document. Our risk management committee reviews and monitors our exposure to interest rate risk. See “Risk Management — Major Risk Management — Interest Risk Management.”

**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

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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 the PRC law, 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; 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 investment, deposits and placement with other banks, debt assets and other receivables. As of June 30, 2018, the Company set aside RMB55.7 million as general risk reserve out of the total retained earnings of RMB194.6 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.”

## **FINANCIAL INFORMATION**

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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 [REDACTED], we will continue to assess and determine any dividend payments, based on our business conditions and prevailing market circumstances.

### **DISTRIBUTABLE RESERVES**

As of June 30, 2018, our distributable reserves were RMB194.6 million.

### **WORKING CAPITAL CONFIRMATION**

Taking into account the financial resources available to us, including the net [REDACTED] from the [REDACTED], 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 document.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position since June 30, 2018 (being the date on which the latest financial information of our Group was prepared) and there is no event since June 30, 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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**[REDACTED] ADJUSTED NET TANGIBLE ASSETS**

The following [REDACTED] 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 [REDACTED]. The following statement of [REDACTED] adjusted net tangible assets of our Company is set out here to illustrate the effect of the [REDACTED] on our net tangible assets attributable to the shareholders of the Company as of June 30, 2018, as if the [REDACTED] had taken place on June 30, 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 document, and adjusted as described below.

	<b>Audited net tangible assets attributable to the Shareholders of our Company as of June 30, 2018<sup>(1)</sup></b>	<b>Estimated net [REDACTED] from the [REDACTED]<sup>(2)(5)</sup></b>	<b>[REDACTED] adjusted net tangible assets of our Company as of June 30, 2018<sup>(3)</sup></b>	<b>[REDACTED] adjusted net tangible assets per Share<sup>(4)(5)</sup></b>	
	<b>(RMB’000)</b>	<b>(HK\$’000)</b>	<b>(RMB’000)</b>	<b>(RMB)</b>	<b>(HK\$)</b>
Based on the [REDACTED] of HK\$[REDACTED] per Share (being the lowest) . . .	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on the [REDACTED] of HK\$[REDACTED] per Share (being the highest) . . .	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

*Notes:*

- (1) The net tangible assets attributable to the Shareholders of the Company as of June 30, 2018 is based on the net assets attributable to shareholders of the Company as of June 30, 2018 of RMB2,254,650 thousand less intangible asset of RMB15,440 thousand as of June 30, 2018, as set out in Appendix I to this document.
- (2) The estimated net [REDACTED] from the [REDACTED] are based on the [REDACTED] of HK\$[REDACTED] (being the minimum [REDACTED]) and HK\$[REDACTED] per H Share (being the maximum [REDACTED]) and the assumption that there are [REDACTED] newly issued H Shares in the [REDACTED], after deduction of the [REDACTED] fees and other related expenses payable by the Company, assuming that the [REDACTED] is not exercised and without taking into account any discretionary incentive fees.
- (3) The [REDACTED] adjusted net tangible assets do not take into account our financial results or other transactions subsequent to June 30, 2018.
- (4) The [REDACTED] adjusted net tangible assets per share is arrived on the basis of [REDACTED] shares in issue assuming that the [REDACTED] has been completed on June 30, 2018 and that the [REDACTED] is not exercised.

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## FINANCIAL INFORMATION

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- (5) The estimated net [REDACTED] from the [REDACTED] and the [REDACTED] adjusted net tangible assets per share are translated into Renminbi at the rate of RMB0.8013 to HK\$1.00, the exchange rate set by the PBOC prevailing on June 30, 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.

### PROFIT ESTIMATE

For the purpose of illustrating the effect of the [REDACTED] as if it had taken place on January 1, 2018, our [REDACTED] estimated earnings per Share for the year ended December 31, 2018 has been prepared on the basis of the notes set out below. This [REDACTED] estimated earnings per Share has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not provide a true picture of our financial results for the year ended December 31, 2018 or for any future period.

Estimated profit attributable to owners of the Company for the year ended December 31, 2018 <sup>(1)</sup> .....	Not less than RMB[●] million
[REDACTED] estimated earnings per Share for the year ended December 31, 2018 <sup>(2)</sup> .....	Not less than RMB[●]

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*Notes:*

- (1) The bases on which the above profit estimate has been prepared are summarized in Appendix III to this document. The Directors have prepared the estimated profit attributable to owners of the Company for the year ended [●], 2018 based on the audited results of the Company for the [●] months ended June 30, 2018, the unaudited results based on the management accounts of the Company for the remaining [●] months ended [●], 2018.
- (2) The [REDACTED] estimated earnings per Share is calculated by dividing the estimated profit attributable to owners of the Company for the year ended December 31, 2018 by [REDACTED] Shares, assuming that the [REDACTED] were completed on January 1, 2018 and the total of [REDACTED] Shares were in issue and outstanding during the entire year, without taking into account any Shares which may be allotted and issued upon the exercise of the [REDACTED].

### DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this document, 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 document. The financial statements have been prepared in accordance with HKFRS.*

### ASSETS

As of December 31, 2015, 2016 and 2017, our total assets amounted to RMB1,956.3 million, RMB4,054.9 million and RMB6,292.4 million, respectively, representing a CAGR of 79.3%. Our total assets further increased by 29.3% to RMB8,134.2 million as of June 30, 2018. The overall increase from December 31, 2015 to June 30, 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) cash and deposits with central bank, which represented 94.3%, 1.3% and 0.6%, respectively, of our total assets as of June 30, 2018.

The following table sets forth a summary of our assets as of the dates indicated:

	As of December 31,						As of June 30,		As of	
	2015		2016		2017		2018		Indebtedness Date,	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(RMB in thousands, except percentage)										
(Unaudited)										
<b>Assets</b>										
Cash and deposits with central bank . . . . .	4,473	0.2%	4,280	0.1%	7,003	0.1%	49,836	0.6%	58,064	0.7%
Deposits with banks and other financial institutions . . . . .	148,996	7.6%	239,879	5.9%	270,494	4.3%	110,370	1.3%	131,034	1.6%
Loans and advances to customers . . . . .	1,773,085	90.6%	3,736,577	92.1%	5,869,004	93.3%	7,670,938	94.3%	7,681,066	94.0%
Finance lease receivables . . . . .	—	—	—	—	19,898	0.3%	113,242	1.4%	116,852	1.4%
Property and equipment . . . . .	4,082	0.2%	5,874	0.2%	4,558	0.1%	4,070	0.1%	3,781	0.0%
Intangible assets . . . . .	12,717	0.7%	12,460	0.3%	17,413	0.3%	15,440	0.2%	14,349	0.2%
Deferred tax asset . . . . .	—	—	20,587	0.5%	62,193	1.0%	90,263	1.1%	76,079	0.9%
Other assets . . . . .	12,903	0.7%	35,283	0.9%	41,853	0.6%	80,002	1.0%	93,155	1.2%
<b>Total Assets . . . . .</b>	<b>1,956,256</b>	<b>100.0%</b>	<b>4,054,940</b>	<b>100.0%</b>	<b>6,292,416</b>	<b>100.0%</b>	<b>8,134,161</b>	<b>100.0%</b>	<b>8,174,380</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 June 30,		As of September 30,	
	2015		2016		2017		2018		2018	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(RMB in millions, except percentages)										
										(Unaudited)
Retail loans	1,298.6	72.8%	3,418.2	90.6%	5,012.1	84.5%	7,458.7	95.8%	7,253.8	93.0%
Dealer loans	486.3	27.2%	355.6	9.4%	916.0	15.5%	325.3	4.2%	545.5	7.0%
<b>Gross loans and advances to customers</b>	<b>1,784.9</b>	<b>100.0%</b>	<b>3,773.8</b>	<b>100.0%</b>	<b>5,928.1</b>	<b>100.0%</b>	<b>7,784.0</b>	<b>100.0%</b>	<b>7,799.3</b>	<b>100.0%</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 72.8%, 90.6%, 84.5% and 95.8% of our total loans and advances to customers as of December 31, 2015, 2016 and 2017 and June 30, 2018, respectively. The outstanding balance of our self-operated retail loans increased by 163.2% from RMB1,298.6 million as of December 31, 2015 to RMB3,418.2 million as of December 31, 2016 and further by 46.6% to RMB5,012.1 million as of December 31, 2017. As of June 30, 2018, the outstanding balance of our self-operated retail loans was RMB7,458.7 million, representing an increase of 48.8% from RMB5,012.1 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 RMB7,253.8 million.

### Dealer Loans

The outstanding balance of dealer loans represented 27.2%, 9.4%, 15.5% and 4.2% of our total loans and advances to customers as of December 31, 2015, 2016 and 2017 and June 30, 2018, respectively. The outstanding balance of our dealer loans decreased by 26.9% from RMB486.3 million as of December 31, 2015 to RMB355.6 million as of December 31, 2016, and then increased by 157.6% to RMB916.0 million as of December 31, 2017, primarily due to the growth of our dealer loan



## ASSETS AND LIABILITIES

services in 2017. As of June 30, 2018, the outstanding balance of our dealer loan was RMB325.3 million, representing a decrease of 64.5% from RMB916.0 million as of December 31, 2017, which was primarily due to repayment of dealer loans due in the first half of 2018. As of the Indebtedness Date, the outstanding balance of our dealer loans amounted to RMB545.5 million.

### *Loans and Advances to Customers by Collateral*

As of December 31, 2015, 2016 and 2017 and June 30, 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 June 30,		As of September 30,	
	2015		2016		2017		2018		2018	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(RMB in millions, except percentages)									
	(Unaudited)									
Collateralized loans <sup>(1)</sup>	1,298.6	72.8%	3,418.2	90.6%	5,012.1	84.5%	7,458.7	95.8%	7,253.8	93.0%
Guaranteed loans <sup>(2)</sup>	486.3	27.2%	355.6	9.4%	916.0	15.5%	325.3	4.2%	545.5	7.0%
<b>Gross loans and advances to customers</b>	<b>1,784.9</b>	<b>100.0%</b>	<b>3,773.8</b>	<b>100.0%</b>	<b>5,928.1</b>	<b>100.0%</b>	<b>7,784.0</b>	<b>100.0%</b>	<b>7,799.3</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 163.2% from RMB1,298.6 million as of December 31, 2015 to RMB3,418.2 million as of December 31, 2016 and by 46.6% to RMB5,012.1 million as of December 31, 2017, and further by 48.8% to RMB7,458.7 million as of June 30, 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 RMB7,253.8 million.

Our guaranteed loans comprise dealer loans mainly guaranteed by deposits provided by dealers or their guarantors. Our guaranteed loans decreased by 26.9% from RMB486.3 million as of December 31, 2015 to RMB355.6 million as of December 31, 2016, in line with the fluctuation of the outstanding balance of our dealer loans as of the end of each period, and then increased by 157.6% 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 64.5% to RMB325.3 million as of June 30, 2018, primarily due to repayment of dealer loans due in the first half of 2018. As of the Indebtedness Date, our guaranteed loans was RMB545.5 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 June 30, 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	50.1	0.63%	2.16%	
Borrower B . . . . .	Dealer	49.9	0.63%	2.15%	
Borrower C . . . . .	Dealer	42.9	0.54%	1.85%	
Borrower D . . . . .	Dealer	42.8	0.54%	1.85%	
Borrower E . . . . .	Dealer	28.8	0.36%	1.24%	
Borrower F . . . . .	Dealer	23.5	0.30%	1.01%	
Borrower G . . . . .	Transport, postal and warehousing	20.6	0.26%	0.89%	
Borrower H . . . . .	Dealer	17.0	0.22%	0.73%	
Borrower I . . . . .	Transport, postal and warehousing	16.0	0.20%	0.69%	
Borrower J . . . . .	Transport, postal and warehousing	15.1	0.19%	0.65%	
<b>Total . . . . .</b>		<b>306.7</b>	<b>3.87%</b>	<b>13.22%</b>	

*Note:*

(1) Represents loan balance as a percentage of our net capital.

## 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.

As of June 30, 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	191.2	2.42%	8.25%
Group II . . . . .	Dealer and finance lease	147.3	1.86%	6.36%
Group III . . . . .	Transport, postal and warehousing	20.6	0.26%	0.89%
Group IV . . . . .	Transport, postal and warehousing	16.0	0.20%	0.69%
Group V . . . . .	Transport, postal and warehousing	15.1	0.19%	0.65%
Group VI . . . . .	Transport, postal and warehousing	14.1	0.18%	0.61%
Group VII . . . . .	Transport, postal and warehousing	13.5	0.17%	0.58%
Group VIII . . . . .	Transport, postal and warehousing	13.3	0.17%	0.57%
Group IX . . . . .	Transport, postal and warehousing	9.5	0.12%	0.41%
Group X . . . . .	Transport, postal and warehousing	7.5	0.10%	0.32%
<b>Total . . . . .</b>		<b>448.1</b>	<b>5.67%</b>	<b>19.33%</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.”

