



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

2020 Annual Report



*For identification purposes only



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Koh Tee Choong
Mr. Li Guozhou

Independent Non-executive Directors

Mr. Wong Man Chung Francis
(appointed on 24 February 2020)
Ms. Liang Yanjun
Mr. Lin Zheyang (resigned on 30 June 2020)

SUPERVISORY COMMITTEE

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

AUDIT COMMITTEE

Mr. Wong Man Chung Francis (*Chairman*)
(appointed on 24 February 2020)
Ms. Liang Yanjun
Mr. Lin Zheyang (resigned on 30 June 2020)

REMUNERATION AND EVALUATION COMMITTEE

Mr. Wong Man Chung Francis (*Chairman*)
(appointed on 24 February 2020)
Mr. Koh Tee Choong
Ms. Liang Yanjun (resigned on 24 February 2020 and
appointed on 30 June 2020)
Mr. Lin Zheyang (resigned on 30 June 2020)

NOMINATION COMMITTEE

Ms. Liang Yanjun (*Chairlady*)
Mr. Koh Tee Choong
Mr. Wong Man Chung Francis
(appointed on 30 June 2020)
Mr. Lin Zheyang (resigned on 30 June 2020)

RISK MANAGEMENT COMMITTEE

Mr. Lin Fan (*Chairman*)
Mr. Shao Yongjun
Mr. Wong Man Chung Francis
(appointed on 24 February 2020)
Ms. Liang Yanjun (resigned on 24 February 2020)

COMPANY SECRETARY

Mr. Chan Pak Hung
Ms. Yao Wen (resigned on 26 January 2021)

AUDITOR

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

LEGAL ADVISORS

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

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

CORPORATE INFORMATION**COMPLIANCE ADVISOR**

Altus Capital Limited
21 Wing Wo Street
Central
Hong Kong

H SHARE REGISTRAR

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

WEBSITE

www.dongzhengafc.com

STOCK CODE

2718

**REGISTERED ADDRESS AND
ADDRESS OF THE HEAD OFFICE IN
THE PRC**

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

**PRINCIPAL PLACE OF BUSINESS
IN HONG KONG**

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Shanghai Dongzheng Automotive Finance Co., Ltd.*, I hereby present the annual report for the year ended 31 December 2020 of the Company to the Shareholders.

The year 2020 was extraordinary. In face of the COVID-19 pandemic, the entire nation has united together to compose an epic on fighting against the pandemic with the strength of unity and perseverance. During the days of overcoming the difficulties together, we adhered to the principles of being people-oriented and customer first and shared weal and woe with the people of the whole country. We actively provided humanistic care according to the specific situation of customers affected by the pandemic, implemented deferred repayment policy, and earnestly fulfilled social responsibilities so as to prevent and contain the pandemic as well as to help resume work and production.

In late 2020, the Company received the administrative decisions issued by the CBIRC Shanghai Office. The Directors and the management of the Company took it seriously and immediately and earnestly implemented the requirements under the Decisions. At the same time of ensuring the operation stability, the Company actively promoted the withdrawal of equity interests held by the controlling Shareholder, suspended and strengthened the operation of the dealer's loan business and improved the management mechanism for related party transactions.

Toughness is the only way to show one's courage and perseverance, and sharpening is the only way to achieve success. In 2020, facing unprecedented difficulties, the Board proactively worked with the management, and under the careful guidance and strong support of the regulator, to overcome various difficulties and challenges and realise the smooth operation of the Company as a whole as well as maintaining the stability in three aspects: stability of liquidity by strengthening cooperation with major banks to ensure the security of liquidity and actively improving the risk resistance capacity; stability of operation by maintaining sound cooperation with major business channels, establishing strategic partnerships with major car manufacturers and maintaining development pace for disbursing retail loans; and the stability of talents which ensured that daily operation and management were carried out in an orderly manner, staff and team were well-engaged and helped each other going forward. With the cooperation and support of all sides, the Company has resolutely overcome the impact of the COVID-19 pandemic, maintained financial stability, serviced the real economy sector, and achieved a net profit of approximately RMB55 million for the year.

Looking ahead to 2021, although the global economy continues to be affected by the COVID-19 pandemic, the pandemic is under effective control within the country and the domestic economy will stage a resumption of rebounds and growth. In addition, the notice jointly published by 12 departments including the Ministry of Commerce in January 2021 stressed again the stabilization and expansion of the automobile consumption. The outlook of the automobile consumption market is still positive. As a licensed financial institution, the Company will lay a solid foundation, enhance its inner strengths and seize the opportunity for the development of the auto finance market to further demonstrate its vitality.

As the saying goes sturdy grass withstands a strong wind, in the face of crisis and difficulties, the Company collaborated with and concentrated efforts and minds of all the staff to achieve a steady transition. On behalf of the Board, I hereby express my heartfelt appreciation to all Shareholders, the society and investors for their attention, support and understanding, as well as all staff for their hard work and contributions in the past year. I firmly believe that a willing heart makes possible a promising future.

Lin Fan
Chairman

Shanghai, PRC, 31 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company is an automotive finance company licensed and regulated by the CBIRC focusing on the luxury vehicle market. The Company's principal business comprises automotive loan business where the Company provides loans, direct leasing products and other financial services to the end customers, major customers and corporate clients for purchases of vehicles.

In 2020, the outbreak of the COVID-19 pandemic and subsequent national lockdown in China brought changes and challenges to all sectors with the automobile industry being stagnant for a period of time. Under the double whammy of the COVID-19 pandemic and downswings in economy and according to the China Association of Automobile Manufacturers, the production and sales volume of passenger vehicles in China in 2020 represented a year-on-year decrease of 6.5% and 6%, respectively.

As for the auto finance industry, automotive finance companies, as licensed institutions, are subject to the strict regulation of the CBIRC. As at 31 December 2020, there are 25 (31 December 2019: 25) licensed automotive finance companies in China, all of which are in competition with commercial banks, financial leasing companies and internet finance companies. Automotive finance companies, being in close relationship with automobile manufacturers and dealers, deliver enhanced product offerings and better services to customers. In addition to self-operated products through conventional financing channels such as inter-bank lending and banking facilities leveraging on its advantages as a licensed institution, the Company actively cooperated with major banks to launch joint loan products as a complement to its self-operated products, so as to facilitate the Company's asset allocation based on market conditions.

During the year, the Company operated and optimised its dealer network and extended its business network to more than 180 cities in China. As at 31 December 2020, the Company has 962 (2019: 913) partnership-based dealers in total. Furthermore, by focusing on sales to middle and high-end brands, these sales channels keep abreast with customers base of consumption upgrade demographic. The strengths of the sales network and reasonably established market presence enable the Company to introduce good customer experience and services to the consumers.

Due to the outbreak of the COVID-19 pandemic and other impacts, consumers' consumption demand for passenger vehicle purchase has reduced, the auto finance industry faced serious challenges and new loans disbursed by the Company has decreased in 2020 comparing with the corresponding period of last year. The Company's loan portfolio decreased by 42.5% to RMB5.75 billion as at 31 December 2020 from RMB10.00 billion as at 31 December 2019. For the year ended 31 December 2020, the Company's net interest income amounted to RMB495 million, representing a decrease of 7.6% as compared to 2019. The Company's operating income amounted to RMB577 million in 2020, representing a decrease of 27.8% as compared to last year. The Company recorded a net profit of RMB55 million in 2020, representing a decrease of 85.9% as compared to the net profit of RMB389.4 million for 2019. The decrease in profit for this year as compared to 2019 was mainly attributable to (i) the decrease in new loans disbursed by the Company as a result of the outbreak of COVID-19, which lowered consumers' consumption demand for passenger vehicles purchase; (ii) the increase in the Company's allowances for impairment losses of approximately RMB267 million relating to its loans and advances to customers and finance lease receivables, etc. due to the negative impact of the COVID-19 pandemic on repayment capabilities of some of its customers; and (iii) the reduction in fee and commission income as a result of the adjustment made by the Company in its arrangements for collecting service fees from customers since 2019.

During the year, total amount of loans disbursed by the Company was RMB6.285 billion, representing a decrease of 55.1% from that of 2019. In terms of retail loans, the Company disbursed a total of 3,760 retail loans throughout 2020, representing a decrease of 87.0% over that of 2019, which was mainly due to the decrease in new loans resulting from the impact of the outbreak of the COVID-19 pandemic which caused slowdown in external economic environment as well as lowered consumers' consumption demand, and that the Company taking a more cautious approach when vetting loan applications.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company's net fee and commission income mainly consists of non-interest income received by the Company for referral of retail customers to commercial banks or other financial institutions and provision of loan-related services. The Company's net fee and commission income in 2020 amounted to RMB72.5 million, representing a decrease of 58.3% as compared to RMB173.7 million in 2019. This was mainly due to the lower income from consulting services as a result of the adjustment made by the Company in its arrangements for collecting service fees from customers in response to changes in the market operating environment.

