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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)

(Stock code: 2718)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2023**

INTERIM RESULTS

The Board of Shanghai Dongzheng Automotive Finance Co., Ltd.* hereby announces the unaudited interim results of the Company for the six months ended 30 June 2023, together with the comparative figures for the corresponding period in 2022, which shall be read in conjunction with the management discussion and analysis below.

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2023

| | Note | Six months ended 30 June | |
|---|------|--------------------------------|--------------------------------|
| | | 2023 RMB'000 (unaudited) | 2022 RMB'000 (unaudited) |
| Interest income | 2 | <u>85,948</u> | <u>80,302</u> |
| Fee and commission income | | 48,864 | 10,726 |
| Fee and commission expenses | | <u>(246)</u> | <u>(164)</u> |
| Net fee and commission income | 3 | <u>48,618</u> | <u>10,562</u> |
| Other net expenses | | <u>(918)</u> | <u>(5,504)</u> |
| Operating income | | 133,648 | 85,360 |
| Operating expenses | | (74,406) | (51,870) |
| (Recognition) reversal of impairment losses under expected credit loss (“ECL”) model | 4(b) | (29,608) | 452,074 |
| Finance costs | | <u>(107)</u> | <u>(388)</u> |
| Profit before tax | 4 | 29,527 | 485,176 |
| Income tax | 5 | <u>(11,943)</u> | <u>(179,874)</u> |
| Profit and total comprehensive Income for the period | | <u>17,584</u> | <u>305,302</u> |
| Earnings per share | | | |
| Basic and diluted (RMB) | 6 | <u>0.0082</u> | <u>0.1427</u> |

CONDENSED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2023

| | | At 30 June 2023 <i>RMB'000</i> (unaudited) | At 31 December 2022 <i>RMB'000</i> (audited) |
|---------------------------------|------|--|--|
| Assets | | | |
| Deposits with central bank | | 3,515 | 491 |
| Deposits with banks | | 1,528,419 | 2,861,602 |
| Loans and advances to customers | 7 | 1,953,752 | 554,939 |
| Finance lease receivables | | – | 14 |
| Property and equipment | | 8,996 | 6,565 |
| Intangible assets | | 1,887 | 1,156 |
| Deferred tax assets | | 20,275 | 20,275 |
| Tax recoverables | | – | 12,143 |
| Other assets | | <u>12,808</u> | <u>15,141</u> |
| Total assets | | <u>3,529,652</u> | <u>3,472,326</u> |
| Liabilities | | | |
| Guarantee deposits | | 66,245 | 24,423 |
| Lease liabilities | | 1,803 | 4,282 |
| Tax payables | | 10,037 | – |
| Other liabilities | | <u>74,419</u> | <u>84,057</u> |
| Total liabilities | | <u>152,504</u> | <u>112,762</u> |
| NET ASSETS | | <u>3,377,148</u> | <u>3,359,564</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 8(b) | 2,139,651 | 2,139,651 |
| Reserves | | <u>1,237,497</u> | <u>1,219,913</u> |
| TOTAL EQUITY | | <u>3,377,148</u> | <u>3,359,564</u> |

1. BASIS OF PREPARATION OF THE CONDENSED FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES

1.1 Basis of preparation of the condensed financial statements

The condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

1.2 Principal accounting policies

The condensed financial statements have been prepared on the historical cost basis.

Other than additional/change in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed financial statements for the six months ended 30 June 2023 are the same as those presented in the Company’s annual financial statements for the year ended 31 December 2022.

1.2.1 Application of new and amendments to HKFRSs

In the current interim period, the Company has applied the following new and amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Company’s annual period beginning on 1 January 2023 for the preparation of the Company’s condensed financial statements:

| | |
|--|--|
| HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17) | Insurance Contracts |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies |
| Amendments to HKAS 8 | Definition of Accounting Estimates |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction |
| Amendments to HKAS 12 | International Tax Reform— Pillar Two Model Rules |

The application of the new and amendments to HKFRSs in the current interim period has had no material impact on the Company’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed financial statements.

2. INTEREST INCOME

| | Six months ended 30 June | |
|--|--------------------------|----------------------|
| | 2023 | 2022 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (unaudited) | (unaudited) |
| Interest income arising from | | |
| Loans and advances to customers | 52,147 | 76,400 |
| Deposits with central bank and other banks | 33,784 | 3,690 |
| Finance lease receivables | 17 | 212 |
| | <u> </u> | <u> </u> |
| Total | <u>85,948</u> | <u>80,302</u> |

3. NET FEE AND COMMISSION INCOME

| | Six months ended 30 June | |
|---|--------------------------|----------------------|
| | 2023 | 2022 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (unaudited) | (unaudited) |
| Fee and commission income arising from | | |
| Joint loan services | 2,676 | 10,397 |
| Financial consultation services | 45,540 | – |
| Others | 648 | 329 |
| | <u> </u> | <u> </u> |
| Sub-total | <u>48,864</u> | <u>10,726</u> |
| Fee and commission expenses arising from | | |
| Bank charges | (246) | (164) |
| | <u> </u> | <u> </u> |
| Net fee and commission income | <u>48,618</u> | <u>10,562</u> |

4. PROFIT FOR THE PERIOD

Profit for the period is arrived at after charging:

(a) Staff costs

| | Six months ended 30 June | |
|--|--------------------------|----------------------|
| | 2023 | 2022 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (unaudited) | (unaudited) |
| Salaries and other allowances | 45,796 | 22,595 |
| Retirement benefit scheme contribution | <u>5,555</u> | <u>2,490</u> |
| Total | <u>51,351</u> | <u>25,085</u> |

(b) Recognition (reversal) of impairment losses under ECL model

| | Six months ended 30 June | |
|---------------------------------|--------------------------|-------------------------|
| | 2023 | 2022 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (unaudited) | (unaudited) |
| Loans and advances to customers | 29,491 | (376,088) |
| Other assets | 1,323 | (3,775) |
| Bills receivable | – | (75,235) |
| Finance lease receivables | <u>(1,206)</u> | <u>3,024</u> |
| Total | <u>29,608</u> | <u>(452,074)</u> |

(c) Other items

| | Six months ended 30 June | |
|--|--------------------------|----------------|
| | 2023 | 2022 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (unaudited) | (unaudited) |
| Depreciation and amortisation | | |
| – right-of-use assets | 2,222 | 4,631 |
| – intangible assets | 627 | 2,062 |
| – property and equipment other than right-of-use assets | 1,053 | 1,004 |
| Expense relating to short-term leases and leases of low-value assets | 42 | – |
| Interest expense on lease liabilities | 107 | 388 |
| Net exchange losses | <u>1,260</u> | <u>1,671</u> |

5. INCOME TAX

| | Six months ended 30 June | |
|---|--------------------------|----------------|
| | 2023 | 2022 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| Current tax | 11,958 | 8,058 |
| (Over) under provision in respect of prior period | (15) | 193 |
| Sub-total | 11,943 | 8,251 |
| Deferred tax – current period | – | 171,623 |
| Total | 11,943 | 179,874 |

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB17,584 thousand (for the six months ended 30 June 2022: RMB305,302 thousand) and the weighted average of 2,139,651 thousand ordinary shares (for the six months ended 30 June 2022: 2,139,651 thousand ordinary shares) in issue during the period, which is set out as follows:

| | Six months ended 30 June | |
|--|--------------------------|---------------|
| | 2023 | 2022 |
| | (unaudited) | (unaudited) |
| Profit attributable to ordinary equity shareholders of the Company (RMB'000) | 17,584 | 305,302 |
| Weighted average number of ordinary shares issued (in thousand) | 2,139,651 | 2,139,651 |
| Basic and diluted earnings per share attributable to shareholders (RMB) | 0.0082 | 0.1427 |

There were no dilutive potential ordinary shares for six month ended 30 June 2023 and 2022. Therefore, diluted earnings per share are equivalent to basic earnings per share.

7. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

| | 30 June 2023 | 31 December 2022 |
|--|-------------------------|---------------------|
| | RMB'000 | RMB'000 |
| | (unaudited) | (audited) |
| Retail loans | 2,054,522 | 626,288 |
| Dealer loans | 1,141,250 | 1,141,250 |
| Gross loans and advances to customers | 3,195,772 | 1,767,538 |
| Accrued interest | 9,280 | 1,452 |
| Sub-total | 3,205,052 | 1,768,990 |
| Less: allowances for impairment losses | (1,251,300) | (1,214,051) |
| Net loans and advances to customers | 1,953,752 | 554,939 |

The Company's retail loans are provided to automotive end customers to facilitate their purchase of passenger vehicles, which shall be pledged by the mortgaged vehicles.

The Company's dealer loans are provided to automobile dealers to facilitate their purchase of vehicles and accessories. All of the Company's dealer loans are guaranteed by related entities of dealer loans customers.

Loans and advances to customers are with fixed interest rate ranging from 6.50% to 17.99% (31 December 2022: from 6.50% to 15.48%) per annum.

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

| | 30 June 2023 | | | | Total RMB'000 |
|----------------------|---|---|---|---|------------------|
| | Overdue within 3 months (inclusive) RMB'000 | Overdue more than 3 months to 6 months (inclusive) RMB'000 | Overdue more than 6 months to one year (inclusive) RMB'000 | Overdue more than one year RMB'000 | |
| Collateralised loans | 22,603 | 929 | 1,898 | 7,699 | 33,129 |
| Guaranteed loans | — | — | — | 1,141,250 | 1,141,250 |
| Total | <u>22,603</u> | <u>929</u> | <u>1,898</u> | <u>1,148,949</u> | <u>1,174,379</u> |

| | 31 December 2022 | | | | Total RMB'000 |
|----------------------|---|---|---|---|------------------|
| | Overdue within 3 months (inclusive) RMB'000 | Overdue more than 3 months to 6 months (inclusive) RMB'000 | Overdue more than 6 months to one year (inclusive) RMB'000 | Overdue more than one year RMB'000 | |
| Collateralised loans | 5,025 | 1,672 | 6,410 | 55,558 | 68,665 |
| Guaranteed loans | — | — | — | 1,141,250 | 1,141,250 |
| Total | <u>5,025</u> | <u>1,672</u> | <u>6,410</u> | <u>1,196,808</u> | <u>1,209,915</u> |

Repayment of loans is to follow contractual repayment schedule. Under the circumstance that any of loans' principal or interest is overdue according to the contractual repayment schedule, the entire loans balance is classified as overdue loan. All amounts are shown as gross amount of overdue loans and advances to customers before impairment losses under ECL model.