## **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 replay 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,						As of June 30,	
	2015		2016		2017		2018	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(RMB in millions, except percentages)								
<b>Retail loans</b>								
Normal . . . . .	1,294.1	99.66%	3,394.6	99.31%	4,966.7	99.10%	7,418.1	99.45%
Special mention . . . . .	4.1	0.31%	9.5	0.28%	28.7	0.57%	22.0	0.30%
Substandard . . . . .	0.4	0.03%	2.2	0.06%	3.2	0.06%	4.4	0.06%
Doubtful . . . . .	—	—	1.6	0.05%	2.1	0.04%	1.8	0.02%
Loss . . . . .	—	—	10.3	0.30%	11.4	0.23%	12.4	0.17%
<b>Subtotal . . . . .</b>	<b>1,298.6</b>	<b>100.0%</b>	<b>3,418.2</b>	<b>100.0%</b>	<b>5,012.1</b>	<b>100.0%</b>	<b>7,458.7</b>	<b>100.0%</b>
Non-performing loan ratio <sup>(1)</sup> . . . . .		0.03%		0.41%		0.33%		0.25%
<b>Dealer loans</b>								
Normal . . . . .	486.3	100.0%	355.6	100.0%	916.0	100.0%	325.3	100.0%
Special mention . . . . .	—	—	—	—	—	—	—	—
Substandard . . . . .	—	—	—	—	—	—	—	—
Doubtful . . . . .	—	—	—	—	—	—	—	—
Loss . . . . .	—	—	—	—	—	—	—	—
<b>Subtotal . . . . .</b>	<b>486.3</b>	<b>100.0%</b>	<b>355.6</b>	<b>100.0%</b>	<b>916.0</b>	<b>100.0%</b>	<b>325.3</b>	<b>100.0%</b>
Non-performing loan ratio <sup>(1)</sup> . . . . .		—		—		—		—
<b>Total loans and advances to customers . . . . .</b>	<b>1,784.9</b>	<b>100.0%</b>	<b>3,773.8</b>	<b>100.0%</b>	<b>5,928.1</b>	<b>100.0%</b>	<b>7,784.0</b>	<b>100.0%</b>
Non-performing loan ratio <sup>(1)</sup> . . . . .		0.03%		0.37%		0.28%		0.24%

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 increased from 0.03% as of December 31, 2015 to 0.37% as of December 31, 2016. It decreased to 0.28% as of December 31, 2017, and further decreased to 0.24% as of June 30, 2018, as a result of our continuous efforts to maintain a prudent risk management system and write-off policies.

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**ASSETS AND LIABILITIES**

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*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,									As of June 30,		
	2015			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>	Amount	% of total	NPL ratio <sup>(1)</sup>
(RMB in millions, except percentages)												
Collateralized loans . . . . .	0.4	100.0%	0.03%	14.1	100.0%	0.41%	16.7	100.0%	0.33%	18.6	100.0%	0.25%
Guaranteed loans . . . . .	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total . . . . .</b>	<b><u>0.4</u></b>	<b><u>100.0%</u></b>	<b><u>0.03%</u></b>	<b><u>14.1</u></b>	<b><u>100.0%</u></b>	<b><u>0.37%</u></b>	<b><u>16.7</u></b>	<b><u>100.0%</u></b>	<b><u>0.28%</u></b>	<b><u>18.6</u></b>	<b><u>100.0%</u></b>	<b><u>0.24%</u></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.

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**ASSETS AND LIABILITIES**

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*Ten Largest Non-performing Borrowers*

The following table sets forth our borrowers with the ten largest non-performing loan balances outstanding as of June 30, 2018:

As of June 30, 2018			
Classification	Amount	% of total non-performing loans	% of total net capital base <sup>(1)</sup>
(RMB in millions, except percentages)			
Borrower A . . . . .	Loss	0.6	3.38%
Borrower B . . . . .	Loss	0.5	2.53%
Borrower C . . . . .	Loss	0.4	2.27%
Borrower D . . . . .	Substandard	0.4	1.95%
Borrower E . . . . .	Substandard	0.4	1.92%
Borrower F . . . . .	Loss	0.3	1.72%
Borrower G . . . . .	Substandard	0.3	1.61%
Borrower H . . . . .	Loss	0.3	1.56%
Borrower I . . . . .	Substandard	0.3	1.49%
Borrower J . . . . .	Loss	0.3	1.47%
<b>Total . . . . .</b>		<b>3.8</b>	<b>19.90%</b>
			<b>0.16%</b>

*Note:*

(1) Represents loan amounts as a percentage of our total net capital base.

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**ASSETS AND LIABILITIES**

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*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:

	<b>Amount</b>
	<b>(RMB in thousands)</b>
<b>Balance of non-performing loans as of December 31, 2015</b> .....	<b>448</b>
Net newly incurred during the period <sup>(2)</sup> .....	20,049
Written-off <sup>(3)</sup> during the period .....	(6,408)
<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> .....	14,655
Written-off <sup>(3)</sup> during the period .....	(12,713)
<b>Balance of non-performing loans as of June 30, 2018.</b> .....	<b>18,609</b>

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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 which are formed based on the regulations and guidelines set out by the relevant regulatory authorities.



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**ASSETS AND LIABILITIES**

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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, 2015</b> . . . . .	<b>8,649</b>
Net newly incurred during the period <sup>(2)</sup> . . . . .	21,357
Written-off during the period <sup>(3)</sup> . . . . .	(6,408)
<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> . . . . .	7,969
Written-off during the period <sup>(3)</sup> . . . . .	(12,713)
<b>Balance of overdue loans as of June 30, 2018</b> . . . . .	<b>40,613</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.

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.

## ASSETS AND LIABILITIES

### *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,									As of June 30,		
	2015			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>	Amount	% of total	Provision for impairment losses ratio <sup>(1)</sup>
(RMB in thousands, except percentages)												
Retail loans . . .	9,387	79.4%	0.72%	35,428	95.2%	1.04%	54,536	92.3%	1.09%	110,672	97.9%	1.48%
Dealer loans . . .	2,432	20.6%	0.50%	1,778	4.8%	0.50%	4,580	7.7%	0.50%	2,397	2.1%	0.74%
<b>Total allowance .</b>	<b>11,819</b>	<b>100.0%</b>	<b>0.66%</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>113,069</b>	<b>100.0%</b>	<b>1.45%</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.

The allowance for our retail loans increased from RMB9.4 million as of December 31, 2015 to RMB35.4 million as of December 31, 2016, to RMB54.5 million as of December 31, 2017, in line with the growth in our retail loan business. The allowance for our retail loans was RMB110.7 million as of June 30, 2018, as we have adopted HKFRS 9 since 2018 which introduces a new impairment model for financial assets. Our provision for impairment losses ratio for retail loans increased from 0.72% as of December 31, 2015 to 1.04% as of December 31, 2016, driven by an increase in the

## ASSETS AND LIABILITIES

non-performing loan ratio for our retail loans, because we adopted a prudent approach to making provision for impairment losses. Our provision for impairment losses ratio for retail loans increased to 1.48% as of June 30, 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 decreased from RMB2.4 million as of December 31, 2015 to RMB1.8 million as of December 31, 2016, increased to RMB4.6 million as of December 31, 2017, and then decreased to RMB2.4 million as of June 30, 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,						As of June 30,					
	2015			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>	Amount	% of total	Provision for impairment losses ratio <sup>(1)</sup>
(RMB in millions, except percentages)												
Normal . . . . .	8.1	69.1%	0.5%	16.7	44.8%	0.4%	25.1	42.5%	0.4%	86.7	76.7%	1.1%
Special mention . . . . .	3.3	27.9%	80.7%	8.1	21.8%	85.1%	17.9	30.2%	62.3%	9.5	8.4%	43.2%
Substandard. . . . .	0.4	3.0%	78.3%	2.0	5.7%	98.7%	2.8	4.7%	86.6%	4.0	3.5%	90.8%
Doubtful. . . . .	—	—	—	1.5	3.9%	94.4%	2.0	3.4%	97.6%	1.7	1.5%	90.3%
Loss . . . . .	—	—	—	8.9	23.8%	85.4%	11.3	19.2%	99.1%	11.2	9.9%	90.3%
<b>Total allowance . . . . .</b>	<b>11.8</b>	<b>100.0%</b>		<b>37.2</b>	<b>100.0%</b>		<b>59.1</b>	<b>100.0%</b>		<b>113.1</b>	<b>100.0%</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:

	<b>Amount</b>
	<b>(RMB'000)</b>
<b>As of March 11, 2015</b> .....	—
Charge of the period .....	11,819
Write-offs .....	—
Recoveries of loans written-off in previous years .....	—
<b>As of December 31, 2015</b> .....	<b>11,819</b>
Charge of the year .....	31,795
Write-offs .....	(6,408)
Recoveries of loans written-off in previous years .....	—
<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 .....	27,436
Write-offs .....	(12,713)
Recoveries of loans written-off in previous years .....	10
<b>As of June 30, 2018</b> .....	<b>113,069</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, 2015, 2016 and 2017 and June 30,

## **ASSETS AND LIABILITIES**

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2018, our deposits with banks and other financial institutions were RMB149.0 million, RMB239.9 million, RMB270.5 million and RMB110.4 million, respectively. The recent decrease in our deposits with banks and other financial institutions was influenced by the recent decline in financial market liquidity.

As of the Indebtedness Date, our deposits with banks and other financial institutions amounted to RMB131.0 million.

### ***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 June 30, 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 RMB49.8 million as of June 30, 2018 by 611.6% 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 RMB58.1 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, nil, RMB19.9 million and RMB113.2 million as of December 31, 2015, 2016 and 2017 and June 30, 2018, respectively, in line with the overall growth of our finance lease business in the second quarter of 2018.

### ***Property and Equipment***

Property and equipment primarily comprise office and electronic equipment. The balance of property and equipment increased by 43.9% from RMB4.1 million as of December 31, 2015 to RMB5.9 million as of December 31, 2016, primarily due to purchase of additional office equipment, and decreased by 22.4% to RMB4.6 million as of December 31, 2017 and further by 10.7% to RMB4.1 million as of June 30, 2018, because the value of the additional office equipment we purchased in the first half of 2018 was lower than the accumulated depreciation in the same period.

### ***Intangible Assets***

Intangible assets primarily comprise software and software under development. Our intangible assets remained relatively stable at RMB12.7 million and RMB12.5 million as of December 31, 2015 and 2016, respectively, and increased by 39.8% to RMB17.4 million as of December 31, 2017, primarily due to investment in software development, and slightly decreased by 11.3% to RMB15.4 million as of June 30, 2018, because the value of the additional softwares and IT systems we purchased in the first half of 2018 was lower than the accumulated amortization in the same period.

## **ASSETS AND LIABILITIES**

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### ***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 nil, RMB20.6 million, RMB62.2 million and RMB90.3 million as of December 31, 2015, 2016 and 2017 and June 30, 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 RMB7.8 million, RMB31.0 million, RMB33.4 million and RMB53.1 million as of December 31, 2015, 2016 and 2017 and June 30, 2018, respectively. This increase was primarily due to the increase in loans and advances to customers as we expanded our business operations during the Track Record Period. Our other receivables was RMB4.9 million, RMB4.0 million, RMB6.8 million and RMB17.5 million as of December 31, 2015, 2016, 2017 and June 30, 2018. The increase from December 31, 2017 to June 30, 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 RMB12.5 million as of June 30, 2018. As of June 30, 2018, our other assets was RMB80.0 million.

As of the Indebtedness Date, our other assets amounted to RMB93.2 million.

## **LIABILITIES AND SOURCES OF FUNDS**

Our total liabilities was RMB5,879.5 million as of June 30, 2018, representing an increase of 38.9% 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, increasing by 134.4% from RMB1,431.5 million as of December 31, 2015. 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 94.9%, 96.4%, 95.0% and 82.6% of our total liabilities as of December 31, 2015, 2016 and 2017 and June 30, 2018, respectively.

## ASSETS AND LIABILITIES

The following table sets forth a summary of our liabilities as of the dates indicated:

	As of December 31,						As of June 30,		As of Indebtedness Date,	
	2015		2016		2017		2018		2018	
	Amount	% of total	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 . . .	1,357,500	94.9%	3,232,885	96.4%	4,020,000	95.0%	4,854,583	82.6%	5,134,301	88.3%
Guarantee deposits . . . . .	53,545	3.7%	27,642	0.8%	78,894	1.9%	53,367	0.9%	67,374	1.2%
Other liabilities . . . . .	12,089	0.8%	40,754	1.2%	56,598	1.3%	146,355	2.5%	161,923	2.8%
Current Taxation . . . . .	8,340	0.6%	54,392	1.6%	76,884	1.8%	32,206	0.5%	27,476	0.5%
Deposits from shareholders . . . .	—	—	—	—	—	—	793,000	13.5%	421,000	7.2%
<b>Total Liabilities . . . . .</b>	<b><u>1,431,474</u></b>	<b>100.0%</b>	<b><u>3,355,673</u></b>	<b>100.0%</b>	<b><u>4,232,376</u></b>	<b>100.0%</b>	<b><u>5,879,511</u></b>	<b>100.0%</b>	<b><u>5,812,074</u></b>	<b>100.0%</b>

### 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 June 30,		As of Indebtedness Date,	
	2015		2016		2017		2018		2018	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
(RMB in thousands, except percentages)										
(Unaudited)										
Placements from banks . . . . .	1,070,000	78.8%	3,160,000	97.7%	4,020,000	100.0%	4,854,583	100.0%	5,134,301	100.0%
Placements from other financial institutions . . . . .	287,500	21.2%	72,885	2.3%	—	—	—	—	—	—
<b>Total . . . . .</b>	<b><u>1,357,500</u></b>	<b>100.0%</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>4,854,583</u></b>	<b>100.0%</b>	<b><u>5,134,301</u></b>	<b>100.0%</b>

Our placements from banks increased by 195.3% from RMB1,070.0 million as of December 31, 2015, to RMB3,160.0 million as of December 31, 2016 and further increased by 27.2% to RMB4,020.0 million as of December 31, 2017, and further increased by 20.8% to RMB4,854.6 million as of June 30, 2018. As of the Indebtedness Date, our placements from banks amounted to RMB5.1 billion. The increase in our placements from banks was in line with our overall business growth.

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**ASSETS AND LIABILITIES**

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Our amounts due from other financial institutions, namely, a trust financing company, was RMB287.5 million as of December 31, 2015, and RMB72.9 million as of December 31, 2016, and nil as of December 31, 2017 and June 30, 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.

***Interest Range***

The following table sets forth the interest range of our placements from banks and financial institutions as of the dates indicated:

	As of December 31,			As of June 30,	As of Indebtedness Date,
	2015	2016	2017	2018	2018
Placements from banks <sup>(1)(3)</sup> . . . . .	4.5%-6.5%	4.0%-5.6%	5.00%-8.00%	5.0%-8.5%	5.2%-8.5%
Placements from other financial institutions <sup>(2)</sup> . . . . .	6.03%	6.03%	N/A	N/A	N/A

*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.