In terms of dealer's loan business, as of 31 December 2020, the loan balance was RMB2.581 billion, which remained stable as compared to that at the end of 2019. For the year ended 31 December 2020, the Company's average yield of dealer's loans decreased from 9.75% to 8.24%, which was mainly due to the adjustments of interest rate made by the Company for customers greatly affected by the pandemic.

	As at/For the year ended	
	31 December 2020	2019
Amount of loans disbursed (RMB million)	6,285.12	13,984.08
Number of self-operated retail loan disbursed	3,760	28,815
Including: Standard self-operated loans	1,694	20,902
Joint loans	2,066	7,913
Gross outstanding loan balance (RMB million)	6,144.36	10,147.44
Including: Retail loans	3,563.07	7,522.35
Dealer's loans	2,581.29	2,625.09

For the purposes of risk management, the Company has strengthened its risk management and control capacity with focuses on risk policies, big data risk control, risk monitoring and asset preservation and has achieved a decrease in both non-performing loan ratio and non-performing loan balance. As of 31 December 2020, the Company's non-performing loan balance was RMB22 million, representing a decrease of 51% from RMB45 million at the end of 2019; the Company's non-performing loan ratio decreased to 0.36% as of 31 December 2020 from 0.44% as at 31 December 2019. The aforesaid loan quality was mainly attributable to the following measures: (i) the Company introduced multi-dimensional risk data and applied statistics principle and machine learning algorithm to promote the iterative upgrade of the big data risk control model, enhanced the automated approval system in respect of the ability to identify customer fraud risk and credit risk and improved the efficiency of credit and loan approval and decision-making; (ii) the Company strengthened the daily risk monitoring mechanism including channel business quality monitoring, business risk cost monitoring, business risk special investigation, post-loan monitoring and client visits, etc. to identify and control potential risks in a faster and more accurate manner; and (iii) under the pressure that a general decrease in repayment capabilities of customers due to the pandemic, the Company comprehensively improved the asset preservation strategy, enhanced the asset recovery and disposal capacity at all stages, and raised the working efficiency in the legal litigation stage. The Company's overall recovery capacity of overdue assets has been significantly improved compared with previous years.

	As at 31 December	
	2020	2019
Non-performing loan (NPL) ratio (60+)	0.36%	0.44%
Loan provision rate	7.35%	1.89%
Provision coverage ratio	2,037.81%	423.97%

MANAGEMENT DISCUSSION AND ANALYSIS

On 20 October 2020, the Company received the administrative decisions (the “Decisions”) by the CBIRC Shanghai Office which stated that (i) the dealer auto loan business of the Company was carried out in serious violation of principle of prudent operation; (ii) ZhengTong obtained approval for the establishment of the Company by improper means; and (iii) ZhengTong and its related parties engaged in non-compliant related party transactions with the Company. According to the Decisions, the administrative approvals in respect of agreeing the capital contribution and capital increase by the controlling Shareholder have been revoked; the Company shall withdraw the equity interests in the Company held by ZhengTong, restrict the relevant shareholder’s rights of ZhengTong; and the controlling Shareholder’s benefits based on the revoked administrative approvals would not be protected. In addition, the 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. Since receiving the Decisions, the Company has conducted review and assessment towards dealer’s loan business, retail loan business and related party transactions and formulated a working plan to rectify and implement the requirements set out in the Decisions. Details have been disclosed in the Company’s announcement dated 7 December 2020. Regarding the withdrawal of Shareholder, the Company announced on 3 February 2021 and 3 March 2021 that, as informed by ZhengTong, ZhengTong was in discussion with an independent potential purchaser (the “Potential Purchaser”) regarding, amongst others, a potential disposal of the shares of the Company (the “Potential Disposal”). As far as the Company is aware, no decision has been made on whether to proceed with the Potential Disposal, no formal agreements have been entered into in respect of the Potential Disposal, and the discussion and negotiation were still in progress, therefore the Potential Disposal may or may not proceed.

FINANCIAL REVIEW

Net Interest Income

The Company’s net interest income decreased by 7.6% to approximately RMB495 million in 2020 from approximately RMB536 million in 2019.

Set out below are the comparative figures for the year ended 31 December 2020 and 2019.

	For the year ended 31 December	
	2020	2019
	RMB’000	RMB’000
Interest income		
Loans and advances to customers	737,326	978,697
Deposits with central bank and other banks	2,796	13,620
Finance lease receivables	3,230	7,416
	743,352	999,733
Interest expenses		
Placements from banks	(248,209)	(463,800)
Deposits from shareholders	—	(133)
	(248,209)	(463,933)
Net interest income	495,143	535,800

MANAGEMENT DISCUSSION AND ANALYSIS

1. Interest income: For the year ended 31 December 2020, the Company recorded an interest income of approximately RMB743 million, representing a decrease of 25.6% as compared to approximately RMB1,000 million in the same period of 2019. The decrease in interest income was mainly due to the decrease in loan size, as well as a decrease in the yield of loans due to the market conditions. The average yield of retail loans decreased from 9.78% in 2019 to 9.51% in 2020, while the average yield of dealer's loans decreased from 9.75% in 2019 to 8.24% in 2020.

	For the year ended 31 December	
	2020	2019
	%	%
Net interest margin	5.85	4.83
Average yield of loans and advances to customers	9.10	9.78
Including: average yield of retail loans	9.51	9.78
average yield of dealer's loans	8.24	9.75

2. Interest expenses: Interest expenses of the Company decreased from approximately RMB464 million in 2019 to approximately RMB248 million in 2020, mainly due to the decrease in borrowings resulting from the reduction in loan portfolio and the decrease in the Company's inter-bank borrowing rate in 2020 compared to 2019 resulting from changes in interest rate in the market. As at 31 December 2020, the Company's outstanding balance of placements from banks was approximately RMB2.03 billion (2019: RMB5.89 billion). For the year ended 31 December 2020, the average cost of interest-bearing liabilities was 6.09% (2019: 6.56%).

	For the year ended 31 December	
	2020	2019
	%	%
Average cost of interest-bearing liabilities	6.09	6.56
Average cost of additional new interest-bearing liabilities	6.13	6.08

MANAGEMENT DISCUSSION AND ANALYSIS

Non-interest Income

For the year ended 31 December 2020, the Company received non-interest income of approximately RMB82 million, representing a decrease of 68.9% as compared to that of approximately RMB264 million for the same period of 2019.

1. Net fee and commission income: Net fee and commission income of the Company for 2020 was approximately RMB72.5 million. Set forth below is a detailed breakdown:

	For the year ended	
	31 December	2019
	2020	2019
	RMB'000	RMB'000
Fee and commission income		
Consulting services	12,901	91,615
Joint loan services	48,505	69,954
Others	11,906	13,387
Sub-total	73,312	174,956
Fee and commission expenses		
Commission fees	—	(221)
Others	(805)	(987)
Sub-total	(805)	(1,208)
Net fee and commission income	72,507	173,748

The Company's net fee and commission income in 2020 amounted to approximately RMB72.5 million, representing a decrease of 58.27% as compared to that in 2019. This was mainly due to the decrease in income from consulting services as a result of the adjustment made by the Company in its arrangements for collecting service fees from customers since 2019 in response to the changes in the market operating environment, including the limitation and restriction imposed on the fee income for auto finance services.

2. Other net income: In 2020, the Company's other net income amounted to approximately RMB10 million (2019: RMB90 million), which comprised mainly of government grants of RMB12 million for the financial sector received from the People's Government of Pudong New District and foreign exchange losses of approximately RMB1 million.