(c) Analysed by methods for assessing impairment losses under ECL model

| | 30 June 2023 | | | Total RMB'000 |
|--|---------------------------------------|---|---|--------------------|
| | Stage 1 12-month ECL RMB'000 | Stage 2 Lifetime ECL for not credit- impaired RMB'000 | Stage 3 Lifetime ECL for credit- impaired RMB'000 | |
| Gross loans and advances to customers (including accrued interest) | 2,027,656 | 23,204 | 1,154,192 | 3,205,052 |
| Less: allowances for impairment losses | <u>(91,429)</u> | <u>(5,679)</u> | <u>(1,154,192)</u> | <u>(1,251,300)</u> |
| Net loans and advances to customers | <u>1,936,227</u> | <u>17,525</u> | <u>–</u> | <u>1,953,752</u> |
| Provision ratio | <u>4.51%</u> | <u>24.47%</u> | <u>100.00%</u> | |
| | 31 December 2022 | | | Total RMB'000 |
| | Stage 1 12-month ECL RMB'000 | Stage 2 Lifetime ECL for not credit- impaired RMB'000 | Stage 3 Lifetime ECL for credit- impaired RMB'000 | |
| Gross loans and advances to customers (including accrued interest) | 559,075 | 4,202 | 1,205,713 | 1,768,990 |
| Less: allowances for impairment losses | <u>(7,195)</u> | <u>(1,383)</u> | <u>(1,205,473)</u> | <u>(1,214,051)</u> |
| Net loans and advances to customers | <u>551,880</u> | <u>2,819</u> | <u>240</u> | <u>554,939</u> |
| Provision ratio | <u>1.29%</u> | <u>32.91%</u> | <u>99.98%</u> | |

8. CAPITAL AND RESERVES

(a) Dividends

No dividend was declared or paid to equity shareholders of the Company attributable to the six months ended 30 June 2023 and 2022.

(b) Share capital of the Company

| | 30 June 2023 | | 31 December 2022 | |
|-------------------------|--|------------------------------------|--|------------------------------------|
| | Number of shares (<i>thousand</i>) | Nominal value <i>RMB'000</i> | Number of shares (<i>thousand</i>) | Nominal value <i>RMB'000</i> |
| Unlisted Foreign Shares | 1,520,000 | 1,520,000 | 1,520,000 | 1,520,000 |
| Domestic Shares | 80,000 | 80,000 | 80,000 | 80,000 |
| H Shares | 539,651 | 539,651 | 539,651 | 539,651 |
| Total | <u>2,139,651</u> | <u>2,139,651</u> | <u>2,139,651</u> | <u>2,139,651</u> |

As at 30 June 2023 and 31 December 2022, the Company's aggregate share capital was RMB2,139,651,400 divided into 2,139,651,400 ordinary shares of the Company at RMB1 each, representing 539,651,400 H Shares (Note), 80,000,000 Domestic Shares (Note) and 1,520,000,000 Unlisted Foreign Shares (Note).

Note:

Unlisted Foreign Shares being issued ordinary shares of the Company with a nominal value of RMB1 each, which are subscribed for or credited as fully paid in foreign currency and originally issued to persons other than PRC nationals or PRC-incorporated entities and are not listed on any stock exchange.

Domestic Shares being issued ordinary shares of the Company with a nominal value of RMB1 each, which are subscribed for or credited as fully paid in RMB and originally issued by the Company to domestic investor(s) for subscription in RMB.

H shares being issued ordinary shares of the Company with a nominal value of RMB1 each, which are subscribed for and traded in Hong Kong Dollars and listed on the Stock Exchange.

9. SEGMENT REPORTING

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 customers' purchase of passenger vehicles. These products and services include i) direct loans where the Company grants automobile retail loans to customers with its own funding and charge customers interests on the loans; ii) loan facilitation services; iii) joint loan arrangement and iv) direct lease services; and
- Dealer loans business: This segment represents the Company's dealer loans provided to automobile dealers to facilitate their purchase of vehicles and accessories.

| | For the six months ended 30 June 2023 | | |
|--|--|--|--|
| | Retail business RMB'000 (unaudited) | Dealer loans business RMB'000 (unaudited) | Total RMB'000 (unaudited) |
| Interest income | 52,164 | – | 52,164 |
| Net fee and commission income | 48,618 | – | 48,618 |
| Recognition of impairment losses under ECL model | <u>(28,349)</u> | <u>–</u> | <u>(28,349)</u> |
| Segment profit | <u>72,433</u> | <u>–</u> | <u>72,433</u> |
| Unallocated interest income | | | 33,784 |
| Unallocated recognition of impairment losses under ECL model | | | (1,259) |
| Other net expenses | | | (918) |
| Depreciation and amortisation | | | (3,902) |
| Other operating expenses | | | (70,504) |
| Finance costs | | | <u>(107)</u> |
| Profit before tax | | | <u><u>29,527</u></u> |