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**ASSETS AND LIABILITIES**

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**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. Guarantee deposits decreased by 48.4% from RMB53.5 million as of December 31, 2015 to RMB27.6 million as of December 31, 2016, primarily as a result of change in our policies relating to the guarantee we requested for dealer loans, and increased by 185.4% 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. As of June 30, 2018, our balance of guarantee deposits was RMB53.4 million, representing a decrease of 32.4% from RMB78.9 million as of December 31, 2017, primarily due to the decrease of the outstanding balance of our dealer loans. As of the Indebtedness Date, our guarantee deposits amounted to RMB67.4 million.

The following table sets forth our guarantee deposits by type of guarantor as of the dates indicated:

	As of December 31,						As of June 30,		As of Indebtedness Date,	
	2015		2016		2017		2018		2018	
	Amount	% of total	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 . . . . .	43,445	81.1%	18,242	66.0%	70,435	89.3%	31,407	58.9%	7,217	10.7%
Deposits provided by dealers for retail loans . . . . .	10,100	18.9%	9,400	34.0%	5,980	7.6%	6,717	12.6%	43,464	64.5%
Deposits from finance lease clients . . . . .	—	—	—	—	2,479	3.1%	15,243	28.6%	16,693	24.8%
<b>Total . . . . .</b>	<b><u>53,545</u></b>	<b><u>100.0%</u></b>	<b><u>27,642</u></b>	<b><u>100.0%</u></b>	<b><u>78,894</u></b>	<b><u>100.0%</u></b>	<b><u>53,367</u></b>	<b><u>100.0%</u></b>	<b><u>67,374</u></b>	<b><u>100.0%</u></b>

**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 RMB12.1 million as of December 31, 2015 to RMB40.8 million as of December 31, 2016, RMB56.6 million as of December 31, 2017 and further to RMB146.4 million as of June 30, 2018, primarily due to the recent increase in our cost of funding.

As of the Indebtedness Date, our other liabilities amounted to RMB161.9 million.

## **ASSETS AND LIABILITIES**

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### **Current Taxation**

Current taxation primarily consist of enterprise income tax. Current taxation increased from RMB8.3 million as of December 31, 2015 to RMB54.4 million as of December 31, 2016, and further to RMB76.9 million as of December 31, 2017, primarily due to the expansion of our business operations. We had current taxation of RMB32.2 million as of June 30, 2018.

As of the Indebtedness Date, our current tax liability amounted to RMB27.5 million.

### **Deposits from Shareholders**

We had deposits from shareholders of nil, nil, nil, and RMB793.0 million as of December 31, 2015, 2016, 2017 and June 30, 2018, respectively. We take deposits from our shareholders from time to time. As of June 30, 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.

## **FUTURE PLANS AND USE OF [REDACTED]**

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### **FUTURE PLANS**

See “Business — Our Strategies” for a detailed description of our Company’s future plans.

### **USE OF [REDACTED]**

Assuming an [REDACTED] of HK\$[REDACTED] per H Share (being the mid-point of the stated range of the [REDACTED] of between HK\$[REDACTED] and HK\$[REDACTED] per H Share), we estimate that we will receive net [REDACTED] (after deducting the [REDACTED] commissions and other estimated expenses payable by us) of approximately HK\$[REDACTED] million from the [REDACTED] (assuming the [REDACTED] is not exercised), or approximately HK\$[REDACTED] million (assuming the [REDACTED] is exercised in full), from the [REDACTED].

If the [REDACTED] is fixed at HK\$[REDACTED] per H Share, being the high end of the stated [REDACTED] range, our net [REDACTED] will be (i) increased by approximately HK\$[REDACTED] million, assuming the [REDACTED] is not exercised; and (ii) increased by approximately HK\$[REDACTED] million, assuming the [REDACTED] is exercised in full. If the [REDACTED] is fixed at HK\$[REDACTED] per H Share, being the low end of the stated [REDACTED] range, our net [REDACTED] will be (i) decreased by approximately HK\$[REDACTED] million, assuming the [REDACTED] is not exercised; and (ii) decreased by approximately HK\$[REDACTED] million, assuming the [REDACTED] is exercised in full.

We expect to use the net [REDACTED] from the [REDACTED] to strengthen our capital base to support the ongoing growth of our business. Specifically, 70% of the net [REDACTED] received from the [REDACTED] will be used to support the development of our business with External Customers.

To the extent that the net [REDACTED] of the [REDACTED] are not immediately used for the above purpose, our Directors currently intend that such [REDACTED] 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.

**[REDACTED]**

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[REDACTED]

[REDACTED]

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[REDACTED]

**[REDACTED]**

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[REDACTED]

**[REDACTED]**

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[REDACTED]

**STRUCTURE OF THE [REDACTED]**

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[REDACTED]



**STRUCTURE OF THE [REDACTED]**

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[REDACTED]

**STRUCTURE OF THE [REDACTED]**

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**STRUCTURE OF THE [REDACTED]**

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[REDACTED]

**HOW TO APPLY FOR [REDACTED]**

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**HOW TO APPLY FOR [REDACTED]**

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[REDACTED]

**HOW TO APPLY FOR [REDACTED]**

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[REDACTED]

*The following is the text of a report set out on pages I - 4 to I - 78, received from the Company’s reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.*



**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 - 4 to I - 78, which comprises the statements of financial position of the Company as at 31 December 2015, 2016, 2017 and 30 June 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 period from 11 March 2015 (date of establishment) to 31 December 2015, for the years ended 31 December 2016 and 2017 and for the six months ended 30 June 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 - 4 to I - 78 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [●] (the “document”) in connection with the initial [REDACTED] 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 2015, 2016, 2017 and 30 June 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.

### **Review of stub period corresponding financial information**

We have reviewed the stub period corresponding financial information of the Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the six months ended 30 June 2017 and other explanatory information (the “Stub Period Corresponding Financial Information”). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

**APPENDIX I**

**ACCOUNTANTS’ REPORT**

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**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 - 4 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

[Date]

**APPENDIX I**

**ACCOUNTANTS’ REPORT**

**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	Period from 11 March 2015 (date of establishment) to 31 December			Six months ended 30 June	
		2015	2016	2017	2017	2018
		RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
					(Unaudited)	
Interest income		52,462	280,340	424,600	192,032	356,432
Interest expenses		(17,510)	(121,148)	(169,768)	(77,557)	(142,181)
<b>Net interest income</b>	5	34,952	159,192	254,832	114,475	214,251
Fee and commission income		23,817	170,226	205,323	94,366	130,757
Fee and commission expenses		(127)	(912)	(905)	(389)	(679)
<b>Net fee and commission income</b>	6	23,690	169,314	204,418	93,977	130,078
Other net income	7	19,330	3,913	2,710	3,945	38,536
<b>Operating income</b>		77,972	332,419	461,960	212,397	382,865
Operating expenses		(33,031)	(67,879)	(70,042)	(29,630)	(51,729)
Impairment losses		(11,819)	(31,795)	(43,395)	(877)	(32,373)
<b>Profit before taxation</b>	8	33,122	232,745	348,523	181,890	298,763
Income tax	9	(8,340)	(58,260)	(87,750)	(45,499)	(74,689)
<b>Profit and total comprehensive income for the period / year</b>		24,782	174,485	260,773	136,391	224,074
<b>Earnings per share</b>						
Basic and diluted (RMB)	12	0.07	0.35	0.30	0.27	0.14

The accompanying notes form part of the Historical Financial Information.



**APPENDIX I**

**ACCOUNTANTS’ REPORT**

**Statements of financial position**

	Note	At 31 December			At 30 June
		2015	2016	2017	2018
		RMB’000	RMB’000	RMB’000	RMB’000
<b>Assets</b>					
Cash and deposits with central bank	13	4,473	4,280	7,003	49,836
Deposits with banks and other financial institutions	14	148,996	239,879	270,494	110,370
Loans and advances to customers	15	1,773,085	3,736,577	5,869,004	7,670,938
Finance lease receivables	16	—	—	19,898	113,242
Property and equipment	17	4,082	5,874	4,558	4,070
Intangible assets	18	12,717	12,460	17,413	15,440
Deferred tax asset	23(b)	—	20,587	62,193	90,263
Other assets	19	12,903	35,283	41,853	80,002
<b>Total assets</b>		<u>1,956,256</u>	<u>4,054,940</u>	<u>6,292,416</u>	<u>8,134,161</u>
<b>Liabilities</b>					
Placements from banks and other financial institutions	20	1,357,500	3,232,885	4,020,000	4,854,583
Guarantee deposits	21	53,545	27,642	78,894	53,367
Deposits from shareholders	22	—	—	—	793,000
Current taxation	23(a)	8,340	54,392	76,884	32,206
Other liabilities	24	12,089	40,754	56,598	146,355
<b>Total liabilities</b>		<u>1,431,474</u>	<u>3,355,673</u>	<u>4,232,376</u>	<u>5,879,511</u>
<b>NET ASSETS</b>		<u>524,782</u>	<u>699,267</u>	<u>2,060,040</u>	<u>2,254,650</u>
<b>CAPITAL AND RESERVES</b>	25				
Paid-in / share capital		500,000	500,000	1,600,000	1,600,000
Reserves		24,782	199,267	460,040	654,650
<b>TOTAL EQUITY</b>		<u>524,782</u>	<u>699,267</u>	<u>2,060,040</u>	<u>2,254,650</u>

The accompanying notes form part of the Historical Financial Information.

**APPENDIX I**

**ACCOUNTANTS’ REPORT**

**Statements of changes in equity**

	<b>Paid-in / share capital</b>	<b>Capital reserve</b>	<b>Surplus reserve</b>	<b>General risk reserve</b>	<b>Retained earnings</b>	<b>Total Equity</b>
	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>
<b>Balance at 11 March 2015 (date of establishment)</b>	—	—	—	—	—	—
<b>Changes in equity for the period:</b>						
1. Profit and total comprehensive income for the period	—	—	—	—	24,782	24,782
2. Capital injection	500,000	—	—	—	—	500,000
3. Appropriation of profits						
- Appropriation for surplus reserve	—	—	2,478	—	(2,478)	—
- Appropriation for general risk reserve	—	—	—	5,340	(5,340)	—
<b>Balance at 31 December 2015</b>	<b>500,000</b>	<b>—</b>	<b>2,478</b>	<b>5,340</b>	<b>16,964</b>	<b>524,782</b>
<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>	<b>500,000</b>	<b>—</b>	<b>19,927</b>	<b>23,164</b>	<b>156,176</b>	<b>699,267</b>
<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>	<b>1,600,000</b>	<b>—</b>	<b>46,004</b>	<b>55,700</b>	<b>358,336</b>	<b>2,060,040</b>
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 period:</b>						
1. Profit and total comprehensive income for the period	—	—	—	—	224,074	224,074
2. Conversion into joint stock limited liability company	—	404,340	(46,004)	—	(358,336)	—
<b>Balance at 30 June 2018</b>	<b>1,600,000</b>	<b>404,340</b>	<b>—</b>	<b>55,700</b>	<b>194,610</b>	<b>2,254,650</b>

*Note:* Upon the adoption of HKFRS 9 “Financial Instruments” on 1 January 2018, the accumulated impact was recorded as an adjustment to the accumulated loss of RMB29,464 thousand from impairment loss allowance as at 1 January 2018.

The accompanying notes form part of the Historical Financial Information.

**APPENDIX I**

**ACCOUNTANTS’ REPORT**

**Unaudited:**

	<u>Paid-in Capital</u>	<u>Surplus reserve</u>	<u>General risk reserve</u>	<u>Retained earnings</u>	<u>Total Equity</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
<b>Balance at 1 January 2017</b>	500,000	19,927	23,164	156,176	699,267
<b>Changes in equity for the period:</b>					
1. Profit and total comprehensive income for the period	—	—	—	136,391	136,391
2. Capital injection	<u>200,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>200,000</u>
<b>Balance at 30 June 2017</b>	<u>700,000</u>	<u>19,927</u>	<u>23,164</u>	<u>292,567</u>	<u>1,035,658</u>

The accompanying notes form part of the Historical Financial Information.

**APPENDIX I**

**ACCOUNTANTS’ REPORT**

**Cash flow statements**

	Note	Period from 11 March 2015 (date of establishment) to 31 December	Year ended 31 December		Six months ended 30 June	
		2015	2016	2017	2017	2018
		RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<b>Operating activities</b>					(Unaudited)	
Profit before taxation		33,122	232,745	348,523	181,890	298,763
Adjustments for:						
Impairment losses		11,819	31,795	43,395	877	32,373
Depreciation and amortisation		2,782	5,002	5,879	2,809	3,756
Changes in operating assets						
Net (increase) / decrease in deposits with central bank		(4,473)	2,228	(3,350)	(545)	(43,969)
Net (increase) / decrease in deposits with banks and other financial institutions		(3,040)	—	3,040	3,040	—
Net increase in loans and advances to customers		(1,784,904)	(1,995,287)	(2,175,556)	(212,283)	(1,868,590)
Net increase in finance lease receivables		—	—	(20,029)	—	(98,481)
Net increase in other assets		(12,903)	(22,380)	(6,570)	(2,937)	(37,058)
Changes in operating liabilities						
Net increase / (decrease) in placements from banks and other financial institutions		1,357,500	1,875,385	787,115	(352,885)	834,583
Net increase / (decrease) in guarantee deposits		53,545	(25,903)	51,252	13,331	(25,527)
Net increase in deposits from shareholders		—	—	—	—	793,000
Net increase in other liabilities		12,089	28,665	10,394	111,581	90,674
<b>Cash (used in) / generated from operations</b>		(334,463)	132,250	(955,907)	(255,122)	(20,476)
Income tax paid		—	(32,795)	(106,864)	(60,298)	(137,616)
<b>Net cash (used in) / generated from operating activities</b>		(334,463)	99,455	(1,062,771)	(315,420)	(158,092)

**APPENDIX I**

**ACCOUNTANTS’ REPORT**

	Note	Period from 11 March 2015 (date of establishment) to 31 December	Years ended 31 December		Six months ended 30 June	
		2015	2016	2017	2017	2018
		RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
<b>Investing activities</b>						
Proceeds from disposal of property and equipment		4	—	4	—	—
Payments for purchase of property and equipment and intangible assets		(19,585)	(6,537)	(4,070)	(744)	(3,303)
<b>Net cash used in investing activities</b>		<u>(19,581)</u>	<u>(6,537)</u>	<u>(4,066)</u>	<u>(744)</u>	<u>(3,303)</u>
<b>Financing activity</b>						
Proceeds from capital injection		500,000	—	1,100,000	200,000	—
<b>Net cash generated from financing activity</b>		<u>500,000</u>	<u>—</u>	<u>1,100,000</u>	<u>200,000</u>	<u>—</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>		145,956	92,918	33,163	(116,164)	(161,395)
<b>Cash and cash equivalents at 11 March / 1 January</b>		<u>—</u>	<u>145,956</u>	<u>238,874</u>	<u>238,874</u>	<u>272,037</u>
<b>Cash and cash equivalents at 31 December / 30 June</b>	26	<u>145,956</u>	<u>238,874</u>	<u>272,037</u>	<u>122,710</u>	<u>110,642</u>

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 ZhengTong 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 [REDACTED] 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 period ended 30 June 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.