Operating Expenses

For the year ended 31 December 2020, the Company's operating expenses amounted to approximately RMB120 million in aggregate, representing a decrease of RMB44 million as compared to approximately RMB164 million for the same period of 2019, which was mainly due to (i) the decrease in labor cost and other operating expenses resulting from the reduction of the Company's business and cost control measures; and (ii) absence of one-off listing expenses during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Impairment Loss

The Company has adopted the HKFRS 9 Expected Credit Loss Model to categorise the risk assets of the Company into three stages. In 2020, the total impairment loss amounted to approximately RMB381 million (2019: RMB115 million), representing an increase of 233% as compared to 2019. 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. A higher loss stage will generally attach higher value to the other parameters and therefore result in a higher provision ratio. Based on the Company's assessment and taking into account the negative impact on repayment capabilities of some of its customers resulting from the COVID-19 pandemic, certain loans and receivables amounting to approximately RMB2.89 billion is considered having a significant increase in credit risk since initial recognition and should be classified as the second loss stage under the HKFRS 9 Expected Credit Loss Model. As the provision ratio for second loss stage is higher than that for the first loss stage, the Company applied a higher overall provision ratio on the loans and receivables balances as at 31 December 2020 and recorded an increase in allowances for impairment losses. For further details, please refer to notes 13 and 25(a) to the financial statements and the table set out below:

	For the year ended	
	31 December	
	2020	2019
	RMB'000	RMB'000
Loans and advances to customers	369,426	118,183
Finance lease receivables	565	(3,630)
Other assets	11,409	—
Total	381,400	114,553

Net Profit

For the year ended 31 December 2020, the Company recorded a net profit of approximately RMB55 million, representing a decrease of RMB334 million as compared to approximately RMB389 million in 2019.

Cash and Deposits with Central Bank

As at 31 December 2020, the Company's cash and deposits with central bank amounted to approximately RMB5 million (2019: RMB9 million), representing a decrease of RMB4 million as compared to 2019. The deposits with central bank mainly comprise statutory deposit reserves and surplus deposit reserves. In accordance with the rules set by the People's Bank of China, the Company deposited 6% of the guarantee deposits and deposits from Shareholders to the statutory deposit reserves. The decrease in balance was due to the decrease in the guarantee deposits balance during the year.

Deposits with Banks

As at 31 December 2020, deposits with banks amounted to approximately RMB90 million, representing a decrease of 28.6% as compared to approximately RMB127 million as at 31 December 2019. The significant decrease was mainly attributable to partial repayment of placements from banks by the Company before the end of the year and the relatively tight domestic capital market at the end of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Loans and Advances to Customers

As of 31 December 2020, net loans and advances to customers amounted to approximately RMB5.75 billion, representing a decrease of 42.5% as compared to approximately RMB10.0 billion at the end of 2019. The Company's loan business mainly consists of auto loan business, among which, the gross balance of retail loans amounted to approximately RMB3.56 billion, representing a decrease of 52.6% as compared to approximately RMB7.52 billion at the end of 2019, while the gross balance of dealer's loans amounted to approximately RMB2.58 billion, representing a decrease of 1.7% as compared to approximately RMB2.63 billion as at 31 December 2019.

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Retail loans	3,563,067	7,522,352
Dealer's loans	2,581,294	2,625,086
Gross loans and advances to customers	6,144,361	10,147,438
Accrued interest	58,581	48,079
Less: Allowances for impairment loss	(451,667)	(191,364)
Net loans and advances to customers	5,751,275	10,004,153

Placements from Banks

The Company's placements from banks as at 31 December 2020 were approximately RMB2 billion, representing a decrease of 65.5% as compared to approximately RMB5.89 billion at the end of 2019, which was in line with the decrease in loan size.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity requirements are mainly satisfied by share capital, placements from commercial banks and proceeds from loan products and services, which provided strong financial support to the Company's loans business. As at 31 December 2020, the Company's deposits with banks amounted to approximately RMB90 million, representing a decrease of 28.6% as compared to approximately RMB127 million as at the end of 2019. The Company's placements from banks amounted to approximately RMB2.03 billion, representing a decrease of 65.5% as compared to approximately RMB5.89 billion as at the end of 2019. The Company's total facilities were over RMB2.47 billion and unutilised balance was over RMB0.44 billion.

The Company's capital adequacy ratio increased from 41.62% as at 31 December 2019 to 59.37% as at 31 December 2020.

	As at 31 December	
	2020	2019
Core tier-one capital adequacy ratio	58.38%	40.54%
Tier-one capital adequacy ratio	58.38%	40.54%
Capital adequacy ratio	59.37%	41.62%
Liquidity ratio	88.58%	137.12%
Gearing ratio	35.16%	61.18%

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

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE RISK

As the Company's business is primarily operated in mainland China and settled in Renminbi, there are no material foreign exchange risks. As at 31 December 2020, the Company had certain deposits with banks and other liabilities denominated in foreign currencies with a net position of approximately RMB37.4 million. The foreign exchange risk is considered to be low.

MATERIAL ACQUISITION OR DISPOSAL OF ASSETS

During the year ended 31 December 2020, there was no material acquisition and disposal of the Company's material assets.

SIGNIFICANT INVESTMENT

As at 31 December 2020, the Company did not hold any significant investment in equity interest in any company.

CHARGES ON ASSETS

The Company has charged its assets as the security for bank financings to be used as working capital for daily operations. As at 31 December 2020, the Company's assets charged amounted to approximately RMB2,357.21 million (31 December 2019: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 31 December 2020, the Company did not have any plans for material investments and capital assets.

HUMAN RESOURCES AND REMUNERATION POLICIES

As at 31 December 2020, the Company had 218 employees in total, and most of the employees were located in the PRC. The Company has a team of highly educated and talented individuals. As at 31 December 2020, approximately 95% of the Company's employees hold a bachelor's degrees or above, and 18% hold a master's degree or above. In 2020, total staff costs of the Company amounted to approximately RMB70 million (2019: RMB98 million).

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT LITIGATION AND ARBITRATION

During the year ended 31 December 2020, there was no litigation and arbitration which had a significant impact on the operating activities of the Company.

CONTINGENT LIABILITIES

The Company did not have any material contingent liabilities as at 31 December 2020.

CORPORATE DEVELOPMENT STRATEGY AND OUTLOOK

Facing the domestic auto sales slowdown and the overall trend of increasing downward pressure in the industry, the Company will provide more flexible, diverse, and innovative financial services and improve customer experience as well as maintaining a sound risk control ability by combining new technologies to support the development of the real economy of the automobile industry by closely observing the current market situation. In 2021, the Company plans to implement the following measures:

Firstly, it will make further dedication to the business of manufacturers and improve market penetration rate. It will strengthen the motivation of channel cooperation through professional training and in-store counseling, etc. Particularly, in the face of the rising trend of new energy vehicles, the Company will extensively explore cooperation opportunities with relevant car brands and seek financing opportunities along the new energy vehicle industry chain in order to provide for new business growth brought about by the upgrading of the consumer industry in the future.

Secondly, in terms of technology and finance, it will proactively develop online intelligent financial service technologies such as client-side financial applications, mini program of WeChat and public accounts of WeChat. Meanwhile, it will continue to expand third-party financial system interface aiming at carrying out utilitarian functions such as online advertising, automation of approval, agreement execution and loan disbursement processes and facilitation of repayment as well as improving user experience, enhancing product offerings and satisfying service demands.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Lin Fan, aged 54, is an executive Director and the chairman of the Board. He is also the chairman of the Risk Management Committee. He joined the Company in February 2017 and is responsible for the overall strategic planning and business direction and management of the Company.

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

Mr. Shao Yongjun, aged 45, is an executive Director and a member of the Risk Management Committee. He joined the Company in March 2015 and is responsible for the overall strategic planning and business direction and management of the Company.

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

NON-EXECUTIVE DIRECTORS

Mr. Koh Tee Choong, aged 62, joined the Company as a non-executive Director in August 2018. Mr. Koh is a member of the Remuneration Committee and Nomination Committee.

Mr. Koh has extensive operational and management experience in the luxury-brand dealership market. Before his retirement from ZhengTong in June 2020, Mr. Koh was an executive director and the chief executive officer of ZhengTong. Prior to joining ZhengTong in January 2017, Mr. Koh served at BMW Asia Pte Ltd and was the president of BMW China Automotive Trading Ltd. (寶馬(中國)汽車貿易有限公司) to head up BMW China business. Mr. Koh received a diploma in business studies in November 1984 and a graduate diploma in marketing management in June 1986 from the Singapore Institute of Management. Mr. Koh received a master's degree in Business Administration from the University of Durham in December 1991 through distant learning. Mr. Koh also obtained a diploma in marketing from The Institute of Marketing in November 1986.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Li Guozhou, aged 55, joined the Company as a non-executive Director in September 2019.