| | As at 30 June 2023 | | |
|---|--|--|--|
| | Retail business RMB'000 (unaudited) | Dealer loans business RMB'000 (unaudited) | Total RMB'000 (unaudited) |
| Segment assets | | | |
| Loans and advances to customers | 1,953,752 | – | 1,953,752 |
| Other assets | <u>7,722</u> | <u>–</u> | <u>7,722</u> |
| Segment assets | <u>1,961,474</u> | <u>–</u> | <u>1,961,474</u> |
| Unallocated other assets | | | 5,086 |
| Other unallocated assets | | | <u>1,563,092</u> |
| Total assets | | | <u>3,529,652</u> |
| Segment liabilities | | | |
| Guarantee deposits | (66,245) | – | (66,245) |
| Other liabilities | <u>(19,795)</u> | <u>–</u> | <u>(19,795)</u> |
| Segment liabilities | <u>(86,040)</u> | <u>–</u> | <u>(86,040)</u> |
| Unallocated other liabilities | | | (54,624) |
| Other unallocated liabilities | | | <u>(11,840)</u> |
| Total liabilities | | | <u><u>(152,504)</u></u> |
| | For the six months ended 30 June 2022 | | |
| | Retail business RMB'000 (unaudited) | Dealer loans business RMB'000 (unaudited) | Total RMB'000 (unaudited) |
| Interest income | 46,480 | 30,132 | 76,612 |
| Net fee and commission income | 10,562 | – | 10,562 |
| Reversal of impairment losses under ECL model | <u>10,596</u> | <u>441,478</u> | <u>452,074</u> |
| Segment profit | <u>67,638</u> | <u>471,610</u> | <u>539,248</u> |
| Unallocated interest income | | | 3,690 |
| Other net expenses | | | (5,504) |
| Depreciation and amortisation | | | (7,697) |
| Other operating expenses | | | (44,173) |
| Finance costs | | | <u>(388)</u> |
| Profit before tax | | | <u><u>485,176</u></u> |

| | As at 31 December 2022 | | |
|---------------------------------|--|--|-------------------------------|
| | Retail business RMB'000 (audited) | Dealer loans business RMB'000 (audited) | Total RMB'000 (audited) |
| Segment assets | | | |
| Loans and advances to customers | 554,939 | – | 554,939 |
| Finance lease receivables | 14 | – | 14 |
| Other assets | <u>1,321</u> | <u>–</u> | <u>1,321</u> |
| Segment assets | <u>556,274</u> | <u>–</u> | <u>556,274</u> |
| Unallocated other assets | | | 13,820 |
| Other unallocated assets | | | <u>2,902,232</u> |
| Total assets | | | <u>3,472,326</u> |
| Segment liabilities | | | |
| Guarantee deposits | (24,423) | – | (24,423) |
| Other liabilities | <u>(20,243)</u> | <u>–</u> | <u>(20,243)</u> |
| Segment liabilities | <u>(44,666)</u> | <u>–</u> | <u>(44,666)</u> |
| Unallocated other liabilities | | | (63,814) |
| Other unallocated liabilities | | | <u>(4,282)</u> |
| Total liabilities | | | <u><u>(112,762)</u></u> |

Since 2021, the Company did not grant new dealer loans and all existing loans related to this business were matured gradually since after. As at 30 June 2023, all the outstanding dealer loans are credit-impaired under the ECL model with provision ratio of 100%. The distinguishment of the Company's dealer loans business during the period, in this regards, does not constitute a discontinued operation.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company is an automotive finance company licensed and regulated by the National Administration of Financial Regulation. The Company's principal business comprises automotive loan business where the Company provides loans, direct leasing products and other financial services to end customers, major customers and corporate clients for purchases of vehicles in the PRC.

In the first half of 2023, with the gradual implementation of policies related to stabilizing the economy and promoting development, the domestic economy continued to recover. Confidence in the consumption of large-value durables such as automobiles was boosted. According to the data of China Association of Automobile Manufacturers, the production and sales volume of automobiles in the first half of 2023 amounted to 13,248 thousand units and 13,239 thousand units respectively, representing a year-on-year growth of 9.3% and 9.8% respectively, with the automobile market developing in an orderly and positive manner.

As for the auto finance industry, automotive finance companies, as licensed institutions, are subject to the strict regulation of the National Administration of Financial Regulation. As at 30 June 2023, there are more than 20 licensed automotive finance companies in China, all of which are in competition with commercial banks, financial leasing companies and internet finance companies. Automotive finance companies, being in close business relationship with automobile manufacturers and dealers, deliver enhanced product offerings and better services to customers. During the period, the Company's partnership-based dealer network covered more than 200 cities in China. As at 30 June 2023, the Company has a total of over 500 partnership-based dealers and channel service providers. The strength of the Company's sales network and reasonably established market presence has enabled the Company to have closer engagement with consumption demographic, and introduce better experience and services to the consumers.

For the six months ended 30 June 2022, the Company recorded a net profit of approximately RMB305 million as compared to a net loss of approximately RMB260 million in the same period of 2021. The major reason leading to the turnaround was the Company's recovery of certain overdue amounts in the first half of 2022, which resulted in a reversal of impairment losses of approximately RMB452 million under the expected credit loss model. Excluding the impact of the reversal of impairment losses above, the Company realized a profit before tax of approximately RMB33 million in the first half of 2022.

