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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)

**ADMINISTRATIVE DECISIONS RECEIVED BY THE COMPANY
FROM SHANGHAI OFFICE OF THE CHINA BANKING AND
INSURANCE REGULATORY COMMISSION
AND
RESUMPTION OF TRADING**

This announcement is made by Shanghai Dongzheng Automotive Finance Co., Ltd. (the “**Company**”) in accordance with Rule 13.09 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of the Hong Kong).

**ADMINISTRATIVE DECISIONS FROM SHANGHAI OFFICE OF THE CHINA
BANKING AND INSURANCE REGULATORY COMMISSION**

On 20 October 2020, the Company received the Administrative Decision by the CBIRC Shanghai Office (Hu Yin Bao Jian Tong [2020] No. 41)(《中國銀保監會上海監管局行政決定書》(滬銀保監通[2020]41號)) and the Decision of Administrative Penalties by the CBIRC Shanghai Office (Hu Yin Bao Jian Yin Fa Jue Zi [2020] No. 21)(《中國銀保監會上海監管局行政處罰決定書》(滬銀保監銀罰決字[2020]21號)) from the Shanghai Office (“**CBIRC Shanghai Office**”) of the China Banking and Insurance Regulatory Commission (“**CBIRC**”), and Mr. Li Yi, the president of the Company, received the Decision of Administrative Penalties by the CBIRC Shanghai Office (Hu Yin Bao Jian Yin Fa Jue Zi [2020] No. 22)(《中國銀保監會上海監管局行政處罰決定書》(滬銀保監銀罰決字[2020]22號))(collectively referred to as the “**Decisions**”) from CBIRC Shanghai Office, which stated that (I) the dealer auto loan business of the Company was carried out in serious violation of the principle of prudent operation; (II) China ZhengTong Auto Services Holdings Limited, the controlling shareholder of the Company (the “**Controlling Shareholder**” or “**China ZhengTong**”) obtained the approval for the establishment of

Shanghai Dongzheng Automotive Finance Co., Ltd. by improper means; and (III) China ZhengTong and its related parties engaged in non-compliant related party transactions with the Company.

As far as the directors of the Company are aware, the board of directors (the “**Board**”) of the Company is not aware of or involved in any action as referred to in those Decisions in respect of the approval of the establishment of the Company by improper means.

THE COMPANY’S NON-COMPLIANCE INCIDENTS

The dealer auto loan business of the Company was carried out in serious violation of the principle of prudent operation

1. In April 2019, after disbursing certain dealer auto loans, the Company failed to inspect and supervise the use of working capital loans in accordance with provisions of contract, and part of the loans being used for other purposes.
2. In April and August 2019, the Company did not disburse certain dealer auto loans in accordance with the withdrawal conditions under the contract. The Company failed to verify whether the payment of the loans satisfied the stipulated purposes through account analysis, voucher check or on-site examinations, etc after payments were made by the borrowers.
3. In August 2020, due to gross imprudence in investigating the usage of certain dealer auto loans of the Company, some vehicles have been used to obtain multiple loans (collectively, the “**Non-compliance Incidents of Dealer Auto Loan Business**”).

China ZhengTong and its related parties engaged in non-compliant related party transactions with the Company

4. As of 30 June 2020, the balance of the facilities granted by the Company to China ZhengTong and its related parties amounted to RMB1.481 billion, representing 35.10% of the Company’s net capital of RMB4.22 billion, and exceeded the regulatory indicator under Article 33(1) of the Interim Measures for the Equity Management of Commercial Banks (the “**Interim Measures**”), which stated that “the aggregate credit granted by a commercial bank to its substantial shareholder and controlling shareholder, ultimate owner, related parties, parties acting in concert and ultimate beneficial owner shall not exceed 15% of the commercial bank’s net equity”. Such practice constituted non-compliant related party transactions and serious violation of principle of prudent operation.