Mr. Li has extensive accounting and management experience in the automobile manufacturing industry, including acting as the general manager of Dongfeng Peugeot Citroën Automobile Finance Co., Ltd. (東風標緻雪鐵龍汽車金融有限公司) and a deputy general manager of business and a member of the executive committee of Dongfeng Peugeot Citroën Automobile Co., Ltd. (神龍汽車有限公司). Mr. Li has served as a treasury manager of finance and accounting department of Dongfeng Motor Corporation (東風汽車集團有限公司), a Shareholder, from December 2018 to September 2020. Since September 2020, Mr. Li has served as the deputy general manager of Dongfeng Motor Finance Co., Ltd. (東風汽車財務有限公司). Mr. Li received a bachelor's degree in computer science and engineering from Southeast University (東南大學, formerly known as Nanjing College of Technology (南京工學院)) in July 1987. Mr. Li has also been recognized as a senior accountant by Dongfeng Motor Human Resources Department (東風汽車公司人事部). Mr. Li was previously a lecturer at Wuhan University of Technology (formerly known as Wuhan Jiaotong Technology University (武漢交通科技大學)).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Man Chung Francis, aged 56, joined the Company as an independent non-executive Director in February 2020. Mr. Wong is the chairman of each of the Audit Committee and the Remuneration Committee, and a member of the Nomination Committee and the Risk Management Committee.

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

Ms. Liang Yanjun, aged 37, joined the Company as an independent non-executive Director in August 2018. Ms. Liang is the chairlady of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee.

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

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Mr. Li Huihua, aged 48, was appointed as a Supervisor in March 2016, and became the chairman of the Supervisory Committee in May 2018.

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

Mr. Li Tao, aged 51, was appointed as a Supervisor in May 2018.

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

Ms. Wang Qing, aged 31, was appointed as the employee representative Supervisor in May 2018. She joined the Company in April 2016 and is currently the manager of the legal department.

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

SENIOR MANAGEMENT

Mr. Li Yi, aged 47, joined the Company as the president in May 2017. Mr. Li is responsible for the overall business operations and management of the Company.

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

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

Mr. Xu Shuo, aged 48, joined the Company in August 2017 and is the chief information officer of the Company. Mr. Xu is responsible for the information system management and technology risk management of the Company.

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

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activities of the Company comprise automotive loan business where the Company provides loans, direct leasing products and other financial services to the end customers, major customers and corporate clients for purchases of vehicles.

RESULTS

The Company's results for the year ended 31 December 2020 and financial position as at 31 December 2020 are set out in pages 46 to 47 of this annual report.

BUSINESS REVIEW

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

FINANCIAL SUMMARY

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

PLACEMENTS FROM BANKS

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

PROPERTY AND EQUIPMENT

Details of movements in property and equipment of the Company during 2020 are set out in note 15 to the financial statements.

SHARE CAPITAL

As at 31 December 2020, the aggregate share capital of the Company was RMB2,139,651,400, divided into 2,139,651,400 ordinary shares of the Company at RMB1 each, including 539,651,400 H Shares, 80,000,000 Domestic Shares and 1,520,000,000 Unlisted Foreign Shares. Details of movements in share capital for the year ended 31 December 2020 are set out in the statement of changes in equity and note 23 to the financial statements.

REPORT OF THE DIRECTORS

RESERVES

Details of movements in reserves of the Company for the year ended 31 December 2020 are set out in the statement of changes in equity and note 23 to the financial statements.

As at 31 December 2020, distributable reserves of the Company, as calculated in accordance with the PRC rules and regulations, amounted to RMB505,315 thousands.

DIVIDEND

The Board did not recommend the payment of final dividend for the year ended 31 December 2020 (2019: nil).

No interim dividend has been declared by the Company in 2020. An interim dividend of RMB0.08 per Share (tax inclusive) was approved by the Shareholders at the 2019 third extraordinary general meeting of the Company held on 21 October 2019 and paid on 29 November 2019.

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

CLOSURE OF REGISTER OF MEMBERS

In order to determine the list of H Shareholders who will be entitled to attend and vote at the annual general meeting, the Company's H shares register of members will be closed from Friday, 21 May 2021 to Wednesday, 26 May 2021 (both days inclusive), during which period no transfer of H Shares will be effected. In order for the H Shareholders to qualify for attending and voting at the annual general meeting, Shareholders whose H Shares are not registered in their names should complete and lodge their respective instruments of transfer with the relevant H Share certificates with Computershare Hong Kong Investor Services Limited, the Company's H Share registrar in Hong Kong, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and in any case no later than 4:30 p.m. on Thursday, 20 May 2021.

RETIREMENT BENEFITS

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

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

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

REPORT OF THE DIRECTORS

USE OF PROCEEDS

The Shares were listed on the Stock Exchange on 3 April 2019. The net proceeds from the global offering (including the exercise of the over-allotment option) amounted to HK\$1,552.3 million (approximately RMB1,368.97 million). There was no change in the intended use of net proceeds as previously disclosed in the supplemental prospectus dated 25 March 2019 of the Company. As at 31 December 2020, the Company had utilised the proceeds as follows:

Use of net proceeds	Net proceeds from the Global Offering (RMB million)	Utilised net proceeds (RMB million)	Unutilised net proceeds (RMB million)
Fund the self-operated retail loans to be disbursed to external customers	889.83	889.83	—
Develop network of external dealers	68.45	32.28	36.17
Fund self-operated retail loans to be disbursed to ZhengTong customers	205.34	205.34	—
Develop technological, operational and risk management capabilities	68.45	26.96	41.49
General working capital	136.90	136.90	—
Total	1,368.97	1,291.31	77.66

The unutilised amount of approximately RMB77.66 million was placed in bank deposits with banks in the PRC and Hong Kong. The Company expects 65% and 35% of the unutilised net proceeds shall be utilised as intended by 31 December 2021 and 31 December 2022 respectively.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2020, the revenue attributable to the five largest customers accounted for no more than 30% of the Company's revenue for the year. Due to the nature of the Company's business, the disclosure relating to major suppliers is not applicable.

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS OF THE COMPANY

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

Executive Directors

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

Non-executive Directors

Mr. Koh Tee Choong
Mr. Li Guozhou

Independent Non-executive Directors

Mr. Wong Man Chung Francis (appointed on 24 February 2020)
Ms. Liang Yanjun
Mr. Lin Zheyang (resigned on 30 June 2020)

Supervisors

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

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

Mr. Lin Fan, Mr. Shao Yongjun, Mr. Koh Tee Choong, Mr. Li Guozhou, Mr. Wong Man Chung Francis and Ms. Liang Yanjun will retire from office at the forthcoming annual general meeting. It is proposed that (i) Mr. Lin Fan and Mr. Shao Yongjun be re-elected as the executive Directors of the second session of the Board; (ii) Mr. Koh Tee Choong and Mr. Li Guozhou be re-elected as the non-executive Directors of the second session of the Board; and (iii) Mr. Wong Man Chung Francis and Ms. Liang Yanjun be re-elected as the independent non-executive Directors of the second session of the Board.

Mr. Li Huihua, Mr. Li Tao and Ms. Wang Qing will retire from office at the forthcoming annual general meeting. It is proposed that Mr. Li Huihua is to be re-elected as Shareholders representative Supervisor of the second session of the Supervisory Committee. Due to his health reason, Mr. Li Tao shall not offer himself for re-election. According to the provisions of the Company Law and the Articles of Association, Mr. Li Tao shall continue to assume office until the newly elected Supervisor commences his/her term of office. Mr. Li Tao confirmed that he had no disagreement with the Supervisory Committee and the Board, nor was there any matter relating to his resignation (which shall be effective upon the appointment of the new Supervisor) that needs to be brought to the attention of the Shareholders. Ms. Wang Qing has been re-elected as employees representative Supervisor of the second session of the Supervisory Committee.

Each of the proposed Directors and Shareholders representative Supervisor shall be appointed for a term of three years commencing from the date of passing the relevant resolution at the forthcoming annual general meeting by way of an ordinary resolution. The employees representative Supervisor of the second session of the Supervisory Committee shall be appointed for a term of three years commencing from the date of the forthcoming annual general meeting. The first session of the Board shall expire upon the formation of the second session of the Board.