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**APPENDIX I****ACCOUNTANTS’ REPORT**

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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 period 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.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

## **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.

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(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 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 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.



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(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 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 statement of financial position as finance lease receivables. Any unguaranteed residual value is also recognized 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 recognized as unearned finance lease income. Unearned finance lease income is recognized 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.

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(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. 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.

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(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.

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- 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.

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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. The financial instruments are subsequently accounted for as follows, depending on their classification.

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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(o)(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.

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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.

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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.



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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 finance lease receivables and 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.

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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 unlikelihood 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.

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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

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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 statement of financial position

Loss allowances for ECL are presented in the statement 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.

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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.

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(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.

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(j) *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.

(k) *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 six months of maturity at acquisition.

(l) *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.

(m) *Income tax*

Income tax for the year or period 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.

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Current tax is the expected tax payable on the taxable income for the period, 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



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- 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.

(n) ***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.

(o) ***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;

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- 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.

(p) ***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.

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(q) ***Borrowing costs***

Borrowing costs are recognized in profit or loss when the corresponding service is provided.

(r) ***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.

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(s) *Segment reporting*

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

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

**3 Significant accounting judgement and estimates**

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

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

*Recognition of income taxes and deferred tax assets*

Determining income tax provision involves judgment on the future tax treatment of certain transactions. The Company carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are 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 contains information about the assumptions and their risk factors relating to fair value of financial instruments.

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**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.

<b>Retained earnings</b>	<b>Impact of adopting HKFRS9 on opening balance</b>
	<b>RMB’000</b>
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.

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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.

		HKAS 39 carrying amount at 31 December 2017	Remeasurement	HKFRS 9 carrying amount at 1 January 2018
	Note	RMB’000	RMB’000	RMB’000
<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	6,801	—	6,801
<b>Sub-total</b>		<b>6,186,659</b>	<b>(39,220)</b>	<b>6,147,439</b>
<b>Finance lease receivables</b>	16	19,898	(65)	19,833
<b>Total</b>		<b>6,206,557</b>	<b>(39,285)</b>	<b>6,167,272</b>

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).

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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.

***HKFRS 15 Revenue***

The Company has adopted HKFRS 15 Revenue on 1 January 2018, which replaces relevant standards about recognition, classification and measurement of revenue and cost.

The Company adopted of HKFRS 15 and did not restate any comparative information. The adoption of HKFRS 15 on 1 January 2018 does not result in any impact on the financial information of current period.

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**5 Net interest income**

	Period from 11 March 2015 (date of establishment) to 31 December				
	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
<b>Interest income arising from</b>					
Loans and advances to customers	50,197	274,787	418,973	189,603	349,321
Deposits with central bank, banks and other financial institutions	2,265	5,553	5,411	2,429	2,312
Finance leases	—	—	216	—	4,799
	<u>52,462</u>	<u>280,340</u>	<u>424,600</u>	<u>192,032</u>	<u>356,432</u>
<b>Interest expenses arising from</b>					
Placements from banks and other financial institutions	(17,510)	(121,148)	(169,766)	(77,557)	(138,453)
Deposits from shareholders	—	—	(2)	—	(3,728)
	<u>(17,510)</u>	<u>(121,148)</u>	<u>(169,768)</u>	<u>(77,557)</u>	<u>(142,181)</u>
<b>Net interest income</b>	<u><u>34,952</u></u>	<u><u>159,192</u></u>	<u><u>254,832</u></u>	<u><u>114,475</u></u>	<u><u>214,251</u></u>



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6 Net fee and commission income

	Period from 11 March 2015 (date of establishment) to 31 December				
	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
<b>Fee and commission income arising from</b>					
Consulting services	23,665	168,213	195,920	90,388	114,295
Joint loan services	—	621	8,233	3,360	15,729
Others	152	1,392	1,170	618	733
<b>Sub-total</b>	<u>23,817</u>	<u>170,226</u>	<u>205,323</u>	<u>94,366</u>	<u>130,757</u>
<b>Fee and commission expenses arising from</b>					
Commission fees	(17)	(538)	(568)	(239)	(365)
Others	(110)	(374)	(337)	(150)	(314)
<b>Sub-total</b>	<u>(127)</u>	<u>(912)</u>	<u>(905)</u>	<u>(389)</u>	<u>(679)</u>
<b>Net fee and commission income</b>	<u>23,690</u>	<u>169,314</u>	<u>204,418</u>	<u>93,977</u>	<u>130,078</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	Period from 11 March 2015 (date of establishment) to 31 December				
		Year ended 31 December			Six months ended 30 June	
		2015	2016	2017	2017	2018
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Unaudited)				
Government grants	(a)	14,876	3,876	4,573	3,876	38,405
Net exchange gain		4,458	—	—	—	—
Others		(4)	37	(1,863)	69	131
<b>Other net income</b>		<u>19,330</u>	<u>3,913</u>	<u>2,710</u>	<u>3,945</u>	<u>38,536</u>

Note:

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

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**8 Profit before taxation**

Profit before taxation is arrived at after charging:

(a) *Staff costs*

	Period from 11 March 2015 (date of establishment) to 31 December				
	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Salaries, bonuses and allowances	11,127	22,989	28,300	12,007	24,791
Contributions to pension schemes	1,467	2,607	3,481	1,491	2,844
Other social welfare	1,371	2,361	3,062	1,279	2,607
<b>Total</b>	<b>13,965</b>	<b>27,957</b>	<b>34,843</b>	<b>14,777</b>	<b>30,242</b>

(b) *Impairment losses*

	Note	Period from 11 March 2015 (date of establishment) to 31 December				
		Year ended 31 December			Six months ended 30 June	
		2015	2016	2017	2017	2018
		RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
					(Unaudited)	
Loans and advances to customers	15(e)	11,819	31,795	43,129	877	27,436
Deposits with banks and other financial institutions	14	—	—	135	—	(135)
Finance lease receivables	16(b)	—	—	131	—	5,072
<b>Total</b>		<b>11,819</b>	<b>31,795</b>	<b>43,395</b>	<b>877</b>	<b>32,373</b>

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(c) *Other items*

	Period from 11 March 2015 (date of establishment) to 31 December				
	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
	(Unaudited)				
Rental and property management expenses	5,020	13,073	11,997	5,521	6,570
Tax and surcharges	4,238	11,752	6,609	2,224	2,546
Organization cost	3,525	—	—	—	—
Depreciation and amortisation	2,782	5,002	5,879	2,809	3,756
Office expenses	2,013	2,280	2,046	1,226	810
Travel expenses	526	1,243	1,121	264	1,172
Legal consultancy	273	699	1,529	1,073	883
Auditor’s remuneration	250	358	434	—	—
Maintenance fees	36	1,804	1,621	135	375
Others	403	3,711	3,963	1,601	5,375
<b>Total</b>	<b>19,066</b>	<b>39,922</b>	<b>35,199</b>	<b>14,853</b>	<b>21,487</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	Period from 11 March 2015 (date of establishment) to 31 December				
		Year ended 31 December			Six months ended 30 June	
		2015	2016	2017	2017	2018
		RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
		(Unaudited)				
<b>Current tax</b>						
Provision for current income tax for the Relevant Periods	23(a)	8,340	78,847	129,356	52,498	92,938
<b>Deferred tax</b>						
Origination and reversal of temporary differences	23(b)	—	(20,587)	(41,606)	(6,999)	(18,249)
<b>Total</b>		<b>8,340</b>	<b>58,260</b>	<b>87,750</b>	<b>45,499</b>	<b>74,689</b>

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

Note	Period from 11 March 2015 (date of establishment) to 31 December		Year ended 31 December		Six months ended 30 June	
	2015	2016	2017	2017	2018	
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	
<b>Profit before taxation:</b>	<u>33,122</u>	<u>232,745</u>	<u>348,523</u>	<u>181,890</u>	<u>298,763</u>	
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned	(i) 8,281	58,186	87,131	45,473	74,691	
Effect of non-deductible expenses	56	74	619	26	32	
Others	3	—	—	—	(34)	
<b>Actual income tax expense</b>	<u>8,340</u>	<u>58,260</u>	<u>87,750</u>	<u>45,499</u>	<u>74,689</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:

**Period from 11 March 2015 (date of establishment) to 31 December 2015**

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 director</b>					
Mr. Shao Yongjun	—	—	—	—	—
<b>Non-executive directors</b>					
Mr. Li Wei	—	—	—	—	—
Mr. Lu Feng	—	—	—	—	—
<b>Supervisors</b>					
Mr. Chen Tao	(1) —	—	—	—	—
Mr. Li Huihua	(2) —	—	—	—	—

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*Year ended 31 December 2016*

	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 director</b>						
Mr. Shao Yongjun		—	—	—	—	—
<b>Non-executive directors</b>						
Mr. Li Wei		—	—	—	—	—
Mr. Lu Feng		—	—	—	—	—
<b>Supervisor</b>						
Mr. Li Huihua	(2)	—	—	—	—	—

*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	(3)	—	1,333	—	—	1,333
Mr. Shao Yongjun		—	—	—	—	—
<b>Non-executive directors</b>						
Mr. Li Wei	(4)	—	—	—	—	—
Mr. Lu Feng		—	—	—	—	—
<b>Supervisor</b>						
Mr. Li Huihua	(2)	—	—	—	—	—

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*Six months ended 30 June 2017 (unaudited)*

	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	(3)	—	533	—	—	533
Mr. Shao Yongjun		—	—	—	—	—
<b>Non-executive directors</b>						
Mr. Li Wei	(4)	—	—	—	—	—
Mr. Lu Feng		—	—	—	—	—
<b>Supervisor</b>						
Mr. Li Huihua	(2)	—	—	—	—	—

*Six months ended 30 June 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	(3)	—	800	—	—	800
Mr. Shao Yongjun		—	—	—	—	—
<b>Non-executive director</b>						
Mr. Lu Feng		—	—	—	—	—
<b>Supervisors</b>						
Mr. Li Huihua	(2)	—	—	—	—	—
Mr. Li Tao	(5)	—	—	—	—	—
Ms. Wang Qing	(6)	—	85	—	—	85

(1) Mr. Chen Tao resigned as supervisor on 21 December 2015.

(2) Mr. Li Huihua was appointed as supervisor on 21 December 2015.

(3) Mr. Lin Fan was appointed as executive director on 28 February 2017.

(4) Mr. Li Wei resigned as non-executive director on 28 February 2017.

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

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

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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 document, 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 period from 11 March 2015 (date of establishment) to 31 December 2015 and the year ended 31 December 2016 include no directors or supervisors and for the six months ended 30 June 2017, for the year ended 31 December 2017 and for six months ended 30 June 2018 include 1 director in the respective period, whose emoluments are reflected in Note 10 presented above.

	Period from 11 March 2015 (date of establishment) to 31 December				
	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Salaries, allowances and benefits in kind	3,053	5,562	5,118	2,492	2,802
Discretionary bonuses	793	589	43	—	—
	<u>3,846</u>	<u>6,151</u>	<u>5,161</u>	<u>2,492</u>	<u>2,802</u>

The emoluments of the above individuals with the highest emoluments are within the following band:

	Period from 11 March 2015 (date of establishment) to 31 December				
	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Nil — HKD 1,000,000	3	—	2	3	3
HKD 1,000,001 — HKD 1,500,000	1	3	1	—	—
HKD 1,500,001 — HKD 2,000,000	—	2	—	1	1
HKD 2,000,001 — HKD 2,500,000	1	—	—	—	—
HKD 2,500,001 — HKD 3,000,000	—	—	—	—	—
HKD 3,000,001 — HKD 3,500,000	—	—	1	—	—
	<u>5</u>	<u>5</u>	<u>4</u>	<u>4</u>	<u>4</u>

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**12 Basic and diluted earnings per share**

	Period from 11 March 2015 (date of establishment) to 31 December				
	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
				(Unaudited)	
Profit attributable to shareholders of the Company (RMB’000)	24,782	174,485	260,773	136,391	224,074
Weighted average number of ordinary shares issued (in thousands)	375,000	500,000	863,750	500,000	1,600,000
Basic and diluted earnings per share attributable to shareholders (RMB)	<u>0.07</u>	<u>0.35</u>	<u>0.30</u>	<u>0.27</u>	<u>0.14</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			At 30 June
		2015	2016	2017	2018
		RMB	RMB	RMB	RMB
Deposits with central bank					
- Statutory deposit reserves	(a)	4,473	2,245	5,595	49,564
- Surplus deposit reserves	(b)	—	2,035	1,408	272
<b>Total</b>		<u>4,473</u>	<u>4,280</u>	<u>7,003</u>	<u>49,836</u>

(a) The Company places statutory deposit reserves with the People’s Bank of China (“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			At 30 June
	2015	2016	2017	2018
<i>Reserve ratio for deposits</i>	7.5%	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 PBOC for the purpose of clearing.