RULING ON THE COMPANY BY THE DECISIONS

CBIRC Shanghai Office decided that the administrative approvals in respect of agreeing the capital contribution and capital increase by the Controlling Shareholder under the Reply on the Commencement of Operation of Shanghai Dongzheng Automotive Finance Co., Ltd* by the Shanghai Office of the China Banking Regulatory Commission (Hu Yin

Jian Fu [2015] No. 132) (《上海銀監局關於上海東正汽車金融有限責任公司開業的批復》(滬銀監復[2015]132號)), the Reply on Change of Registered Capital of Shanghai Dongzheng Automotive Finance Co., Ltd.* issued by the Shanghai Office of the China Banking Regulatory Commission (Hu Yin Jian Fu [2017] No. 233)(《上海銀監局關於同意上海東正汽車金融有限責任公司變更註冊資本的批復》(滬銀監復[2017]233號)), the Approval of Change of Registered Capital of Shanghai Dongzheng Automotive Finance Co., Ltd. issued by the CBIRC Shanghai Office (Hu Yin Bao Jian Fu [2019] No. 500)(《上海銀保監局關於核准上海東正汽車金融股份有限公司變更註冊資本的批復》(滬銀保監復[2019]500號)) be revoked. Furthermore, the shareholder's rights of the Controlling Shareholder are restricted. The Controlling Shareholder's interests in the Company are ordered to be withdrawn, and its benefits obtained based on those administrative approvals would not be protected.

Within three months from the date of receipt of the relevant Decisions, the Company shall withdraw the equity interests in the Company held by China ZhengTong, and from the date of receipt of the Decisions, the Company shall restrict the relevant shareholder's rights of China ZhengTong, including the right to request for a general meeting, the voting rights, the nomination rights, the proposal rights, the disposal rights, and rights to dividend, and the Controlling Shareholder's benefits obtained based on the revoked administrative approvals would not be protected. The Company is not allowed to return capital to shareholders in violation of the regulations until the orders under the relevant Decisions have been completely executed. At the same time, CBIRC Shanghai Office ordered the Company to suspend the operation of the dealer auto loan business, imposed a fine of RMB2 million on the Company and issued a warning to Mr. Li Yi, the president of the Company.

THE IMPACTS OF THE DECISIONS ON THE COMPANY

The Board believes that the Decisions have the following impacts on the operations and financial conditions of the Company:

1. According to the Decisions, the Company shall restrict the relevant shareholder rights, including the right to request for a general meeting, the voting rights, the nomination rights, the proposal rights, the disposal rights, and rights to dividend, and the Controlling Shareholder's benefits obtained based on the revoked administrative approvals would not be protected. The Company is not allowed to return capital to shareholders in violation of the regulations until the orders under the relevant Decisions have been completely executed. The Company believes that the above restrictions will only have impact on the shareholder rights of China ZhengTong, which will not impose any impact on the Company;
2. In terms of management, as at the date of this announcement, none of the members of the Company's management team, including the directors and senior management, hold any positions in China ZhengTong and its subsidiaries (other than the Company), the relevant matters will not have any impact on the Company's directors and senior management in discharging their functions;

3. In terms of business scope, after consulting the Company's PRC legal counsel, the Company can conduct business in accordance with the relevant financial licenses and business licenses currently held by it (including the business of providing loans for automobile purchase registered under the Company's business license) other than the provision of dealer auto loan business;
4. In terms of the dealer network, as of 30 June 2020, the Company had a total of 923 partnership-based dealers (the "**Partnership-based Dealers**") in respect of retail auto loans and other businesses. Amongst these dealers, 130 were dealers under the Controlling Shareholder or dealer auto loan customers which accounted for a relatively small proportion of approximately 14% of the total Partnership-based Dealers. As the cooperation between the Company and these dealers on the retail auto loan and other business are based on normal commercial terms, which is not subject to the provision of dealer auto loans by the Company to these dealers, or China ZhengTong being the controlling shareholder of the Company, there will be no impact on such cooperation on the retail auto loan and other business;
5. As of 30 June 2020, the Company had no outstanding deposit balance from the Controlling Shareholder and its associates. As of 30 June 2020 and 31 December 2019, the outstanding balance of loans disbursed by the Company to auto dealers under the Controlling Shareholder accounted for approximately 17.82% and 14.44% of the Company's overall loan balance, respectively. For the year ended 31 December 2019, interest income derived from loans advanced to auto dealers under the Controlling Shareholder accounted for approximately 14.88% of the Company's operating income. Upon consultations with our legal counsel as to the PRC laws, the existing dealer auto loan arrangement of the Company is currently not in violation with the existing requirements under the Decisions. Therefore, such dealers are still contractually obligated to fulfill the requirements of the loan agreement, and are not affected by the Decisions;
6. In terms of the dealer auto loan business, as of 30 June 2020 and 31 December 2019, the dealer auto loan balance of the Company accounted for approximately 31.55% and 25.54% of the Company's overall loan balance, respectively. For the year ended 31 December 2019, the Company's interest income from dealer auto loans accounted for approximately 22.26% of the Company's operating income, and operating profit from dealer auto loans only accounted for 10.68% of the Company's operating profit. Upon consultations with our legal counsel as to the PRC laws, the existing dealer auto loan arrangement of the Company is currently not in violation with the existing requirements under the Decisions. Despite a decline in the Company's income and profit from such business as a result of the suspension of dealer auto loan business, the Company will allocate resources (including human resources and financial resources) originally used for the dealer auto loan business to focus on the development of the retail auto loan business to reduce the impact on the Company;