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

As at 31 December 2020, none of the Directors, Supervisors, chief executive of the Company or any of their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be entered in the register required to be kept under section 352 of the SFO, or were required to be notified to the Company and the Stock Exchange under the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2020, the interests or short positions of the other persons (other than Directors, Supervisors, and the chief executive of the Company) in the Shares and underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register required to be kept pursuant to section 336 of the SFO were as follows:

Name of Substantial Shareholder	Class of Shares	Long/Short positions	Capacity	Number of Shares held directly or indirectly (Shares)	Percentage of issued Shares of the relevant class (%)	Percentage of total issued ordinary Shares (%)
China ZhengTong Auto Services Holdings Limited (中國正通汽車服務控股有限公司)	Unlisted Foreign Shares	Long	Beneficial owner ¹	1,520,000,000	100.00	71.04
Joy Capital Holdings Limited	Unlisted Foreign Shares	Long	Interest in a controlled corporation ²	1,520,000,000	100.00	71.04
Wang Muqing (王木清)	Unlisted Foreign Shares	Long	Founder of trusts ³	1,520,000,000	100.00	71.04
Wang Boheng (王博恆)	Unlisted Foreign Shares	Long	Founder of trusts ³	1,520,000,000	100.00	71.04
Dongfeng Motor Corporation (東風汽車集團有限公司)	Domestic Shares	Long	Beneficial owner	80,000,000	100.00	3.74
Xingtai Capital Management Limited	H Shares	Long	Investment manager ⁴	81,653,000	15.13	3.82
Global Precise Assets Limited	H Shares	Long	Beneficial owner	80,000,400	14.82	3.74
TX Capital (HK) Limited	H Shares	Long	Investment manager ⁵	44,948,000	8.33	2.10
Xingtai China Master Fund	H Shares	Long	Beneficial owner	43,450,000	8.05	2.03
Seahawk China Dynamic Fund	H Shares	Long	Beneficial owner	33,335,000	6.18	1.56
Canepa Funds ICAV Xingtai China Fund	H Shares	Long	Beneficial owner	27,000,000	5.00	1.26

Notes:

- These 1,520,000,000 Shares were registered in the name of and beneficially owned by China ZhengTong Auto Services Holdings Limited (中國正通汽車服務控股有限公司).
- China ZhengTong Auto Services Holdings Limited (中國正通汽車服務控股有限公司) is owned by Joy Capital Holdings Limited as to 51.29% and Joy Capital Holdings Limited is deemed under the SFO to be interested in the Shares held by China ZhengTong Auto Services Holdings Limited.
- Mr. Wang Muqing and Mr. Wang Boheng were the founders of the family trusts that own all the issued shares of Bright Brilliant Holdings Limited which wholly owns Joy Capital Holdings Limited, and were deemed under the SFO to be interested in the Shares held by Joy Capital Holdings Limited. Credit Suisse Trust Limited in Guernsey is the trustee of the family discretionary trust. The Wang family members are discretionary beneficiaries of these trusts.
- According to the disclosure of interests form filed by Xingtai Capital Management Limited dated 14 December 2020, Xingtai Capital Management Limited held 81,653,000 H Shares in the capacity as an investment manager to Xingtai China Master Fund, Canepa Funds ICAV — XINGTAI CHINA FUND and Milltrust International Investments SPC — Milltrust Xingtai China Fund SP.

REPORT OF THE DIRECTORS

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

Save as disclosed above, as at 31 December 2020, the Directors are not aware of any other person (other than the Directors, Supervisors and chief executive of the Company) having any interests or short positions in the Shares or underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register required to be kept pursuant to section 336 of the SFO.

CONFIRMATION OF INDEPENDENCE FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATIONS

As at 31 December 2020, none of the Directors nor Supervisors had entered into a service contract with the Company which was not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Details of remunerations for the Directors and Supervisors for the year ended 31 December 2020 are set out in note 8 to the financial statements.

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

No transaction, arrangement or contract of significance to the business of the Company to which the Company was a party and in which a Director or Supervisor or entity connected with him/her had a material interest, whether directly or indirectly, subsisted at the end of the year or at anytime during the year.

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

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

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES

At no time during the year ended 31 December 2020 was the Company a party to any arrangement to enable the Directors or Supervisors to acquire benefits by means of acquisition of shares in, or debentures, of the Company or any other body corporate.

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

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

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2020, the continuing connected transactions between the Company and ZhengTong and its associates (as defined under the Listing Rules) were as follows:

(i) Administrative Cost Reimbursement Framework Agreement

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

The annual cap for the administrative cost reimbursement for the year 2020 is RMB20 million. For the year ended 31 December 2020, the actual transaction amount was RMB1.1 million.

REPORT OF THE DIRECTORS

(ii) Revolving Loan Facility Framework Agreement

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

The annual cap for the maximum outstanding loan balance to be provided by the Company to ZhengTong for the year 2020 is RMB1,500 million. For the year ended 31 December 2020, the actual maximum outstanding loan balance was RMB1,484.27 million. The annual cap for the interest income for the year 2020 is RMB128 million. For the year ended 31 December 2020, the actual interest income was RMB120.63 million.

REPORT OF THE DIRECTORS

(iii) Joint Promotion Framework Agreement

Date: 1 March 2019

Parties: (1) The Company
(2) ZhengTong

Objective: The Company entered into joint promotion arrangements with ZhengTong dealers to promote the sale of specific car models. Under such arrangements, the ZhengTong dealers offered interest subsidies to their customers who get their financing from the Company for purchasing the specific car models under promotion.

The Company would directly deduct the interest subsidies from the loan amount and recorded as deferred income, which is to be recorded and amortized in interest income during the loan tenor.

Term: From the Listing Date to 31 December 2021, subject to early termination by mutual agreement of the parties.

Pricing: The interest rate the Company charged under the joint promotion arrangements was the same as the standard interest rate. The interest revenue recognized has been pre-determined in accordance with the interest subsidies provided by ZhengTong dealers to end customers when the Company disbursed the retail loans under the joint promotion arrangement.

The annual cap for the interest income recognized from the interest subsidies provided by ZhengTong dealers for the year 2020 is RMB23 million. For the year ended 31 December 2020, the actual interest income was RMB20.8 million.

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

- (i) in the ordinary and usual course of its business;
- (ii) on normal commercial terms or better; and
- (iii) according to the agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

REPORT OF THE DIRECTORS

Pursuant to Rule 14A.56 of the Listing Rules, the Company has engaged KPMG, its independent external auditor, to perform certain procedures in respect of the continuing connected transactions undertaken by the Company for the year ended 31 December 2020. KPMG has confirmed that nothing has come to their attention that causes them to believe the continuing connected transactions:

- (i) have not been approved by the Board of Directors;
- (ii) were not, in all material respects, in accordance with the pricing policies of the Company as stated in this annual report;
- (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and
- (iv) have exceeded the respective proposed annual caps.

The Directors consider that save for the transactions relating to (i) subsidies received from an automaker which were settled through related parties pursuant to the pass-through arrangement; and (ii) receivables from related party dealers due to loans cancellation (as disclosed in note 26 to the financial statements) which do not constitute connected transactions, the material related party transactions disclosed in note 26 to the financial statements constituted connected transactions under Chapter 14A of the Listing Rules. The Company has complied with the applicable requirements under Chapter 14A of the Listing Rules in respect of those transactions.

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

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

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

During the year ended 31 December 2020, the Company did not purchase, sell or redeem any of the Company's listed securities.

COMPLIANCE WITH NON-COMPETITION AGREEMENT

The independent non-executive Directors, having considered the written confirmations from the controlling Shareholders, are of the view that during the year ended 31 December 2020, the controlling Shareholders had complied with non-competition undertaking to the Company.

PERMITTED INDEMNITY PROVISION

During the year ended 31 December 2020 and as at date of approval of this report, the Company has arranged appropriate directors' and officers' liability insurance cover in respect of losses or liabilities which may be sustained or incurred by the Directors in the execution of the duties of his/her office or otherwise in relation thereto.

REPORT OF THE DIRECTORS

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

Potential disposal of the Company's shares by ZhengTong

The Company announced on 3 February 2021 and 3 March 2021 that, as informed by ZhengTong, ZhengTong was in discussion with the Potential Purchaser regarding, amongst others, the Potential Disposal. As far as the Company is aware, no decision has been made on whether to proceed with the Potential Disposal, no formal agreements have been entered into in respect of the Potential Disposal, and the discussion and negotiation were still in progress, therefore the Potential Disposal may or may not proceed.