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**14 Deposits with banks and other financial institutions**

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB’000	RMB’000	RMB’000	RMB’000
Deposits with banks	145,956	236,839	270,629	110,370
Deposits with other financial institutions	3,040	3,040	—	—
Less: Allowances for impairment losses	—	—	(135)	—
<b>Total</b>	<u>148,996</u>	<u>239,879</u>	<u>270,494</u>	<u>110,370</u>

	Note	Allowances for impairment losses
		RMB’000
At 11 March 2015		—
Charge for the period		—
At 31 December 2015		—
Charge for the period		—
At 31 December 2016		—
Charge for the period	8(b)	135
At 31 December 2017		135
Reversal for the period	8(b)	(135)
At 30 June 2018		<u>—</u>

**15 Loans and advances to customers**

**(a) Analysed by nature**

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB’000	RMB’000	RMB’000	RMB’000
Retail loans	1,298,607	3,418,216	5,012,153	7,458,733
Dealer’s loans	486,297	355,567	915,967	325,274
Gross loans and advances to customers	<u>1,784,904</u>	<u>3,773,783</u>	<u>5,928,120</u>	<u>7,784,007</u>
Less: Allowances for impairment losses	<u>(11,819)</u>	<u>(37,206)</u>	<u>(59,116)</u>	<u>(113,069)</u>
Net loans and advances to customers	<u>1,773,085</u>	<u>3,736,577</u>	<u>5,869,004</u>	<u>7,670,938</u>

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**(b) Analysed by type of collateral**

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB’000	RMB’000	RMB’000	RMB’000
Collateralized loans	1,298,607	3,418,216	5,012,153	7,458,733
Guaranteed loans	486,297	355,567	915,967	325,274
Gross loans and advances to customers	1,784,904	3,773,783	5,928,120	7,784,007
Less: Allowances for impairment losses	(11,819)	(37,206)	(59,116)	(113,069)
Net loans and advances to customers	<u>1,773,085</u>	<u>3,736,577</u>	<u>5,869,004</u>	<u>7,670,938</u>

**(c) Overdue loans analysed by type of collateral and overdue period**

	31 December 2015					
	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>8,201</u>	<u>448</u>	<u>—</u>	<u>—</u>	<u>8,649</u>

	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>

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	30 June 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
	<u>26,346</u>	<u>7,611</u>	<u>6,176</u>	<u>480</u>	<u>40,613</u>
Collateralized loans					

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		
	2015	2016	2017
	RMB’000	RMB’000	RMB’000
Loans and advances for which allowances are collectively assessed:			
Gross loans and advances to customers	1,784,904	3,773,783	5,928,120
Less: Allowances for impairment losses	<u>(11,819)</u>	<u>(37,206)</u>	<u>(59,116)</u>
Net loans and advances to customers	<u>1,773,085</u>	<u>3,736,577</u>	<u>5,869,004</u>

*After adoption of HKFRS 9 as at 1 January 2018*

	30 June 2018			
	12-month ECL	Lifetime ECL for not credit- impaired	Lifetime ECL for credit- impaired	Total
	RMB’000	RMB’000	RMB’000	RMB’000
	<u>7,743,074</u>	<u>22,324</u>	<u>18,609</u>	<u>7,784,007</u>
Gross loans and advances to customers				
Less: Allowances for impairment losses	<u>(86,643)</u>	<u>(9,600)</u>	<u>(16,826)</u>	<u>(113,069)</u>
Net loans and advances to customers	<u>7,656,431</u>	<u>12,724</u>	<u>1,783</u>	<u>7,670,938</u>

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(e) *Movements of allowances for impairment losses*

*Before adoption of HKFRS 9 as at 1 January 2018*

	Note	Period from	Year ended 31 December	
		11 March 2015	2016	2017
		(date of establishment) to 31 December	RMB’000	RMB’000
Allowances for impairment losses which is collectively assessed:				
At 11 March / 1 January		—	11,819	37,206
Charge for the period / year	8(b)	11,819	31,795	43,129
Write-off for the period / year		—	(6,408)	(21,848)
Recovery after write-off		—	—	629
At 31 December		<u>11,819</u>	<u>37,206</u>	<u>59,116</u>

*After adoption of HKFRS 9 as at 1 January 2018*

	Note	Six months ended 30 June 2018			
		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		25,148	17,878	16,090	59,116
Adjustment on initial application of HKFRS 9		<u>47,659</u>	<u>(7,171)</u>	<u>(1,268)</u>	<u>39,220</u>
Adjusted balance at 1 January 2018		72,807	10,707	14,822	98,336
Transferred to:					
- to 12-month ECL		6,106	(5,853)	(253)	—
- to lifetime ECL for not credit-impaired		(214)	304	(90)	—
- to lifetime ECL for credit-impaired		(96)	(2,950)	3,046	—
Charge for the period	8(b)	8,040	7,392	12,004	27,436
Write-off for the period		—	—	(12,713)	(12,713)
Recovery after write-off		—	—	10	10
At 30 June		<u>86,643</u>	<u>9,600</u>	<u>16,826</u>	<u>113,069</u>

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**16 Finance lease receivables**

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB’000	RMB’000	RMB’000	RMB’000
Minimum finance lease receivables	—	—	23,275	132,143
Less: Unearned finance lease income	—	—	(3,246)	(13,633)
Present value of finance lease receivables	—	—	20,029	118,510
Less: Allowances for impairment losses				
— Collectively assessed	—	—	(131)	(5,268)
<b>Total</b>	<b>—</b>	<b>—</b>	<b>19,898</b>	<b>113,242</b>

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

	31 December 2017			30 June 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	57,232	(8,576)	48,656
1 year to 2 years	7,071	(1,118)	5,953	47,105	(4,070)	43,035
2 years to 3 years	8,800	(542)	8,258	27,749	(980)	26,769
More than 3 years	333	(2)	331	57	(7)	50
Sub-total	<u>23,275</u>	<u>(3,246)</u>	<u>20,029</u>	<u>132,143</u>	<u>(13,633)</u>	<u>118,510</u>
Less: Allowances for impairment losses			(131)			(5,268)
<b>Total</b>			<u>19,898</u>			<u>113,242</u>

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(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 11 March 2015		—
Charge for the period		—
Write-off		—
At 31 December 2015		—
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*

	Six months ended 30 June 2018				
	Note	12-month expected impairment losses	Lifetime expected impairment losses for not impaired	Lifetime expected impairment losses for impaired	Total
		RMB’000	RMB’000	RMB’000	RMB’000
At 31 December 2017		131	—	—	131
Adjustment on initial application of HKFRS 9		<u>65</u>	—	—	<u>65</u>
Adjusted balance at 1 January 2018		196	—	—	196
Transferred to:					
- to lifetime ECL for not credit-impaired		(75)	75	—	—
Charge for the period	8(b)	<u>694</u>	<u>4,378</u>	—	<u>5,072</u>
At 30 June		<u>815</u>	<u>4,453</u>	—	<u>5,268</u>

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**17 Property and equipment**

	<u>Electronic equipment</u>	<u>Office furniture</u>	<u>Improvement to leasehold property</u>	<u>Total</u>
	RMB’000	RMB’000	RMB’000	RMB’000
<b>Cost:</b>				
At 11 March 2015	—	—	—	—
Additions	1,153	738	2,816	4,707
Disposals	—	(4)	—	(4)
At 31 December 2015	1,153	734	2,816	4,703
Additions	1,070	104	2,404	3,578
At 31 December 2016	2,223	838	5,220	8,281
Additions	389	2	271	662
Disposals	(4)	—	—	(4)
At 31 December 2017	2,608	840	5,491	8,939
Additions	541	—	14	555
At 30 June 2018	3,149	840	5,505	9,494
<b>Accumulated depreciation:</b>				
At 11 March 2015	—	—	—	—
Charge for the period	(115)	(83)	(423)	(621)
At 31 December 2015	(115)	(83)	(423)	(621)
Charge for the year	(321)	(154)	(1,311)	(1,786)
At 31 December 2016	(436)	(237)	(1,734)	(2,407)
Charge for the year	(431)	(161)	(1,382)	(1,974)
At 31 December 2017	(867)	(398)	(3,116)	(4,381)
Charge for the period	(259)	(80)	(704)	(1,043)
At 30 June 2018	(1,126)	(478)	(3,820)	(5,424)
<b>Net book value:</b>				
<b>At 31 December 2015</b>	<u>1,038</u>	<u>651</u>	<u>2,393</u>	<u>4,082</u>
<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 30 June 2018</b>	<u>2,023</u>	<u>362</u>	<u>1,685</u>	<u>4,070</u>

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18 **Intangible assets**

	<b>Computer software</b>
	<b>RMB’000</b>
<b>Cost:</b>	
At 11 March 2015	—
Additions	<u>14,878</u>
At 31 December 2015	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>740</u>
At 30 June 2018	<u>27,435</u> -----
<b>Accumulated amortisation:</b>	
At 11 March 2015	—
Charge for the period	<u>(2,161)</u>
At 31 December 2015	(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 period	<u>(2,713)</u>
At 30 June 2018	<u>(11,995)</u> -----
<b>Net book value:</b>	
<b>At 31 December 2015</b>	<u><u>12,717</u></u>
<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 30 June 2018</b>	<u><u>15,440</u></u>



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**19 Other assets**

Note	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB’000	RMB’000	RMB’000	RMB’000
Interest receivables	7,763	30,955	33,357	53,081
Long-term deferred expenses	194	250	—	—
Other receivables (a)	4,946	4,026	6,801	17,496
Deductible input value added tax	—	—	—	4,440
[REDACTED] service fees	—	—	—	1,091
Others	—	52	1,695	3,894
<b>Total</b>	<b>12,903</b>	<b>35,283</b>	<b>41,853</b>	<b>80,002</b>

(a) *Other receivables*

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB’000	RMB’000	RMB’000	RMB’000
Deposits	4,308	3,266	3,260	3,273
Consulting fees	638	724	2,132	1,740
Commission receivables of joint loans	—	—	1,409	12,483
Others	—	36	—	—
<b>Total</b>	<b>4,946</b>	<b>4,026</b>	<b>6,801</b>	<b>17,496</b>

**20 Placements from banks and other financial institutions**

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB’000	RMB’000	RMB’000	RMB’000
Placements from banks	1,070,000	3,160,000	4,020,000	4,854,583
Placements from other financial institutions	287,500	72,885	—	—
<b>Total</b>	<b>1,357,500</b>	<b>3,232,885</b>	<b>4,020,000</b>	<b>4,854,583</b>

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**21 Guarantee deposits**

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB’000	RMB’000	RMB’000	RMB’000
Deposits provided by dealers for dealer’s loans	43,445	18,242	70,435	31,407
Deposits provided by dealers for retail loans	10,100	9,400	5,980	6,717
Deposits from finance lease clients	—	—	2,479	15,243
<b>Total</b>	<u>53,545</u>	<u>27,642</u>	<u>78,894</u>	<u>53,367</u>

**22 Deposits from shareholders**

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB’000	RMB’000	RMB’000	RMB’000
Deposits from shareholders	—	—	—	<u>793,000</u>

As at the 30 June 2018, the deposits from shareholders carried fixed interest rate at 1.10% per annum and the term of the deposits was 3 months. The outstanding balance of deposits from shareholders were settled subsequently.

**23 Income tax in the statements of financial position**

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

	Note	At 31 December			At 30 June
		2015	2016	2017	2018
		RMB’000	RMB’000	RMB’000	RMB’000
Balance at the beginning of the Relevant Periods		—	8,340	54,392	76,884
Provision for current income tax for the Relevant Periods	9(a)	8,340	78,847	129,356	92,938
Payment during the Relevant Periods		—	(32,795)	(106,864)	(137,616)
<b>Balance at the end of the Relevant Periods</b>		<u>8,340</u>	<u>54,392</u>	<u>76,884</u>	<u>32,206</u>

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(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:

<b>Deferred tax arising from:</b>	<b>Allowances for impairment losses</b>	<b>Deferred income</b>	<b>Total</b>
	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>
Balance at 11 March 2015 and 31 December 2015	—	—	—
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	—	18,249	18,249
Balance at 30 June 2018	<u>9,821</u>	<u>80,442</u>	<u>90,263</u>

**24 Other liabilities**

<b>Note</b>	<b>At 31 December</b>			<b>At 30 June</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>
Interest payable	4,703	16,879	20,088	48,428
Advance receipts	—	341	190	2,880
Other payables (a)	<u>7,386</u>	<u>23,534</u>	<u>36,320</u>	<u>95,047</u>
<b>Total</b>	<u>12,089</u>	<u>40,754</u>	<u>56,598</u>	<u>146,355</u>

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(a) *Other payables*

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB’000	RMB’000	RMB’000	RMB’000
Employee benefits payables	2,902	4,193	3,622	5,777
Tax and surcharges and other taxation payable	2,240	16,083	21,459	1,458
Accruals	1,344	2,360	7,601	5,568
Payables of joint loans	—	—	2,372	75,373
[REDACTED] service fees payable	—	—	—	1,091
Others	900	898	1,266	5,780
<b>Total</b>	<b>7,386</b>	<b>23,534</b>	<b>36,320</b>	<b>95,047</b>

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 Development” in this document, the Company was converted into a joint stock limited company from a limited liability company. As at 30 June 2018, the share capital represented [REDACTED] 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.

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(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.