7. In terms of retail auto loans and other businesses, since the Company enters into loan agreements directly with relevant retail customers and the dealers are not the parties to those agreements, such customers are still contractually obligated to fulfill the requirements of the agreements, and are not affected by the Decisions; and
8. As at the date of this announcement, the banks continued to maintain their credit support to the Company. There have been no material changes in the credit line, term and interest rate.

IMPACTS OF NON-COMPLIANCE INCIDENTS ON THE COMPANY'S INTERNAL CONTROL

Dealer auto loan business

Having conducted a review in relation to the Non-compliance Incidents of Dealer Auto Loan Business, the Company found that such non-compliance was due to the lack of experience and ability of certain employees, which led to the non-compliance incidents in relation to the loan payment process and the ownership certificates management for financing vehicles.

In this regard, the Company has implemented or will implement the following rectification measures. In the short term, the Company has suspended all dealer auto loan business as required by CBIRC Shanghai Office and shall rectify its internal control system from the following two aspects to prevent recurrence of similar non-compliance incidents.

1. The Company will further strengthen the pre-job training for our employees and conduct special assessments on the employees in key risk positions regularly, with emphasis on the employees' understanding towards the Company's risk control policies and procedures.
2. Improve the following risk control standard system of the Company's dealer auto loan business, including:
 - (i) only accept withdrawal requests for entrusted payment to the automobile manufacturer(s) to prevent funds being paid through the dealer's account(s); and
 - (ii) engage full-time personnel or service provider(s) to manage financing vehicle certificate(s) to prevent vehicles from being used to obtain multiple loans.

Subject to the completion of the above rectifications and after the review by CBIRC Shanghai Office on the rectified internal control measures, the Company will apply for resumption of the dealer auto loan business.

Retail auto loan business

The Company has immediately conducted assessment on the internal control of the retail auto loan business upon becoming aware of the above Non-compliance Incidents of Dealer Auto Loan Business. As the business model and the internal control systems of the Company’s retail auto loan business are different from that of the dealer auto loan business, the Company considers that Non-compliance Incidents of Dealer Auto Loan Business will not have a significant impact on the retail auto loan business.

The key differences of the model and the internal control system between retail auto loan business and dealer auto loan business are as follows.

Internal control procedures and structure	The model and the internal control system of dealer auto loan business	The model and the internal control system of retail auto loan business
Loan payment process	There are two payment methods for dealer auto loans: (1) the funds are paid directly to the dealer’s account and (2) the funds are paid directly to the dealer’s counterparty, being automobile manufacturer, rather than the dealer. The corresponding internal control procedure for the payment method (1) is to verify the use of the loan after loan being drawn-down, while the payment method (2) can directly guarantee that the loan meets the agreed use from the fund path because it is paid directly to the automobile manufacturer	The funds of the loan are paid directly to the borrower’s counterparty, rather than the borrower, which directly guarantees that the loan meets the agreed use from the fund path