Potential disposal of the ZhengTong's shares by its controlling shareholder

The Company announced on 20 October 2020 that, as informed by ZhengTong, on 19 October 2020, the controlling shareholder of ZhengTong, i.e. Joy Capital Holdings Limited ("Joy Capital") and Mr. Wang Muqing entered into a sale and purchase agreement (the "SPA") with Xiamen Xindeco Ltd. ("Xindeco", as buyer). Pursuant to the SPA, Joy Capital conditionally agreed to sell and Xindeco conditionally agreed to purchase shares carrying 29.9% of the voting rights of the total issued shares of ZhengTong at a consideration of HK\$1,403,371,394 (the "Transaction"). Upon completion of the Transaction, Xindeco shall become the single largest shareholder of ZhengTong and will be able to provide financial support to ZhengTong and its subsidiaries. The completion of the Transaction is subject to fulfillment or waiver of several conditions precedent set out in the SPA, including obtaining necessary authorizations, agreements or approvals from relevant regulators, etc. As far as the Company is aware, the Transaction is still in process.

CORPORATE GOVERNANCE

For the year ended 31 December 2020, the Company has complied with all code provisions of the Corporate Governance Code. Details are set out in the section headed "Corporate Governance Report".

AUDITOR

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

SUFFICIENCY OF PUBLIC FLOAT

On the basis of publicly available information and to the best knowledge of the Company and its directors, more than 25% of the Company's total issued share capital is held by the public (as defined under the Listing Rules) for the year ended 31 December 2020.

By order of the Board

LIN Fan
Chairman

31 March 2021

REPORT OF THE SUPERVISORY COMMITTEE

In 2020, the Supervisory Committee of Shanghai Dongzheng Automotive Finance Co., Ltd. conscientiously performed its supervisory and other duties, and honored its commitments to supervise and manage in strict compliance with the Articles of Association. This ensured a sound and stable development of the Company, as well as safeguarding the legal interests of the Shareholders as a whole. By inspecting relevant documents, information of the Company, financial reports, as well as attending Board meetings and the Shareholders' general meetings, the Supervisory Committee effectively supervised the operation status, financial positions, connected transactions and internal control of the Company. During the reporting period, the Supervisory Committee formed independent opinions of such matters of the Company as follows:

I. PERFORMANCE OF THE SUPERVISORY COMMITTEE

In 2020, the Supervisory Committee held two meetings. The number of Supervisors in attendance formed sufficient quorums of the meetings.

The first meeting of the Supervisory Committee was held in March 2020. It reviewed and approved (among others): the annual work report of the Company for 2019 and the 2020 business plan; the 2019 external audit report; the 2019 profit distribution proposal; the 2019 internal audit report and the 2020 internal audit plan; the 2020 annual financial budget report; and the comprehensive risk management report for 2019.

The second meeting of the Supervisory Committee was held in August 2020. It reviewed and approved (among others): the draft interim results announcement; the draft interim report; the internal audit report for the first half of 2020; the comprehensive risk management report for the first half of 2020; and the review for the performance of duty and the performance appraisals of each of the Directors, Supervisors and senior management and the remuneration of the Directors, Supervisors and senior management of the Company for 2020.

The Supervisory Committee focuses on the supervision and assessment of the performance of the Directors, Supervisors and senior management. In 2020, in accordance with laws and regulations, such as the Guidelines for the Performance Assessment and Supervision of Banking Financial Institutions (銀行業金融機構績效考評監管指引), the Guidelines for Corporate Governance of Commercial Banks (商業銀行公司治理指引), and the Guidelines for the Supervisory Committee of Commercial Banks (商業銀行監事會指引), and with reference to the actual situation of the Company, the Supervisory Committee conducted an assessment on the Directors, Supervisors and senior management in terms of various aspects, such as professional knowledge, work experience, moral accomplishment, ethics, business management and strategic contribution, performance of duties and numbers of attendance at the meetings in 2020.

REPORT OF THE SUPERVISORY COMMITTEE

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

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

Following supervision on the Directors and senior management of the Company, the Supervisory Committee is of the view that the Board performed their work in strict compliance with the Company Law, the Securities Law, the Listing Rules of the Hong Kong Stock Exchange, the Articles of Association and other relevant laws, rules and regulations in 2020. The Supervisory Committee also considers that all Directors were meticulous and responsible for their work, attached much importance to and implemented earnestly the requirements under the administrative decisions from CBIRC Shanghai Office and further improved the internal management and internal control system. The decision of the Company on significant matters was reasonable and the decision-making procedures were legal and valid. Most of the Directors and the senior management of the Company complied with the requirements of laws, administrative regulations and the Article of Association in performing their duties, and diligently acted in good faith to safeguard the interests of the Company.

The Supervisory Committee was satisfied with the operating results and assets position of the Company in 2020. In 2021, the Supervisory Committee will strictly follow the relevant requirements under the Company Law, the Securities Law and the Articles of Association, and supervise the performance and conduct of the Board and senior management in accordance with laws. In compliance with the requirements of the modern enterprise system, the Supervisory Committee will also supervise improvement by the Company of its corporate governance structure to enhance corporate governance. In addition, the Supervisory Committee will continue to enhance and fulfil its supervisory role, conscientiously perform their duties, and attend meetings of the Board according to the law. In doing so, it will keep abreast with the decision-making of material matters of the Company as well as the legitimacy of their procedures so as to better protect the interests of the Company and the Shareholders.

By order of the Supervisory Committee

Li Huihua
Chairman

31 March 2021

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

The Board is of the view that during the year ended 31 December 2020, the Company has complied with the applicable code provisions as set out in the Corporate Governance Code.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted its own code of conduct regarding securities transaction by the Directors and the Supervisors on terms no less exacting than the required standard in the Model Code. The Company has made specific enquiries to all the Directors and Supervisors and they have confirmed that each of them has complied with the above-mentioned code for the year ended 31 December 2020.

BOARD OF DIRECTORS

Board Composition

As at the date of this report, the Board consists of six Directors, including two executive Directors, two non-executive Directors and two independent non-executive Directors.

The Directors of the Company for the year ended 31 December 2020 and up to the date of this report were:

Executive Directors

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

Non-executive Directors

Mr. Koh Tee Choong
Mr. Li Guozhou

Independent Non-executive Directors

Mr. Wong Man Chung Francis (appointed on 24 February 2020)
Ms. Liang Yanjun
Mr. Lin Zheyang (resigned on 30 June 2020)

CORPORATE GOVERNANCE REPORT

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

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

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

Following the resignation of Mr. Lin Zheyang from the position of independent non-executive Director since 30 June 2020, the Company failed to meet the following requirements: (i) the Board must include at least three independent non-executive directors under Rule 3.10(1) of the Listing Rules; and (ii) the composition of the Audit Committee under Rule 3.21 of the Listing Rules. The Company has applied and the Stock Exchange has granted a waiver from strict compliance with the abovementioned Listing Rules up to 28 February 2021. The Company has been actively identifying suitable candidate(s) with a view to filling the vacancies on the Board and the Audit Committee as soon as practicable.

Apart from the above, during the year ended 31 December 2020, the Board at all times complied with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise. One-third of the members of the Board was independent non-executive Directors.

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

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

Responsibilities

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

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

Delegation by the Board

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

CORPORATE GOVERNANCE REPORT

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

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

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

Appointment and Re-election of Directors

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

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

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

Board Diversity

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

CORPORATE GOVERNANCE REPORT

Induction and Continuing Development of Directors

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

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

CHAIRMAN AND PRESIDENT

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

ATTENDANCE RECORDS

The attendance of the Directors at the general meetings, Board meetings and Committee meetings for the year ended 31 December 2020 was as follows:

Members of the Board of Directors	Number of Meeting Attended/Held during Tenure of Office						Risk
	General Meetings	Board	Audit Committee	Remuneration Committee	Nomination Committee	Management Committee	
Executive Directors							
Mr. Lin Fan (<i>Chairman</i>)	2/2	9/9	N/A	N/A	N/A	4/4	
Mr. Shao Yongjun	2/2	9/9	N/A	N/A	N/A	4/4	
Non-Executive Directors							
Mr. Koh Tee Choong	2/2	9/9	N/A	1/1	1/1	N/A	
Mr. Li Guozhou	2/2	9/9	N/A	N/A	N/A	N/A	
Independent Non-Executive Directors							
Mr. Wong Man Chung Francis	2/2	9/9	2/2	1/1	1/1	4/4	
Ms. Liang Yanjun	2/2	9/9	2/2	1/1	1/1	N/A	
Mr. Lin Zheyong	2/2	5/5	1/1	N/A	N/A	N/A	

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

CORPORATE GOVERNANCE REPORT

BOARD AND COMMITTEE MEETINGS

Board Practices and Conduct of Meetings

During the year ended 31 December 2020, the Company held a total of 9 Board meetings. At the Board meetings, the Board reviewed and approved annual results for the year ended 31 December 2019, interim results for the six months ended 30 June 2020 and other significant matters of the Company.