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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			At 30 June
	2015	2016	2017	2018
	RMB’000	RMB’000	RMB’000	RMB’000
Core tier-one capital				
— Paid-in / share capital	500,000	500,000	1,600,000	1,600,000
— Capital reserve	—	—	—	404,340
— Surplus reserve	2,478	19,927	46,004	—
— General risk reserve	5,340	23,164	55,700	55,700
— Retained earnings	16,964	156,176	358,336	194,610
Total core tier-one capital	524,782	699,267	2,060,040	2,254,650
Core tier-one capital deductions				
— Net value of intangible asset after deduction of related deferred income tax liabilities	(12,717)	(12,460)	(17,413)	(15,440)
Net core tier-one capital	512,065	686,807	2,042,627	2,239,210
Net tier-one capital	512,065	686,807	2,042,627	2,239,210
Tier-two capital				
— Surplus provision for loan impairment	11,370	23,117	42,579	78,466
Net tier-two capital	11,370	23,117	42,579	78,466
Net capital base	523,435	709,924	2,085,206	2,317,676
Credit risk-weighted assets	1,504,029	3,049,792	4,957,883	6,355,733
Operational risk-weighted assets	157,750	386,849	545,141	545,141
Total risk-weighted assets	1,661,779	3,436,641	5,503,024	6,900,874
Core tier-one capital adequacy ratio	30.81%	19.98%	37.12%	32.45%
Tier-one capital adequacy ratio	30.81%	19.98%	37.12%	32.45%
Capital adequacy ratio	31.50%	20.66%	37.89%	33.59%

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**26 Notes to cash flow statements**

*Cash and cash equivalents comprise*

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB’000	RMB’000	RMB’000	RMB’000
Deposit reserves with central bank	—	2,035	1,408	272
Deposits with banks within original maturity of three months or less	145,956	236,839	270,629	110,370
Cash and cash equivalents in the cash flow statements	145,956	238,874	272,037	110,642

**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.

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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.



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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. For the period ended 31 December 2015, none of loans and advances to customers had been written off.

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:

	<b>31 December 2015</b>			
	<b>Loans and advances to customers</b>	<b>Deposits with banks and other financial institutions</b>	<b>Finance lease receivables</b>	<b>Total</b>
	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>
<b>Impaired</b>				
Collectively assessed				
Gross balance	448	—	—	448
Allowances for impairment losses	(351)	—	—	(351)
Net balance	97	—	—	97
<b>Overdue but not impaired</b>				
Within 3 months (inclusive)	8,201	—	—	8,201
Allowances for impairment losses	(6,620)	—	—	(6,620)
Net balance	1,581	—	—	1,581
<b>Neither overdue nor impaired</b>				
Gross balance	1,776,255	148,996	—	1,925,251
Allowances for impairment losses	(4,848)	—	—	(4,848)
Net balance	1,771,407	148,996	—	1,920,403
Book value	<u>1,773,085</u>	<u>148,996</u>	<u>—</u>	<u>1,922,081</u>

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	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
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<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
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Book value	<u>3,736,577</u>	<u>239,879</u>	<u>—</u>	<u>3,976,456</u>

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	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 the end of each reporting period, the Company’s maximum exposure to credit risk which will cause a financial loss to the Company due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective 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.

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

For the six months ended 30 June 2018, the Company has written off loans and advances to customers of RMB12,713 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.

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	30 June 2018		
	Loans and advances to customers	Finance lease receivables	Total
	RMB’000	RMB’000	RMB’000
<b>Gross balance are assessed for 12-month ECL</b>			
— Neither overdue nor credit-impaired	7,743,074	110,591	7,853,665
<b>Gross balance are not credit-impaired and assessed for lifetime ECL</b>			
— Overdue but not credit-impaired	22,004	7,919	29,923
— Neither overdue nor credit-impaired	320	—	320
Sub-total	22,324	7,919	30,243
<b>Gross balance are credit-impaired and assessed for lifetime ECL</b>			
— Overdue and credit-impaired	18,609	—	18,609
Allowances for impairment losses	(113,069)	(5,268)	(118,337)
Net value	<u>7,670,938</u>	<u>113,242</u>	<u>7,784,180</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.

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**At 31 December 2015**

	Repayable on demand/ terms undated	Within one month	Between			Total	Carrying amount
			Between one month and three months	three months and one year	Between one year and five years		
			RMB’000	RMB’000	RMB’000		
<b>Assets</b>							
Cash and deposits with central bank	4,473	—	—	—	—	4,473	4,473
Deposits with banks and other financial institutions	145,956	—	—	—	3,132	149,088	148,996
Loans and advances to customers	1,677	51,479	102,786	970,630	794,129	1,920,701	1,773,085
Other assets	5,005	7,704	—	—	—	12,709	12,709
<b>Total</b>	<b>157,111</b>	<b>59,183</b>	<b>102,786</b>	<b>970,630</b>	<b>797,261</b>	<b>2,086,971</b>	<b>1,939,263</b>
<b>Liabilities</b>							
Placements from banks and other financial institutions	—	(17,712)	(46,338)	(1,149,068)	(199,884)	(1,413,002)	(1,357,500)
Guarantee deposits	(53,545)	—	—	—	—	(53,545)	(53,545)
Other liabilities	(5,147)	—	(4,385)	(286)	(31)	(9,849)	(9,849)
<b>Total</b>	<b>(58,692)</b>	<b>(17,712)</b>	<b>(50,723)</b>	<b>(1,149,354)</b>	<b>(199,915)</b>	<b>(1,476,396)</b>	<b>(1,420,894)</b>
	<b>98,419</b>	<b>41,471</b>	<b>52,063</b>	<b>(178,724)</b>	<b>597,346</b>	<b>610,575</b>	<b>518,369</b>

**At 31 December 2016**

	Repayable on demand/ terms undated	Within one month	Between			Total	Carrying amount
			Between one month and three months	three months and one year	Between one year and five years		
			RMB’000	RMB’000	RMB’000		
<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>	<b>245,262</b>	<b>191,307</b>	<b>324,262</b>	<b>1,659,536</b>	<b>2,078,553</b>	<b>4,498,920</b>	<b>4,015,717</b>
<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>	<b>(35,094)</b>	<b>(346,559)</b>	<b>(501,403)</b>	<b>(2,473,233)</b>	<b>—</b>	<b>(3,356,289)</b>	<b>(3,284,857)</b>
	<b>210,168</b>	<b>(155,252)</b>	<b>(177,141)</b>	<b>(813,697)</b>	<b>2,078,553</b>	<b>1,142,631</b>	<b>730,860</b>

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**At 31 December 2017**

	Repayable on demand/ terms undated	Within one month	Between			Total	Carrying amount
			Between one month and three months	three months and one year	Between one year and five years		
			RMB’000	RMB’000	RMB’000		
<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>	<b>295,813</b>	<b>291,193</b>	<b>663,037</b>	<b>3,030,001</b>	<b>2,602,151</b>	<b>6,882,195</b>	<b>6,206,557</b>
<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	(14,861)	(5,959)	(5,008)	(9,120)	—	(34,948)	(34,948)
<b>Total</b>	<b>(91,276)</b>	<b>(357,189)</b>	<b>(759,196)</b>	<b>(3,081,073)</b>	<b>(2,479)</b>	<b>(4,291,213)</b>	<b>(4,133,842)</b>
	<u>204,537</u>	<u>(65,996)</u>	<u>(96,159)</u>	<u>(51,072)</u>	<u>2,599,672</u>	<u>2,590,982</u>	<u>2,072,715</u>

**At 30 June 2018**

	Repayable on demand/ terms undated	Within one month	Between			Total	Carrying amount
			Between one month and three months	three months and one year	Between one year and five years		
			RMB’000	RMB’000	RMB’000		
<b>Assets</b>							
Cash and deposits with central bank	49,836	—	—	—	—	49,836	49,836
Deposits with banks and other financial institutions	110,370	—	—	—	—	110,370	110,370
Loans and advances to customers	15,155	398,495	798,673	3,346,167	4,080,030	8,638,520	7,670,938
Finance lease receivables	4,887	3,964	7,929	35,680	74,414	126,874	113,242
Other assets	17,547	53,030	—	—	—	70,577	70,577
<b>Total</b>	<b>197,795</b>	<b>455,489</b>	<b>806,602</b>	<b>3,381,847</b>	<b>4,154,444</b>	<b>8,996,177</b>	<b>8,014,963</b>
<b>Liabilities</b>							
Placements from banks and other financial institutions	—	(552,735)	(785,479)	(3,247,143)	(463,757)	(5,049,114)	(4,854,583)
Guarantee deposits	(38,124)	—	—	—	(15,243)	(53,367)	(53,367)
Deposits from shareholders	—	(616,433)	(177,494)	—	—	(793,927)	(793,000)
Other liabilities	(93,589)	(2,686)	(21,584)	(24,158)	—	(142,017)	(142,017)
<b>Total</b>	<b>(131,713)</b>	<b>(1,171,854)</b>	<b>(984,557)</b>	<b>(3,271,301)</b>	<b>(479,000)</b>	<b>(6,038,425)</b>	<b>(5,842,967)</b>
	<u>66,082</u>	<u>(716,365)</u>	<u>(177,955)</u>	<u>110,546</u>	<u>3,675,444</u>	<u>2,957,752</u>	<u>2,171,996</u>

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(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.

	At 31 December						At 30 June	
	2015		2016		2017		2018	
	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount
	%	RMB’000	%	RMB’000	%	RMB’000	%	RMB’000
Fixed interest rate:								
Financial assets								
Loans and advances to customers	5.90%- 14.00%	1,773,085	6.00%- 14.90%	3,736,577	6.50%- 14.90%	5,869,004	6.50%- 15.28%	7,670,938
Finance lease receivables	N/A	—	N/A	—	7.96%- 11.00%	19,898	7.86%- 12.00%	113,242
		<u>1,773,085</u>		<u>3,736,577</u>		<u>5,888,902</u>		<u>7,784,180</u>
Financial liabilities								
Placements from banks and other financial institutions	4.50%- 6.50%	(1,357,500)	4.00%- 6.31%	(3,232,885)	5.00%- 8.00%	(4,020,000)	5.00%- 8.50%	(4,854,583)
Deposits from shareholders	N/A	—	N/A	—	N/A	—	1.10%	(793,000)
		<u>(1,357,500)</u>		<u>(3,232,885)</u>		<u>(4,020,000)</u>		<u>(5,647,583)</u>
<b>Net</b>		<u><u>415,585</u></u>		<u><u>503,692</u></u>		<u><u>1,868,902</u></u>		<u><u>2,136,597</u></u>

	At 31 December						At 30 June	
	2015		2016		2017		2018	
	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount
	%	RMB’000	%	RMB’000	%	RMB’000	%	RMB’000
<b>Variable interest rate:</b>								
Financial assets								
Cash and deposits with central bank	0.72%- 1.62%	4,473	0.72%- 1.62%	4,280	0.72%- 1.62%	7,003	0.72%- 1.62%	49,836
Deposits with banks and other financial institutions	0.35%- 2.17%	148,996	0.35%- 3.00%	239,879	0.30%- 5.50%	270,494	0.30%- 2.50%	110,370
		<u>153,469</u>		<u>244,159</u>		<u>277,497</u>		<u>160,206</u>



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**APPENDIX I**

**ACCOUNTANTS’ REPORT**

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(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 RMB1,316 thousand, RMB2,121 thousand, RMB2,428 thousand and RMB1,401 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.

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**ACCOUNTANTS’ REPORT**

**28 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			At 30 June
	2015	2016	2017	2018
	RMB’000	RMB’000	RMB’000	RMB’000
Within 1 year (inclusive)	10,464	8,239	11,674	8,265
More than 1 year but less than 2 years (inclusive)	7,066	11,301	3,492	1,163
More than 2 years but less than 3 years (inclusive)	6,960	3,484	—	—
	<u>24,490</u>	<u>23,024</u>	<u>15,166</u>	<u>9,428</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.

**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
Beijing Baozhang Automobile Sales Services Co., Ltd.	Fellow subsidiary
Beijing SCAS Zhongguan Automobile Sales Co., Ltd.	Fellow subsidiary
Beijing Zhengtong Dingwo 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 Jieyunhang Automobile Sales Services Co., Ltd.	Fellow subsidiary

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**ACCOUNTANTS’ REPORT**

<b>Company</b>	<b>Relationship</b>
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
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 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 Zhengtong Zetian Automobile Sales Services Co., Ltd.	Fellow subsidiary
Jieyang Dingjie Automobile Sales Services Co., Ltd.	Fellow subsidiary
Qingyuan Aoze 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
Shenzhen Dingwo Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shenzhen Hengshuo Advisory Services Co., Ltd.	Fellow subsidiary
Shenzhen SCAS Tenglong Automobile Sales Services Co., Ltd.	Fellow subsidiary
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 Zhengtong United Industrial Investment Group Co., Ltd.	Fellow subsidiary
Yichun Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Zhongshan SCAS Automobile Sales Services Co., Ltd.	Fellow subsidiary
Zhuhai Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Zhuhai SCAS Jielu Automobile Sales Services Co., Ltd.	Fellow subsidiary

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**ACCOUNTANTS’ REPORT**

**(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	Period from 11 March 2015 (date of establishment) to 31 December	Year ended 31 December		Six months ended 30 June
		2015	2016	2017	2018
		RMB’000	RMB’000	RMB’000	RMB’000
Subsidies receipt for retail loans		—	99,722	232,850	206,204
Interest income	(i)	3,609	42,558	126,828	137,015
Interest expenses		—	—	(2)	(3,728)
Operating expenses		—	—	—	(11)
Additions of deposits from shareholders		—	—	50,000	1,977,000
Decrease of deposits from shareholders		—	—	(50,000)	(1,184,000)

(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 income statement 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			At 30 June
		2015	2016	2017	2018
		RMB’000	RMB’000	RMB’000	RMB’000
<b>Assets</b>					
Dealer’s loans		237,000	213,383	716,401	134,032
Retail loans		—	—	69,578	13,280
Subsidies for retail loans	(i)	—	(71,495)	(203,298)	(277,442)
Mortgage service fees	(i)	—	2,197	6,225	5,716
Other assets		1,639	1,072	4,637	892
<b>Liabilities</b>					
Guarantee deposits		25,000	11,133	59,465	20,267
Deposits from shareholders		—	—	—	793,000
Other liabilities		896	916	940	4,644
<b>Off — balance sheet items</b>					
Guarantees received for dealer’s loans	(ii)	237,000	213,383	716,401	134,032
Guarantees received for placements from banks and other financial institutions	(iii)	920,000	1,750,000	1,550,000	2,085,000

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**ACCOUNTANTS’ REPORT**

- (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 [REDACTED] or when the related placements from banks and other financial institutions mature and repayable.