The Company's automotive finance business has seen significant improvement and enhancement since SAIC Motor formally became the controlling shareholder of the Company. During the six months ended 30 June 2023, the number of automobile retail loans and the amount of loans disbursed by the Company increased significantly year-on-year, of which the number of automobile retail loans disbursed was approximately 24.6 thousand, whereas the amount of loans disbursed was approximately RMB1.73 billion, representing a year-on-year increase of 2,652%. In addition to the increase in the Company's income driven by a significant increase in the business volume above, the Company leveraged the resources advantages of its automobile finance business and provided related financial consultation services business, and achieved a net fee and commission income of approximately RMB49 million in the first half of 2023, driving up the Company's overall operating income in the first half of the year. During the reporting period, the Company achieved an operating income of approximately RMB134 million, representing an increase of approximately 57% as compared to the same period of 2022. The Company realized a profit before tax of approximately RMB30 million and net profit of approximately RMB18 million in the first half of 2023.

Due to the implementation of the promotion policy in the automobile market and the active disbursement of new loans by the Company, as well as the maturity and settlement of existing customers, the number of Company's existing loan customers was approximately 34.7 thousand as of 30 June 2023 (31 December 2022: 14.6 thousand).

In terms of retail loans, the Company disbursed a total of 24,586 retail loans as of 30 June 2023, representing an increase of 9,580% over that the same period in 2022. The amount of loans disbursed was RMB1.73 billion, representing an increase of 2,652% as compared with the same period in 2022.

The Company also provides financial consultation services in relation to automobile purchase financing activities to clients. For the six months ended 30 June 2023, the Company recorded related income of approximately RMB46 million.

In terms of dealer loans business, no loan was disbursed during the first half of 2023 due to the suspension of the dealer loans business by the Company. As of 30 June 2023, the loan balance was RMB1.14 billion, remaining unchanged as compared to the end of 2022.

| | For the six months ended 30 June | |
|---|---|-------------|
| | 2023 | 2022 |
| Amount of retail loans disbursed (<i>RMB million</i>) | 1,734 | 63 |
| Number of self-operated retail loan disbursed | 24,586 | 254 |
| Including: Standard self-operated loans | 24,586 | 253 |
| Joint loans | - | 1 |

For the purposes of risk management, the Company has established and will continue to improve the credit risk management system to identify, assess, measure, monitor, mitigate and control risks that may arise from its loan disbursement process. The Company has also developed a series of policies and procedures for loan application review and approval, loan disbursement as well as post-disbursement management.

The Company's overall credit risk management are reflected through a variety of measures under different phases, including but not limited to:

Loan application review and approval phase

- reviewing loan application materials (including, among others, the applicants' identification materials, business license (if any), driving-related materials, and other requisite application materials (if needed); conducting necessary preliminary authentication of the identity of the loan applicants by the Company's Retail Business Department; leveraging on the third-party databases (such as the national enterprise credit information, Ministry of Public Security identity information platform, etc.), searching information and assessing the authenticity of the applicants' identity, the authenticity of the purchase, and the applicants' willingness and ability to repay the loan.
- pursuant to the approval authority, approving, denying or granting conditional approval to the loan applications based on the review of the loan applicants' credit profile or credit line by the Company's Retail Business Department, the Loan Approval Committee, the Risk Management Committee, the Board (if required).

Loan disbursement phase

- executing and entering into loan agreements and proceeding with loan disbursements.

Post-disbursement management phase

- providing customer service by the customer service team of the Company's Product Department, and actively monitoring the loans after disbursement by the Company's Risk Management Department. For those customers with overdue loans, the Company will carry out loan collection through legal and compliant loan collection procedures, or judicial proceedings.

The Company has also strengthened its risk management and control capacity with focuses on risk policies, risk monitoring and other aspects, including (1) optimizing of risk policies, refining management of channel classification, actively taking risk investigation and post-loan review, strengthening risk monitoring to control the assets quality for the newly disbursed loans; and (2) applying statistical principles and machine learning algorithms to optimize the data-based risk control model and enhance the ability of automated approval system to identify fraud risk and credit risk for retail customers.

FINANCIAL REVIEW

Interest Income

The Company's interest income increased by 7% to approximately RMB86 million for the six months ended 30 June 2023 from approximately RMB80 million for the six months ended 30 June 2022. Set forth below is a detailed breakdown:

| | For the six months ended 30 June | |
|--|---|-----------------------|
| | 2023 | 2022 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Interest income | | |
| Loans and advances to customers | 52,147 | 76,400 |
| Deposits with central bank and other banks | 33,784 | 3,690 |
| Finance lease receivables | 17 | 212 |
| | <hr/> | <hr/> |
| Total | <u>85,948</u> | <u>80,302</u> |

For the six months ended 30 June 2023, the Company recorded an interest income of approximately RMB86 million, representing an increase of 7% as compared to approximately RMB80 million in the same period of 2022. The Company's interest income mainly includes interest income from loans and advances to customers and interest income from deposits with central bank and other banks. The Company's interest income has increased due to the Company's active disbursement of automobile loans and an increase in the Company's deposits with banks as compared to the first half of last year.