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

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

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

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

During the year ended 31 December 2020, the chairman of the Company has, in accordance with the relevant requirement under the Corporate Governance Code, held a meeting with all independent non-executive Directors without the presence of other Directors.

BOARD COMMITTEES

The Board has established four committees, namely, the Remuneration Committee, the Nomination Committee, the Audit Committee and the Risk Management Committee, for overseeing particular aspects of the Company's affairs. The Remuneration Committee, the Nomination Committee, the Audit Committee and the Risk Management Committee are established with defined written terms of reference. These terms of reference are posted on the websites of the Company and the Stock Exchange and are available for inspection by the Shareholders upon request. These committees are provided with sufficient resources to discharge their duties and are required to report to the Board on their decisions or recommendations. During the year ended 31 December 2020, 1 meeting of the Remuneration Committee, 1 meeting of the Nomination Committee, 2 meetings of the Audit Committee and 4 meetings of the Risk Management Committee were held respectively.

Remuneration Committee

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

CORPORATE GOVERNANCE REPORT

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

During the year ended 31 December 2020, the Remuneration Committee held 1 meeting. The Remuneration Committee has performed the following works during the year: (i) considering and reviewing the remuneration policies and strategies of the Company; (ii) assessing the performance of executive Directors and senior management; and (iii) making recommendations to the Board on remuneration of Directors and senior management.

Details of remuneration of the Directors are set out in note 8 to the financial statements. Details of remuneration of senior management of the Company for the year ended 31 December 2020 by band are as follows:

	Number of senior management
RMB1,000,000–RMB2,000,000	4

Nomination Committee

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

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

During the year ended 31 December 2020, the Nomination Committee held 1 meeting. The Nomination Committee has performed the following works during the year: (1) reviewing the structure, size, board diversity and composition of the Board to ensure the professional knowledge, skills and experience of the Board to meet the business needs of the Company; and (2) reviewing the confirmation of independence and assessing independence of independent non-executive Directors.

Audit Committee

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

CORPORATE GOVERNANCE REPORT

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

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

During the year ended 31 December 2020, the Audit Committee held 2 meetings. The Audit Committee has performed the following works during the year: (i) reviewing the annual results for the year ended 31 December 2019; (ii) reviewing the interim results for the six months ended 30 June 2020; (iii) reviewing the financial reporting procedures and compliance procedures, as well as the report of internal audit on internal controls and risk management system; and (iv) discussing with external auditors the nature and scope of the audit and reporting obligations.

Risk Management Committee

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

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

During the year ended 31 December 2020, the Risk Management Committee held 4 meetings. The Risk Management Committee has performed the following works during the year: (i) evaluation of the Company's risk policies; and (ii) proposing improvements to risk management and internal control policies and procedures to the Board.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2020.

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

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

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

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

- (a) to develop and review the policies and practices on corporate governance of the Company;
- (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Company;
- (c) to review and monitor the policies and practices on compliance with any requirements, directions and regulations that may be prescribed by the Board or contained in any constitutional documents of the Company or imposed by the Listing Rules, the applicable laws and other applicable organisational governance standards;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Company; and
- (e) to review the Company's compliance with the corporate governance code from time to time adopted by the Company and the disclosure in the corporate governance report to be contained in the Company's annual reports.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company in respect of its reporting responsibilities for the financial statements is set out in the section headed "Independent Auditor's Report" on page 40.

The remuneration received by the Company's auditor, KPMG, during the year ended 31 December 2020 is set out below:

Category of Services	Fee Paid/Payable (RMB'000)
Audit Services	3,800
Non-audit Services	60
Total	3,860

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

CORPORATE GOVERNANCE REPORT

The Board, through the Risk Management Committee, has conducted a review on the risk management and internal control systems of the Company during the year ended 31 December 2020. Such review covered the finance, operation, supervision and risk management of the Company. The Board confirmed that the risk management and internal control systems of the Company are sound, effective and sufficient.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

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

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

COMPANY SECRETARY

As at the date of this report, Mr. Chan Pak Hung is the company secretary of the Company. He is an employee of the Company and has appropriate understanding of the Company's business. As company secretary, he is responsible for supporting the daily operation of the Board and ensuring compliance with the policies and procedures of the Board. All of the Directors can access opinions and use the service of the company secretary to ensure that the procedures of the Board and the applicable laws, rules and regulations are being complied with. The company secretary met the requirement on professional training under the Rule 3.29 of the Listing Rules in 2020.

RIGHTS OF SHAREHOLDERS

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

Procedures for Shareholders to convene an extraordinary general meeting

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

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

CORPORATE GOVERNANCE REPORT

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

Procedures for Shareholders to submit proposal in a general meeting

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

Procedures for Shareholders to make enquiries to the Company

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

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

CONSTITUTIONAL DOCUMENTS

At the 2019 fourth extraordinary general meeting of the Company, the Shareholders approved the proposed amendments to the Articles of Association in relation to the requirements on the notice period of general meetings and convening procedures. The proposed amendments have become effective from 10 March 2020 upon approval by the CBIRC. The latest version of the Articles of Association is available on the websites of the Company and the Stock Exchange.

INDEPENDENT AUDITOR'S REPORT



**Independent auditor's report to the shareholders
of Shanghai Dongzheng Automotive Finance Co., Ltd.**

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

OPINION

We have audited the financial statements of Shanghai Dongzheng Automotive Finance Co., Ltd. ("the Company") set out on pages 46 to 112, which comprise the statement of financial position as at 31 December 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

Loss allowances of loans and advances to customers	
<i>Refer to Note 13 to the financial statements and the accounting policies in Note 1(h).</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>As at 31 December 2020, the Company's loans and advances to customers amounted to RMB6,202,942 thousands, with allowances for impairment losses amounting to RMB451,667 thousands.</p> <p>The Company uses the expected credit loss ("ECL") model to calculate the loss allowance in accordance with Hong Kong Financial Reporting Standard 9 – Financial instruments. The Company classifies loans and advances to customers into three different stages and recognises an impairment allowance based on the expected credit loss for the next 12 months or the entire lifetime of the loan and advance to customer, depending on whether credit risk on that loan and advance to customer has increased significantly since initial recognition.</p>	<p>Our audit procedures to assess loss allowances of loans and advances to customers included the following:</p> <ul style="list-style-type: none"> understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans, the credit grading process and the measurement of loss allowances of loans and advances to customers; with the assistance of our internal specialists, assessing the reliability of the expected credit loss model used by management in determining loss allowances, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, including the identification of loss stages, probability of default, loss given default, exposure at default, discount rate and adjustments for forward-looking information; assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Loss allowances of loans and advances to customers (continued)	
<i>Refer to Note 13 to the financial statements and the accounting policies in Note 1(h).</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>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 and impact of the COVID-19. Management judgment is involved in the selection of those parameters and the application of the assumptions.</p> <p>In particular, the determination of the loss allowances is heavily dependent on the external macro environment and the Company's internal credit risk management strategy. The expected credit losses for loans and advances to customers are derived from estimates whereby management takes into consideration historical overdue data and the historical loss experience for loans.</p> <p>We identified the loss allowances of loans and advances to customers as a key audit matter because of the inherent uncertainty and management judgment involved and because of its significance to the financial results and capital of the Company.</p>	<ul style="list-style-type: none"> ➤ For key parameters derived from internal data relating to original loan agreements, by comparing the total balance of the loan list used by management to assess the allowances for impairment with the general ledger, selecting samples and comparing individual loan information with the underlying agreements and other related documentation to assess the accuracy of compilation of the loan list. ➤ for key parameters involving judgement, by seeking evidence from external sources and comparing to the Company's internal records including historical loss experience. As part of these procedures, we challenged management's revisions to estimates and input parameters compared with prior period and on transition to the new accounting standard and considered the consistency of judgement. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development. ➤ for key parameters which were derived from system-generated internal data, by assessing the accuracy of input data by comparing the input data with original documents on a sample basis. In addition, we involved our IT specialists to assess the logics and compilation of the overdue information for selected samples.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Loss allowances of loans and advances to customers (continued)	
<i>Refer to Note 13 to the financial statements and the accounting policies in Note 1(h).</i>	
The Key Audit Matter	How the matter was addressed in our audit
	<ul style="list-style-type: none"> evaluating the validity of management's assessment on whether the credit risk of the loan has, or has not, increased significantly since initial recognition and whether the loan is credit-impaired by selecting risk-based samples. We checked loan overdue information. For dealer's loans, we made enquiries of the credit managers about the borrowers' business operations, checking borrowers' financial information and researching market information about borrowers' businesses. recalculating the amount of credit loss allowance for 12 month and life time credit losses using the expected credit loss model based on the above parameters and assumptions for a sample of loans where the credit risk of the loan has not, or has, increased significantly since initial recognition, respectively. evaluating whether the disclosures on loss allowance of loans and advances to customers meet the disclosure requirements in Hong Kong Financial Reporting Standard 7 – Financial instruments: Disclosures.