**(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:

	Period from 11 March 2015 (date of establishment) to 31 December			Six months ended 30 June
	Year ended 31 December			
	2015	2016	2017	2018
	RMB’000	RMB’000	RMB’000	RMB’000
Short-term employee benefits	422	2,782	6,352	4,298

**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 automobiles. 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.

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	Period from 11 March 2015 (date of establishment) to 31 December 2015			
	Retail Business	Dealer’s loan Business	Others	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Net interest income	27,795	4,891	2,266	34,952
Net fee and commission income	23,690	—	—	23,690
Other net income	—	—	19,330	19,330
Operating income	51,485	4,891	21,596	77,972
Operating expenses	(29,678)	(3,353)	—	(33,031)
Impairment losses	(9,388)	(2,431)	—	(11,819)
<b>Profit before taxation</b>	<u>12,419</u>	<u>(893)</u>	<u>21,596</u>	<u>33,122</u>
<b>Other segment information</b>				
— Depreciation and amortisation	<u>2,500</u>	<u>282</u>	<u>—</u>	<u>2,782</u>
	At 31 December 2015			
	Retail Business	Dealer’s loan Business	Others	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Reportable segment assets / total assets	1,294,387	486,615	175,254	1,956,256
Reportable segment liabilities / total liabilities	(1,067,479)	(349,594)	(14,401)	(1,431,474)
	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
Operating income	307,012	15,941	9,466	332,419
Operating expenses	(63,530)	(4,349)	—	(67,879)
Impairment losses	(32,449)	654	—	(31,795)
<b>Profit / (loss) before taxation</b>	<u>211,033</u>	<u>12,246</u>	<u>9,466</u>	<u>232,745</u>
<b>Other segment information</b>				
— Depreciation and amortisation	<u>4,682</u>	<u>320</u>	<u>—</u>	<u>5,002</u>

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**ACCOUNTANTS’ REPORT**

	<b>At 31 December 2016</b>			
	<b>Retail Business</b>	<b>Dealer’s loan</b>		<b>Total</b>
	<b>RMB’000</b>	<b>Business</b>	<b>Others</b>	<b>RMB’000</b>
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)
	<b>Year ended 31 December 2017</b>			
	<b>Retail Business</b>	<b>Dealer’s loan</b>		<b>Total</b>
	<b>RMB’000</b>	<b>Business</b>	<b>Others</b>	<b>RMB’000</b>
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
Operating income	429,474	24,365	8,121	461,960
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
	<b>At 31 December 2017</b>			
	<b>Retail Business</b>	<b>Dealer’s loan</b>		<b>Total</b>
	<b>RMB’000</b>	<b>Business</b>	<b>Others</b>	<b>RMB’000</b>
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)

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Six months ended 30 June 2017 (Unaudited)				
	Retail Business	Dealer’s loan		Total
		Business	Others	
	RMB’000	RMB’000	RMB’000	RMB’000
Net interest income	104,548	7,498	2,429	114,475
Net fee and commission income	93,977	—	—	93,977
Other net income	—	—	3,945	3,945
Operating income	198,525	7,498	6,374	212,397
Operating expenses	(28,306)	(1,324)	—	(29,630)
Impairment losses	(98)	(779)	—	(877)
<b>Profit before taxation</b>	<u>170,121</u>	<u>5,395</u>	<u>6,374</u>	<u>181,890</u>
<b>Other segment information</b>				
— Depreciation and amortisation	<u>2,683</u>	<u>126</u>	<u>—</u>	<u>2,809</u>
At 30 June 2017 (Unaudited)				
	Retail Business	Dealer’s loan		Total
		Business	Others	
	RMB’000	RMB’000	RMB’000	RMB’000
Reportable segment assets / total assets	3,348,090	511,388	174,284	4,033,762
Reportable segment liabilities / total liabilities	(2,604,798)	(338,162)	(55,118)	(2,998,078)
Six months 30 June 2018				
	Retail Business	Dealer’s loan		Total
		Business	Others	
	RMB’000	RMB’000	RMB’000	RMB’000
Net interest income	200,644	11,295	2,312	214,251
Net fee and commission income	130,078	—	—	130,078
Other net income	—	—	38,536	38,536
Operating income	330,722	11,295	40,848	382,865
Operating expenses	(49,716)	(2,013)	—	(51,729)
Impairment losses	(37,878)	5,370	135	(32,373)
<b>Profit before taxation</b>	<u>243,128</u>	<u>14,652</u>	<u>40,983</u>	<u>298,763</u>
<b>Other segment information</b>				
— Depreciation and amortisation	<u>3,610</u>	<u>146</u>	<u>—</u>	<u>3,756</u>



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**ACCOUNTANTS’ REPORT**

	At 30 June 2018			
	Retail Business	Dealer’s loan Business	Others	Total
	RMB’000	RMB’000	RMB’000	RMB’000
Reportable segment assets / total assets	7,526,482	324,952	282,727	8,134,161
Reportable segment liabilities / total liabilities	(5,400,874)	(432,812)	(45,825)	(5,879,511)

**(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 beginning on 1 January 2018 and which have not been adopted in the Historical Financial Information. These include the following which may be relevant to the Company:

	Effective for accounting periods beginning on or after
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 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:

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**APPENDIX I**

**ACCOUNTANTS’ REPORT**

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***KFRS 16, Leases***

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 recognize and measure a lease liability at the present value of the minimum future lease payments and will recognize a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognize 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 recognizing 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 recognized on a systematic basis over the lease term.

**31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Periods (continued)**

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. As disclosed in Note 28, at 30 June 2018 the Company’s future minimum lease payments under non-cancellable operating leases amounted to RMB9,428 thousand of which RMB3,530 is payable six months after the reporting date that there is no significant impact, once HKFRS 16 is adopted. The Company will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

**32 Contingencies**

The Company did not have any material contingent liabilities at the end of the Relevant Periods.

**33 Subsequent events**

On 25 July 2018, the Company got the approval from Shanghai Branch of CBIRC (File huyinjianfu [2018] No. 384) to convert into a joint stock limited company with a registered capital of [REDACTED], divided into domestic shares of a par value of RMB1.00 each. On 4 September 2018, the above conversion was eventually approved by the SASAC.

Except above disclosed, the Company had no material events for disclosure subsequent to 30 June 2018 and up to the date of the Accountants’ Reports.

**SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company in respect of any period subsequent to 30 June 2018.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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**APPENDIX III**

**PROFIT ESTIMATE**

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*The profit estimate of the Company for the year ended December 31, 2018 is set out in “Financial Information — Profit Estimate” in this document.*

**A. BASIS OF PREPARATION**

The Directors have prepared the profit estimate of the Company for the year ended December 31, 2018 based on the audited results for the [●] months ended [●], 2018 and the unaudited results based on the management accounts of the Company for the remaining [●] months ended December 31, 2018. The profit estimate has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Company as summarized in the Accountants’ Report set out in Appendix I to this document.

**B. LETTER FROM THE REPORTING ACCOUNTANTS ON PROFIT ESTIMATE**



8th Floor  
Prince’s Building  
10 Charter Road  
Central  
Hong Kong

[DATE]

The Directors  
*Shanghai Dongzheng Automotive Finance Co., Ltd.*  
*China International Capital Corporation Hong Kong Securities Limited*  
*Credit Suisse (Hong Kong) Limited*

Dear Sirs,

Shanghai Dongzheng Automotive Finance Co., Ltd. (“the Company”)

**Profit Estimate for Year Ended 31 December 2018**

We refer to the estimate of the profit attributable to equity holders of the Company for the year ended 31 December 2018 (“the Profit Estimate”) set forth in the section headed “Financial Information” in the document of the Company dated [●] (“the document”).

**Directors’ Responsibilities**

The Profit Estimate has been prepared by the directors of the Company based on the audited results of the Company for the [●] months ended [●], 2018 and the unaudited results based on the management accounts of the Company for the remaining [●] months ended 31 December 2018.

The Company’s directors are solely responsible for the Profit Estimate.



### **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 Hong Kong Institute of Certified Public Accountants (“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 on the accounting policies and calculations of the Profit Estimate based on our procedures. We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 “Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness” and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company’s directors have properly compiled the Profit Estimate in accordance with the bases adopted by the directors and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Company. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

### **Opinion**

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the directors as set out in Appendix III of the document and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Company as set out in our accountants’ report dated [date], the text of which is set out in Appendix I of the document.

Yours faithfully,

**KPMG**

*Certified Public Accountants*

Hong Kong

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**APPENDIX III**

**PROFIT ESTIMATE**

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**C. LETTER FROM THE JOINT SPONSORS ON PROFIT ESTIMATE**

*The following is the text of a letter, prepared for inclusion in this document by the Joint Sponsors in connection with the profit estimate for the year ended December 31, 2018.*

**The Board of Directors**

Shanghai Dongzheng Automotive Finance Co., Ltd.\*

上海東正汽車金融股份有限公司

[●]

Dear Sirs,

We refer to the estimate of the profit attributable to equity holders of the Company (the “**Profit Estimate**”) set forth in the section headed “Financial Information” in the document of the Company dated [●].

The Profit Estimate, for which the directors of the Company (the “**Directors**”) are solely responsible, [has been] prepared by the Directors based on the audited results of the Company for the [●] [ended] [●] and the unaudited results based on the management accounts of the Company for the 12 months [ended] December 31, 2018.

We [have discussed] with you the bases made by the Directors as set out in Appendix III to the document upon which the Profit Estimate has been made. We have also considered the letter dated [●] addressed to you and us from KPMG regarding the accounting policies and calculations upon which the Profit Estimate [has been] made.

On the basis of the information comprising the Profit Estimate and on the basis of the accounting policies and calculations adopted by you and reviewed by KPMG, we [are of the opinion] that the Profit Estimate, for which you as the Directors are solely responsible, [has been] made after due and careful enquiry.

Yours faithfully,  
For and on behalf of  
**China International Capital Corporation**  
**Hong Kong Securities Limited**

Yours faithfully,  
For and on behalf of  
**Credit Suisse (Hong Kong) Limited**

*(in alphabetical order)*

\* For identification purposes only

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## **APPENDIX IV**

## **TAXATION AND FOREIGN EXCHANGE**

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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 [REDACTED] 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 [REDACTED].

### **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 [REDACTED] who purchases such H Shares in connection with the [REDACTED] 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 [REDACTED], 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 document, all of which are subject to change (or changes in interpretation) and may have retroactive effect. This section of this document does not address any aspects of PRC taxation other than income tax, capital gains tax, stamp duty and estate duty. Prospective [REDACTED] 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 [REDACTED]***

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 September 1, 2018, 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 July 19, 2011 and taking effect on September 1, 2011, a 20% withholding tax shall be deducted from the dividend paid by a PRC company to individual [REDACTED].

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.

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**TAXATION AND FOREIGN EXCHANGE**

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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, 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

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**TAXATION AND FOREIGN EXCHANGE**

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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,

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**TAXATION AND FOREIGN EXCHANGE**

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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 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

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**TAXATION AND FOREIGN EXCHANGE**

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for at least 12 consecutive months. For dividend income obtained by mainland corporate [REDACTED], H-share companies will not withhold dividend income tax for mainland corporate [REDACTED]. The tax payable shall be declared and paid by the enterprises themselves. Mainland corporate [REDACTED], 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 [REDACTED] 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 [REDACTED] 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 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 [REDACTED] 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 [REDACTED] through Shenzhen-Hong Kong Stock Connect. For dividends obtained by mainland individual [REDACTED] 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 [REDACTED] 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 [REDACTED] 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 [REDACTED] 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 [REDACTED] 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 [REDACTED] 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

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months. For dividend income obtained by mainland corporate [REDACTED], H-share companies will not withhold dividend income tax for mainland corporate [REDACTED]. The tax payable shall be declared and paid by the enterprises themselves. Mainland corporate [REDACTED], 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 [REDACTED] 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 [REDACTED] may collect the abovementioned stamp duty on each other's behalf.

**Capital Gains Tax*****Individual [REDACTED]***

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 [REDACTED]***

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 [REDACTED]. 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.



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**TAXATION AND FOREIGN EXCHANGE**

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**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 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 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征增值稅試點的通知》) promulgated by the Ministry of Finance and the State 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.

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### **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.

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**TAXATION AND FOREIGN EXCHANGE**

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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 [REDACTED], 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 [REDACTED]. 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.

**APPENDIX V**

**SUMMARY OF PRINCIPAL PRC AND HONG KONG  
LEGAL AND REGULATORY PROVISIONS**

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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 [REDACTED] 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 [REDACTED].

**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

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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 will become 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.

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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

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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 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 VI — Summary of the Articles of Association).

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.

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***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’ articles of association, the promoters making such contributions shall make up the difference; and the other promoters shall bear joint and several liability.



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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.



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***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 acquired under the circumstance stipulated in item (i) hereof shall be deregistered within ten days from the date of acquisition 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

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such transfer, the company shall register the names or titles and domiciles of the transferees in its roster of shareholders. 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, 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;

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- (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 financial accounts;
- (vi) to consider and approve the company’s proposals for profit distribution and for recovery of losses;
- (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;

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- (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.

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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;

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- (v) to formulate the company's proposals for profit distribution and for recovery of losses;
- (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;



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- (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 VI — Summary of the Articles of Association”).

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 VI — Summary of the Articles of Association”) 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;

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- (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 propose any bills 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 Officers***

The “senior manager” 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.

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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 VI — Summary of the Articles of Association.”

***Duties of Directors, Supervisors and Senior 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 officer of a company is also under a duty of confidentiality to the company.

A director, supervisor and senior 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 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

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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

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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 demerger;
- (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 an inventory of the assets;
- (ii) to notify creditors or issue public notices;
- (iii) to deal with the company’s outstanding business which relates to the liquidation;

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- (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.