Non-interest Income

1. Net fee and commission income: Net fee and commission income of the Company for the six months ended 30 June 2023 was approximately RMB49 million. Set forth below is a detailed breakdown:

| | For the six months ended 30 June | |
|---------------------------------|----------------------------------|-------------------|
| | 2023 | 2022 |
| | RMB'000 | RMB'000 |
| Fee and commission income | | |
| Joint loan services | 2,676 | 10,397 |
| Financial consultation services | 45,540 | – |
| Others | 648 | 329 |
| | <u> </u> | <u> </u> |
| Sub-total | 48,864 | 10,726 |
| | <u> </u> | <u> </u> |
| Fee and commission expenses | | |
| Bank charges | (246) | (164) |
| | <u> </u> | <u> </u> |
| Net fee and commission income | <u>48,618</u> | <u>10,562</u> |

The Company's net fee and commission income mainly consisted of income from the provision of financial consultation services by the Company and fee income charged for joint-loan-related services. The Company's net fee and commission income in the first half of 2023 amounted to approximately RMB49 million, representing an increase of 360% as compared to the same period in 2022. It was mainly due to the conduct of financial consulting services related to automobile purchase financing activities during the period.

2. Other net expenses: As of 30 June 2023, the Company's other net expenses amounted to approximately RMB1 million (for the six months ended 30 June 2022: approximately RMB6 million), which mainly comprised the exchange loss and other expenses.

Operating Expenses

The operating expenses of the Company comprise staff costs, depreciation and amortization etc. For the six months ended 30 June 2023, the Company's operating expenses amounted to approximately RMB74 million in aggregate, which represented an increase of 43% as compared to approximately RMB52 million for the six months ended 30 June 2022, which was mainly due to the increase in related staff costs and other business expenses as a result of the increase in the business volume of the Company.

Recognition (reversal) of impairment losses under ECL model

The Company has adopted the HKFRS 9 Expected Credit Loss Model to categorize the risk assets of the Company into three stages. For the six months ended 30 June 2023, the Company recorded impairment losses amounted to approximately RMB0.03 billion (for the six months ended 30 June 2022: reversal of impairment losses of approximately RMB0.45 billion). The determination of loss allowances using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, and adjustments for forward-looking information. The categorization of loss stages is based on the number of days past due for each risk assets where (i) non-overdue assets are classified as the first loss stage; (ii) assets overdue within a period of 60-day (inclusive) are classified as the second loss stage; and (iii) assets overdue over for a period of 60-day are classified as the third loss stage. In addition to the aforementioned periods, the Company may also downgrade the loss stage on rare occasions according to, among others, information available concerning the relevant customers. Based on the Company's cautious assessment, there was an increase in the size of the Company's retail loans, and the Company's provision for impairment losses on loans and receivables increased as at 30 June 2023. For further details, please refer to the table set out below:

| | For the six months ended 30 June | |
|--|----------------------------------|-------------------------|
| | 2023 | 2022 |
| | RMB'000 | RMB'000 |
| Loans and advances to customers | 29,491 | (376,088) |
| Other assets | 1,323 | (3,775) |
| Bills receivable | – | (75,235) |
| Finance lease receivables | (1,206) | 3,024 |
| Total | <u>29,608</u> | <u>(452,074)</u> |

Net Profit

For the six months ended 30 June 2023, the Company recorded a net profit of approximately RMB18 million. The Company recorded a net profit of approximately RMB305 million in the same period of 2022. The decrease is mainly due to the significant reversal of impairment losses of the Company in the same period last year.

Deposits with Central Bank

As at 30 June 2023, the Company's deposits with central bank amounted to approximately RMB3.5 million (as at 31 December 2022: RMB0.5 million). The deposits with central bank mainly comprise statutory deposit reserves and surplus deposit reserves. In accordance with the rules set by the People's Bank of China, the Company has deposited the statutory deposit reserves.

Deposits with Banks

As at 30 June 2023, deposits with banks amounted to approximately RMB1.53 billion, representing a decrease of approximately RMB1.33 billion as compared to approximately RMB2.86 billion as at 31 December 2022. It was mainly used for disbursement in the retail loans business.

Loans and Advances to Customers

As at 30 June 2023, net loans and advances to customers amounted to approximately RMB1.95 billion (as at 31 December 2022: RMB0.55 billion). The Company's loan business mainly consists of automobile loan business, among which, the gross balance of retail loans amounted to approximately RMB2.05 billion, representing an increase of 228% as compared to approximately RMB0.63 billion at the end of 2022, while the gross balance of dealer loans amounted to approximately RMB1.14 billion, remaining unchanged as compared to that as at 31 December 2022.

As at 30 June 2023, the Company's existing loan customers were all independent third parties. The aggregate net balance due from the Company's five largest borrowers accounted for approximately 0.15% of the Company's net loans and advances to customers. Reference is made to the Company's annual report for the year ended 31 December 2022. As at 31 December 2022, the Company's existing loan customers were all independent third parties. The aggregate net balance due from the Company's five largest borrowers accounted for approximately 0.66% of the Company's net loans and advances to customers.

| | As at 30 June 2023 RMB'000 | As at 31 December 2022 RMB'000 |
|---|---|---|
| Retail loans | 2,054,522 | 626,288 |
| Dealer loans | 1,141,250 | 1,141,250 |
| Gross loans and advances to customers | 3,195,772 | 1,767,538 |
| Accrued interest | 9,280 | 1,452 |
| Less: allowances for impairment losses | (1,251,300) | (1,214,051) |
| Net loans and advances to customers | <u>1,953,752</u> | <u>554,939</u> |