Internal control procedures and structure	The model and the internal control system of dealer auto loan business	The model and the internal control system of retail auto loan business
Ownership certificate management for financing vehicles	Since registration of the vehicles purchased by dealers is not permitted because they are inventory vehicles that are pending sales to end users Company has to manage the ownership certificates of vehicles by conducting a spot check on the vehicle certificate of dealers	Since registration certificates and mortgage registration in respect of the vehicle purchased by the borrower can be processed at the vehicle management office, the Company could confirm mortgage right towards the financing vehicles by the mortgage registration procedures of the vehicle management office and the original vehicle registration certificate shall be under the centralised management of the Company
Responsible officers	There is no overlap between internal control teams and employees	There is no overlap between internal control teams and employees

As far as the directors of the Company are aware and taking into account of the rectification measures as mentioned above, the Board and the audit committee of the Company are of the view that each of the Non-compliance Incidents of Dealer Auto Loan Business is an isolated event and there are no material internal control deficiency issues in the Company.

NON-COMPLIANCE INCIDENTS OF RELATED PARTY TRANSACTIONS

In terms of the related party transactions between the Company and China ZhengTong, the Company entered into the Revolving Loan Facility Framework Agreement with China ZhengTong in March 2019 in relation to the Company's provision of the revolving loan facility to dealers under China ZhengTong to facilitate their purchase of cars, with an annual cap of RMB1,500 million. The Stock Exchange has granted the Company a waiver of strict compliance with the announcement, circular and shareholder approval requirements under the Listing Rules. Details of such transactions have been disclosed in the 2019 annual report of the Company. At all material times, the Company had operated on the basis and acted in good faith belief that, prior to receiving the Decisions, the regulatory indicator relating to related party transactions for its auto finance business

was regulated by the Automotive Finance Company Management Measures promulgated in January 2008 (the “**AFC Measures**”) which are specific measures applied to all auto finance companies. Upon receiving the Decisions, the Company has formulated a working plan to rectify in accordance with the regulatory indicators of the related party transactions under the Interim Measures and to further improve its risk control and compliance management. The Company believes that all related party transactions under the Revolving Loan Facility Framework Agreement are in compliance with the requirements under the AFC Measures, as well as those applicable requirements under Chapter 14A of the Listing Rules governing connected transactions.

As far as the directors of the Company are aware, as of the date of this announcement, no specific exit plan of the Controlling Shareholder has been reached. The Company will actively implement the above administrative decisions in accordance with applicable laws and regulations, including but not limited to obtaining the approval(s) of CBIRC, the China Securities Regulatory Commission, the Securities and Futures Commission of Hong Kong, the Stock Exchange, and other regulatory authorities (if necessary).

Save for the aforesaid, at present, the operation and financial conditions of the Company remain normal, and the Company is able to carry out its relevant businesses (including the provision of retail auto loans and other businesses) in accordance with the relevant financial licenses and business licenses currently held by it. As far as the directors of the Company are aware, the Board and the audit committee of the Company are of the view that, based on the current operations of the Company, the Company (other than the non-compliance mentioned above) is operating legally in any material respect, complying with the PRC laws and does not exceed the permitted scope of business and has no material illegal operations.

Further announcement(s) shall be made by the Company as and when appropriate.

Save as disclosed in this announcement, the Board is not aware of any information that needs to be disclosed under the Listing Rules and Part XIVA of the Securities and Futures Ordinance.

RESUMPTION OF TRADING IN H SHARES

At the request of the Company, trading in the H shares of the Company on the Stock Exchange has been suspended with effect from 9:11 a.m. on 20 October 2020 pending the release of this announcement. Application has been made to the Stock Exchange for resumption of trading in the H shares of the Company with effect from 9:00 a.m. on 7 December 2020.

The Company wishes to remind its shareholders and potential investors to only refer to the official announcements published by the Company for information relating to the Company. Shareholders and other investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
Shanghai Dongzheng Automotive Finance Co., Ltd.*
Lin Fan
Chairman

Shanghai, 7 December 2020

As at the date of this announcement, the Board comprises Mr. Lin Fan and Mr. Shao Yongjun as executive directors; Mr. Koh Tee Choong and Mr. Li Guozhou as non-executive directors; and Mr. Wong Man Chung Francis and Ms. Liang Yanjun as independent non-executive directors.

** For identification purposes only*