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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 VI).

***Merger and demerger***

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,

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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



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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.

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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 [REDACTED] cannot be transferred within one year from the [REDACTED] 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 [REDACTED] 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 “[REDACTED]” in this document.

*(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.

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**(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 VII.

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 [REDACTED] 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 VII.

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***(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.

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**(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,

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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.

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(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

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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.



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(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

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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 VI.

**(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

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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.

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(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.



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*(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 [REDACTED].

**(b) Other Legal and Regulatory Provisions**

Upon the Company’s [REDACTED], 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.

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**(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.

## **APPENDIX VI**

## **SUMMARY OF THE ARTICLES OF ASSOCIATION OF THE COMPANY**

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### **SUMMARY OF ARTICLES OF ASSOCIATION**

This appendix summarized our Articles of Association for the purpose of providing potential [REDACTED] 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 [REDACTED].

Our Articles of Association were passed in the shareholders' general meeting held on August 16, 2018 and are still subject to the CBIRC's approval and will become effective on the date on which our [REDACTED] 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 [REDACTED] shares and shareholders holding [REDACTED] 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 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



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- 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;
- 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 upon the nomination by the chairman of the Board;
- 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;
- supervision of performance for senior management, 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, regulatory requirements of the relevant regulatory authorities 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;

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- 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.

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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 directors, supervisors and senior management members of the Company or its parent company and their respective associates; 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.

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The Company or the subsidiary companies (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

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- 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.

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- *Election of Supervisors*

Supervisors of the Company include supervisors representing shareholders, external supervisors 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.

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**(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, liquidation 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.

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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:



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- 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 listed shares and overseas-listed shares every other 12 months, either separately or simultaneously, and the domestic listed shares and overseas-listed shares to be issued do not exceed 20% of this kind of shares already issued to the public;
- the plan to issue domestic listed shares and overseas-listed 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.
- the unlisted shares held by the shareholders, after approval from the banking regulatory authorities and 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, 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:

- public offering of shares;
- non-public offering of shares;

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- placing new shares to existing shareholders;
- transferring capital reserve funds to increased capital; and
- 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.

**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’ 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) general resolutions, and (ii) special resolutions.

General 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 general resolution:

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- 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 general resolution that are significant to 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.

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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 agents of voting shareholders; (3) single or combined calculation of one or several shareholders (including shareholders' agents) holding more than 10% (including 10%) of the voting shares held at the meeting, informing all listed shareholders of the matters to be voted by the meeting and the date and place of 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, shareholders (including their proxies) with two or more voting rights do not necessarily use them all for affirmative or negative votes or abstention of 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 outstanding balance of the Company's loss 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;

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- the Board deems it as necessary or the Board of Supervisors proposes its opening; 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.

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The meeting notice for the Shareholders' general meeting shall satisfy the following conditions:

- made in writing;
- specifying the date, location, and duration 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 reason and sequence where the Company proposes a merger, repurchase of shares, restructuring of shares or other form of restructuring;
- 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 deadline and place for the delivery of the proxy letter 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 samples of authorized proxy letter.

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**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 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:

- 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

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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 redeemed 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 pro rata to all shareholders;
- repurchasing by means of open transaction at a stock exchange;
- repurchasing by means of contractual agreement outside a stock exchange; and
- 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



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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. Shareholders shall not be entitled to dividends in case that the capital adequacy ratio of the Company fails to meet the requirements as stipulated by law.

The Company shall appoint receiving agents on behalf of the shareholders of overseas-listed 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 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 died, 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.

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The Company shall have the right to terminate sending dividend warrants to holders of overseas-listed 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 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 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 actual controller of the Company have a duty of fidelity to the Company and other public shareholders. The controlling shareholder shall exercise the rights of

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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, capital occupation or loan guarantee or by taking advantage of its controlling status.

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 for the maximum benefit 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 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.

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If any entity or individual (including its affiliates and concerted actors) holds, individually or in aggregate, more than 1% and less than 5% of the total amount of outstanding shares issued by 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 affiliates and concerted actors) which or who purchases 5% or more of the total number of the issued shares outside 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 affiliates and concerted actors) is equal to or in excess of 5% of the total number of the issued shares outside 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 value of equity held by him for the previous year, he/she/it shall not create further 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' meeting has resolved to do so;
- it is dissolved as a result of the merger or division of the Company;

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- the Company's business license is suspended, or it is ordered to be terminated 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:

- decision on business policies and material investment plans;

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- 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 appropriation 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;
- revision 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

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- 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 raise proposals and inquiries;
- the right to transfer, grant 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, subject to payment of the cost of such copy;
  - (2) the right to inspect and copy, subject to payment of a reasonable charge: all or any part 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, maximum and minimum 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;

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- 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 requirements:

- 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;
- Independent performance of the duties despite of the influence from company's major shareholders, actual controller, or other entities and individuals with major concerns;
- 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 officers**

Director, Supervisor, and senior 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 honestly in the best interests of the Company;



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- 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

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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 Assessment 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, Nomination Committee, Risk Management 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 and to review the regular reports prepared by the Board and to provide comments on the reports in writing; 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 urge directors and senior management to correct their acts which impair the benefits of the Company;
- to check 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 accounting firms, law firms or other professional firms to assist its work at the costs of the Company;

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- 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.

**Dispute Resolutions**

The Company shall comply with the following rules of dispute resolution: 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 managers, between the shareholders of overseas-listed shares and the Company, between the shareholders of overseas-listed shares and the directors, supervisors and senior managers of the Company, between the shareholders of overseas-listed 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 managers 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.

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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.

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### **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 VI to this document.

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 document, 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 RMB[REDACTED] divided into [REDACTED] Shares with a nominal value of RMB1.00 per Share.

Assuming that the [REDACTED] becomes unconditional and the issue of [REDACTED] as mentioned in this document being made (assuming the [REDACTED] is not exercised), the authorized share capital of our Company will be [REDACTED] divided into [REDACTED] Shares, of which all [REDACTED] will be issued fully paid or credited as fully paid.

Save as disclosed herein and in “— Resolutions of our Shareholders dated [●]”, 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 [REDACTED], please refer to “History and Corporate Structure” in this document.

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**4. Resolutions of our Shareholders dated [●]**

On [●] 2018, resolutions of the Company were passed by the Shareholders pursuant to which, among other things:

(a) [conditional upon the satisfaction (or, if applicable, waiver) of the conditions set out in “*Structure of the [REDACTED] — Conditions of the [REDACTED]*” and pursuant to the terms set out therein:

(1) the Company approved and adopted the amended and restated Articles of Association with effect from the [REDACTED];

(2) the [REDACTED] was approved and the Directors were authorised to allot and issue the [REDACTED] pursuant to the [REDACTED];

(3) the [REDACTED] was approved and the Directors were authorised to implement the [REDACTED];

(4) subject to the “lock-up” provisions under Rule 10.08 of the Listing Rules, a general unconditional mandate was granted to the Directors to allot, issue and deal with the Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for the Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate number of Shares allotted or agreed to be allotted by the Directors other than pursuant to a (i) rights issue, (ii) any scrip dividend scheme or similar arrangement providing for the allotment of the Shares in lieu of the whole or part of a dividend on the Shares or (iii) a specific authority granted by the Shareholders in general meeting, shall not exceed the aggregate of:

a. 20% of the total number of Shares in issue immediately following the completion of the [REDACTED]; and

b. the aggregate number of Shares repurchased by the Company (if any) under the general mandate to repurchase Shares referred to in paragraph (5) below,

such mandate to remain in effect during the period from the passing of the resolution until the earliest of (I) the conclusion of the next annual general meeting of the Company, (II) the end of the period within which the Company is required by the Articles of Association or any applicable laws to hold its next annual general meeting and (III) the date on which the mandate is varied or revoked by an ordinary resolution of the Shareholders in general meeting; and

(5) a general unconditional mandate was granted to the Directors to exercise all the powers of the Company to repurchase the [REDACTED] on the Stock Exchange, or on any other stock exchange on which the Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose) not exceeding in aggregate 10% of the total number of Shares in issue immediately following the completion of the [REDACTED] and at such price or prices as may be determined by the Directors, provided the purchase price shall not be 5% or more than the average

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closing market price for the five preceding trading days on which the Shares were traded on the Stock Exchange, and otherwise in accordance with all applicable laws and the requirements of the Listing Rules, such mandate to remain in effect during the period from the passing of the resolution until the earliest of (I) the conclusion of the next annual general meeting of the Company, (II) the end of the period within which the Company is required by the Articles of Association or any applicable laws to hold its next annual general meeting and (III) the date on which the mandate is varied or revoked by an ordinary resolution of the Shareholders in general meeting.]

**B FURTHER INFORMATION ABOUT OUR BUSINESS**

**1. Summary of the Material Contracts**


The following contract (not being contracts entered into in the ordinary course of business) were entered into by our Company within the two years preceding the date of this document and are or may be material:

(a) [REDACTED].

**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)	36	20373522	27/03/2028

*Note:* (1) 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).

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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 names which we believe are 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**

Each of Mr. Lin Fan and Mr. Shao Yongjun, being our executive Directors, has entered into a service contract with our Company on [●]. Each service contract is for an initial term of [three years] commencing from the [REDACTED]. The service contracts may be renewed in accordance with our Articles of Association and the applicable laws, rules and regulations.

Each of Mr. Koh Tee Choong and Mr. Yin Yaoliang, being our non-executive Directors, Dr. Bao Xiaoli, Ms. Liang Yanjun and Mr. Lin Zheyang, being our independent non-executive Directors, has entered into a letter of appointment with our Company on [●]. Each letter of appointment is for an initial term of [three years] commencing from the [REDACTED]. The letters of appointment may be renewed in accordance with our Articles of Association and the applicable laws, rules and regulations.

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)).



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**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, 2015, 2016 and 2017 and the six months ended June 30, 2018 were nil, nil, approximately RMB1.3 million and RMB0.8 million, respectively.

The total remuneration before tax paid to the Supervisors for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018 were nil, nil, nil and approximately RMB85,000, 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, 2015, 2016 and 2017 and the six months ended June 30, 2018 were nil, nil, nil and nil, respectively.

The total remuneration before tax paid to the five highest paid individuals for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018 were approximately RMB3.8 million, RMB6.2 million, RMB6.5 million and RMB3.6 million, respectively.

Based on the arrangements in force as of the date of this [REDACTED], it is estimated that the total remuneration before tax payable to the Directors and Supervisors for 2018 will be approximately RMB1.8 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, 2015, 2016 and 2017 and the six months ended June 30, 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, 2015, 2016 and 2017.

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**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 [REDACTED] 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 document, our Directors are not aware of any other person who will, immediately following the completion of the [REDACTED] 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 document, 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 document.

**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 document:

- (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;

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- (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 document, 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 document;
- (d) none of the Directors or Supervisors is materially interested in any contract or arrangement subsisting at the date of this document 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 [REDACTED] and allotted and issued pursuant to the exercise of the [REDACTED], 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 [REDACTED], 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 [REDACTED] 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.

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**2. Litigation**

Save as disclosed in this document, 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 [REDACTED] are estimated to be approximately RMB1.1 million and are payable by our Company.

**4. Agency Fees or Commissions**

Save as disclosed in this document, within the two years preceding the date of this document, 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 [REDACTED] and the exercise of the [REDACTED]. All necessary arrangements have been made to enable such Shares to be admitted into [REDACTED].

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 [REDACTED].

**6. No Material Adverse Change**

Our Directors believe that there has been no material adverse change in the financial or trading position since June 30, 2018 (being the date on which the latest audited combined financial statements of the Company were made up).

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**7. Binding Effect**

This document 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 document:

- (i) within the two years preceding the date of this document, 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;
- (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 [REDACTED] 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 document:

<b>Name</b>	<b>Qualification</b>
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

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**APPENDIX VII****STATUTORY AND GENERAL INFORMATION**

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<b>Name</b>	<b>Qualification</b>
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 document 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 document, 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 [REDACTED] and the related transactions described in this document within the two years immediately preceding the date of this document.

**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 [REDACTED] who purchases such H Shares in connection with the [REDACTED] and holds the H Shares as capital assets is set out in Appendix IV — Taxation and Foreign Exchange.

(c) *Consultation with professional advisors*

Potential [REDACTED] in the [REDACTED] 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 [REDACTED], the [REDACTED], the Joint Sponsors and the [REDACTED] and their respective directors or any other parties involved in the [REDACTED] 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 document**

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and prospectus from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**APPENDIX VIII                      DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION**

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**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of the [REDACTED];
- (b) the written consents referred to in “Appendix VII — Statutory and General Information — D. Other Information — 10. Consents of Experts” in this document; and
- (c) copies of the material contracts referred to in “Appendix VII — Statutory and General Information — B. Further Information about our Business — 1. Summary of the Material Contracts” in this document.

**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 document:

- (a) our Articles of Association;
- (b) the Accountants’ Report prepared by KPMG, the text of which are set out in Appendix I to this document;
- (c) the audited financial statements of our Company for the three financial years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018;
- (d) the letter received from KPMG on [REDACTED] financial information, the text of which is set out in Appendix II to this document;
- (e) the material contracts referred to in “Appendix VII — Statutory and General Information — B. Further Information About Our Business — 1. Summary of the Material Contracts” in this document;
- (f) the service contracts referred to in the paragraph headed “1. Particulars of Service Contracts” in Appendix VII to this document;
- (g) the written consents referred to in “Appendix VII — Statutory and General Information — Other Information — Consents of experts” in this document;



**APPENDIX VIII                      DOCUMENTS DELIVERED TO THE REGISTRAR OF  
COMPANIES AND AVAILABLE FOR INSPECTION**

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- (h) the legal opinions dated this document date prepared by Jingtian & Gongcheng, our PRC Legal Advisors, in respect of certain aspects of the Company and our property interests; and
  
- (i) the PRC Company Law, the Mandatory Provisions and the Special Regulations together with their unofficial translation.