Key terms of the Company's loan agreements include:

| | For retail loan business | For dealer loan business |
|--------------------------------|--|---|
| 1. Principal amount | A fixed amount as set out in the loan agreement. | Revolving loans. |
| 2. Interest rate | <p>a. Fixed interest rate: the Loan Prime Rate published by the National Interbank Funding Center ("LPR") plus/minus a rate adjustment, which are fixed throughout the term upon signing of the loan agreement; or</p> <p>b. Floating interest rate: the LPR (which may be reset during the term of the contract) plus/minus a rate adjustment.</p> | |
| 3. Repayment terms | <p>Repayment types include:</p> <p>a. fixed monthly instalment;</p> <p>b. fixed monthly principal repayment;</p> <p>c. balloon repayment; and</p> <p>d. other repayment schedule as agreed otherwise.</p> <p>If the borrower fails to make any payment due on time (including the principal and interest due on the loan and other amounts contractually due from the borrower to the lender), the borrower shall pay overdue interest on the unpaid amount. The overdue interest rate is equal to the loan rate plus a fixed percentage increase.</p> | <p>Repayment after sale of car; or repayment upon the expiry of the loan term.</p> <p>If the borrower fails to make any payment due on time (including the principal and interest due on the loan and other amounts contractually due from the borrower to the lender), the borrower shall pay overdue interest on the unpaid amount. The overdue interest rate is equal to the loan rate plus a fixed percentage increase.</p> |
| 4. Use of loan proceeds | The loan proceeds shall be used for the purchase of cars (including surcharges such as vehicle insurance, vehicle purchase tax, auto parts and accessories, and extended warranty). | The loan proceeds shall be used for the purchase of cars. |
| 5. Security interests | The Company may request vehicle mortgage, third-party guarantee, and additional collateralized assets depending on the circumstances. | |

For retail loan business**For dealer loan business****6. Termination**

In event of a breach of the loan agreement by the customers, the Company would be authorised under the agreement to, among others:

- request additional guarantee;
- accelerate the loan repayment date, such as declaring that all borrowings are immediately due or be repaid within a time limit; and
- terminate the agreement unilaterally.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity requirements are mainly satisfied by equity capital contributions from Shareholders, which provided strong financial support to the Company's loans business. As at 30 June 2023, the Company's deposits with banks amounted to approximately RMB1.53 billion, representing a decrease of approximately RMB1.33 billion as compared to approximately RMB2.86 billion as at the end of 2022. The Company's balance of placements from banks was nil (30 June 2022: nil). The total banking facilities available to the Company amounted to approximately RMB8 billion, all of which were unutilised as at 30 June 2023.

The Company's capital adequacy ratio decreased from 191.50% as at 31 December 2022 to 131.55% as at 30 June 2023.

| | As at 30 June 2023 | As at 31 December 2022 |
|--------------------------------------|-----------------------------------|------------------------------|
| Core tier-one capital adequacy ratio | 130.63% | 191.03% |
| Tier-one capital adequacy ratio | 130.63% | 191.03% |
| Capital adequacy ratio | 131.55% | 191.50% |
| Liquidity ratio | 1,247.28% | 5,293.40% |
| Gearing ratio | <u>4.32%</u> | <u>3.25%</u> |

Note: Gearing ratio = (Total liabilities/total assets) x 100%.

FOREIGN EXCHANGE RISK

As the Company carries out its business primarily in mainland China and settles in Renminbi, there are no material foreign exchange risks.

MATERIAL ACQUISITION OR DISPOSAL OF ASSETS

During the six months ended 30 June 2023, there was no material acquisition and disposal of the Company's material assets.

SIGNIFICANT INVESTMENT

As at 30 June 2023, the Company did not hold any significant investment in equity interest in any company.

CHARGES ON ASSETS

As at 30 June 2023 and 30 June 2022, there were no charges on the Company's assets.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 30 June 2023, the Company did not have any plans for material investments and capital assets.

HUMAN RESOURCES AND REMUNERATION POLICIES

As at 30 June 2023, the Company had 261 employees in total, and most of the employees were located in Mainland China. The Company has a team of highly educated and talented individuals. As at 30 June 2023, approximately 92% of the Company's employees held a bachelor's degree or above, and approximately 22% held a master's degree or above. For the six months ended 30 June 2023, total staff costs of the Company amounted to approximately RMB51 million (for the six months ended 30 June 2022: RMB25 million).

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

SIGNIFICANT LITIGATION AND ARBITRATION

During the six months ended 30 June 2023, there was no litigation and arbitration which had a significant impact on the operating activities of the Company.

CONTINGENT LIABILITIES

The Company did not have any material contingent liabilities as at 30 June 2023.

CORPORATE DEVELOPMENT STRATEGY AND OUTLOOK

In the second half of 2023, with the gradual implementation of measures introduced by Chinese government to boost automobile consumption, the confidence in automobile consumption will continue to improve. In the second half of the year, the Company will focus on further increasing the scale of automotive retail loans assets, including enhancing in-depth business cooperation with channel service providers and direct dealers, consolidating business cooperation with automobile manufacturers at headquarter level, and continuing to explore new energy vehicles automotive finance business etc. In the second half of 2023, the Company will continue to focus on the following:

Firstly, in terms of the business of channel service providers model, it will strengthen the channel business development management system, optimize the retail financial products, improve the product's market competitiveness, and continue to implement the compliance and risk control requirements of regulatory authority for automotive finance companies in business development, so as to maintain the trend of steady growth in the scale of retail financial business;

Secondly, in terms of the business of direct dealership model, it will consolidate the development of business with the cooperated automobile manufacturers at headquarter level, continue to expand more business cooperation with new automobile manufacturers at headquarter level, optimize the response rate and service experience as to the financial business demands of automobile manufacturers, and continue to increase the market share of business at headquarter level;

Thirdly, it will consolidate the cooperation with existing domestic financial institutions, further optimize the financing structure, reduce the cost of capital, and enhance the Company's core competitiveness on the basis of fully guaranteeing the capital needs from the current business volume and loan asset scale.

INTERIM DIVIDEND

The Board did not recommend the payment of interim dividend for the six months ended 30 June 2023 (for the six months ended 30 June 2022: nil).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code regarding securities transactions by the Directors and Supervisors. The Company has made specific enquiries to all the Directors and Supervisors and they have confirmed that each of them has complied with the Model Code during the six months ended 30 June 2023.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and enhance the corporate value and accountability of the Company. The Company has adopted the code provisions as set out under the Corporate Governance Code.

For the six months ended 30 June 2023, the Company has complied with all code provisions of the Corporate Governance Code.

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

During the six months ended 30 June 2023, the Company did not purchase, sell or redeem any of the Company's listed securities.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

The Board is not aware of any significant and important events requiring disclosure that have taken place subsequent to 30 June 2023 and up to the date of this announcement.

REVIEW OF ACCOUNTS

The Audit Committee consists of three independent non-executive Directors, namely, Mr. Wong Man Chung Francis (chairman), Ms. Liang Yanjun and Mr. Qin Zheng as well as one non-executive Director, Ms. Lin Weihua. The unaudited interim financial statements of the Company for the six months ended 30 June 2023 have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu, Certified Public Accountants, in accordance with Hong Kong Standards on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity", issued by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee has reviewed the unaudited interim statements of the Company for the six months ended 30 June 2023. The Audit Committee discussed matters with respect to the accounting policies and practices adopted by the Company and financial reporting process with senior management and Deloitte Touche Tohmatsu. Based on the review and discussions with the management, the Audit Committee was satisfied that the Company's unaudited interim financial statements were prepared in accordance with applicable accounting standards and fairly present the Company's financial position and results for the period under review.

PUBLICATION OF INTERIM RESULTS

This interim results announcement is published on the Company's website at www.dongzhengafc.com and the website of the Stock Exchange at www.hkexnews.hk. The interim report of the Company for the six months ended 30 June 2023 will be published on the aforesaid websites and despatched to the Shareholders in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the management and employees for their diligence and contribution, and would also like to thank the Shareholders and business associates for their strong support to the Company.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, the trading in the H Shares of the Company has been suspended with effect from 9:00 a.m. on 7 October 2022. Trading in the H Shares of the Company will remain suspended until further notice.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the meanings set out below:

| | |
|-------------------------------|---|
| “Audit Committee” | audit committee of the Board |
| “Board” | the board of Directors |
| “Company” | Shanghai Dongzheng Automotive Finance Co., Ltd*. (上海東正汽車金融股份有限公司), a joint stock company incorporated in the PRC with limited liability and whose H Shares are listed on the Stock Exchange (stock code: 2718) |
| “Corporate Governance Code” | the Corporate Governance Code as set out in Appendix 14 to the Listing Rules |
| “Director(s)” | the director(s) of the Company |
| “Domestic Share(s)” | issued ordinary share(s) in the share capital of the Company with a nominal value of RMB1 each, which are subscribed for or credited as fully paid in Renminbi and originally issued by the Company to domestic investor(s) for subscription in RMB |
| “H Share(s)” | issued ordinary share(s) in the share capital of the Company with a nominal value of RMB1 each, which are subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Hong Kong dollars” or “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |

| | |
|-----------------------------|---|
| “Model Code” | the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules |
| “PRC” or “China” | the People’s Republic of China, and for the purpose of this announcement only, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan |
| “Renminbi” or “RMB” | Renminbi, the lawful currency of the PRC |
| “Share(s)” | ordinary shares in the share capital of the Company, including Domestic Shares, Unlisted Foreign Shares and H Shares |
| “Shareholder(s)” | the shareholder(s) of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Supervisor(s)” | the supervisor(s) of the Company |
| “Unlisted Foreign Share(s)” | issued ordinary share(s) in the share capital of the Company, with a nominal value of RMB1 each, which are subscribed for or credited as fully paid in foreign currency and originally issued to persons other than PRC nationals or PRC-incorporated entities and are not listed on any stock exchange |
| “%” | per cent. |

By Order of the Board
Shanghai Dongzheng Automotive Finance Co., Ltd.*
Wu Zheng
General Manager and Executive Director

Shanghai, 29 August 2023

As at the date of this announcement, the Board comprises Ms. Xu Ying as chairlady and non-executive Director; Mr. Wu Zheng as general manager and executive Director; Dr. Zhou Qi and Ms. Lin Weihua as non-executive Directors; and Mr. Wong Man Chung Francis, Ms. Liang Yanjun and Mr. Qin Zheng as independent non-executive Directors.

* *for identification purposes only*