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

KPMG

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

31 March 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2020

(Express in thousands of Renminbi, unless otherwise stated)

	Note	2020 RMB'000	2019 RMB'000
Interest income		743,352	999,733
Interest expenses		(248,209)	(463,933)
Net interest income	3	495,143	535,800
Fee and commission income		73,312	174,956
Fee and commission expenses		(805)	(1,208)
Net fee and commission income	4	72,507	173,748
Other net income	5	9,521	90,270
Operating income		577,171	799,818
Operating expenses		(119,901)	(163,853)
Impairment losses		(381,400)	(114,553)
Finance costs		(1,899)	(1,633)
Profit before taxation	6	73,971	519,779
Income tax	7	(18,986)	(130,378)
Profit and total comprehensive income for the year		54,985	389,401
Earnings per share			
Basic and diluted (RMB)	10	0.0257	0.1945

The notes on pages 51 to 112 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

(Express in thousands of Renminbi, unless otherwise stated)

	Note	31 December 2020 RMB'000	31 December 2019 RMB'000
Assets			
Cash and deposits with central bank	11	5,025	9,479
Deposits with banks	12	90,396	126,524
Loans and advances to customers	13	5,751,275	10,004,153
Finance lease receivables	14	18,455	52,001
Property and equipment	15	28,234	40,532
Intangible assets	16	11,337	16,512
Deferred tax assets	21(b)	112,503	54,852
Other assets	17	251,537	23,990
Total assets		6,268,762	10,328,043
Liabilities			
Placements from banks	18	2,033,911	5,891,421
Guarantee deposits	19	30,299	156,845
Lease liabilities	20	23,372	32,388
Current taxation	21(a)	18,379	70,961
Other liabilities	22	98,241	166,853
Total liabilities		2,204,202	6,318,468
NET ASSETS		4,064,560	4,009,575
CAPITAL AND RESERVES			
Share capital	23(c)	2,139,651	2,139,651
Reserves	23(d)	1,924,909	1,869,924
TOTAL EQUITY		4,064,560	4,009,575

Approved and authorised for issue by the board of directors on 31 March 2021.

Lin Fan

*Chairman of the Board of Directors
Executive Director*

Li Yi

*President and the principal person
in charge of accounting affairs*

The notes on pages 51 to 112 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

(Express in thousands of Renminbi, unless otherwise stated)

	Note	Share capital RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	General risk reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2019		1,600,000	404,340	45,252	107,041	325,545	2,482,178
Changes in equity for 2019:							
1. Profit and total comprehensive income for the year		—	—	—	—	389,401	389,401
2. Issue of H shares	23(c)	539,651	769,517	—	—	—	1,309,168
3. Appropriation of profits							
— Dividends declared in respect of the current year	23(b)	—	—	—	—	(171,172)	(171,172)
— Appropriation for surplus reserve	23(d)	—	—	38,940	—	(38,940)	—
— Appropriation for general risk reserve	23(d)	—	—	—	49,006	(49,006)	—
Balance at 31 December 2019		2,139,651	1,173,857	84,192	156,047	455,828	4,009,575
Changes in equity for 2020:							
1. Profit and total comprehensive income for the year		—	—	—	—	54,985	54,985
2. Appropriation of profits							
— Appropriation for surplus reserve	23(d)	—	—	5,498	—	(5,498)	—
Balance at 31 December 2020		2,139,651	1,173,857	89,690	156,047	505,315	4,064,560

The notes on pages 51 to 112 form part of these financial statements.

CASH FLOW STATEMENT

for the year ended 31 December 2020
(Express in thousands of Renminbi, unless otherwise stated)

	Note	2020 RMB'000	2019 RMB'000
Operating activities			
Profit before taxation		73,971	519,779
Adjustments for:			
Impairment losses	6(b)	381,400	114,553
Depreciation and amortisation	6(c)	17,969	17,660
Finance costs	6(c)	1,899	1,633
Listing expenses	6(c)	—	9,207
Gains on disposal of property and equipment		(9)	—
Changes in operating assets			
Net decrease in deposits with central bank		4,628	5,752
Net decrease/(increase) in deposits with banks		10,000	(10,000)
Net decrease/(increase) in loans and advances to customers		3,893,955	(1,648,080)
Net decrease in finance lease receivables		32,981	54,609
Net increase in other assets		(249,418)	(10,212)
Changes in operating liabilities			
Net decrease in placements from banks		(3,825,712)	(236,859)
Net (decrease)/increase in guarantee deposits		(126,546)	77,213
Net decrease in deposits from shareholders		—	(600,000)
Net decrease in other liabilities		(93,997)	(27,052)
Cash generated from/(used in) operations		121,121	(1,731,797)
Income tax paid	21(a)	(129,219)	(99,638)
Net cash used in operating activities		(8,098)	(1,831,435)
Investing activities			
Payments for purchase of property and equipment and intangible assets		(1,836)	(6,312)
Proceeds from disposal of property and equipment		4	—
Net cash used in investing activities		(1,832)	(6,312)

The notes on pages 51 to 112 form part of these financial statements.

CASH FLOW STATEMENT

for the year ended 31 December 2020

(Express in thousands of Renminbi, unless otherwise stated)

	Note	2020 RMB'000	2019 RMB'000
Financing activities			
Capital element of lease rentals paid	24(b)	(8,900)	(7,518)
Interest element of lease rentals paid	24(b)	(1,899)	(1,633)
Proceeds from issuance of H-shares upon the public offering		—	1,413,670
Payments for listing expenses	24(b)	(5,185)	(80,078)
Dividends paid to equity shareholders of the Company	23(b)	—	(171,172)
Net cash (used in)/generated from financing activities		(15,984)	1,153,269
Net decrease in cash and cash equivalents		(25,914)	(684,478)
Cash and cash equivalents at 1 January	24	116,519	800,997
Cash and cash equivalents at 31 December	24	90,605	116,519

The notes on pages 51 to 112 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

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

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

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

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

(c) Changes in accounting policies

The Company has applied the following amendments to Hong Kong Financial Reporting Standards (HKFRSs) issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendments to HKFRS 16, *Covid-19-Related Rent Concessions*

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

Impacts of the adoption of the above amended HKFRSs are discussed below:

Amendments to HKFRS 3, Definition of a Business

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identified asset or group of similar identified assets.

Amendment to HKFRS 16, Covid-19-Related Rent Concessions

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic (“COVID-19-related rent concessions”) are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

None of the above amendments has had a material effect on how the Company’s results and financial position for current or prior periods have been prepared or presented in this annual report.

(d) Translation of foreign currencies

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property and equipment

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

- right-of-use assets arising from leases over freehold or leasehold properties where the Company is not the registered owner of the property interest; and
- items of equipment, including right-of-use assets arising from leases of underlying equipment (see Note 1(g)).

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

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

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

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

(f) Intangible assets (other than goodwill)

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

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

	Estimated useful lives
Computer software	5 years

Both the period and method of amortisation are reviewed annually.

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Leased assets

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

(i) As a lessee

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Leased assets (continued)

(i) *As a lessee (continued)*

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract (“lease modification”) that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rate concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46A of HKFRS 16 Leases. In such cases, the Company took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognized the change in consideration as if it were not a lease modification.

(ii) *As a lessor*

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

(h) Financial instruments

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

A financial asset or financial liability is recognised in the statements of financial position when the Company becomes a party to the contractual provisions of a financial instrument. Financial assets and financial liabilities are measured initially at fair value, plus, for instruments not classified as at fair value through profit or loss, any directly attributable transaction costs. For an explanation of how the Company determines fair value of financial instruments, see Note 25(f). The financial instruments are subsequently accounted for as follows, depending on their classification.

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

- amortised cost, if the financial instrument is held for the collection of contractual cash flows which represent solely payments of principal and interest (“SPPI”). Interest income from the investment is calculated using the effective interest method (see Note 1(p)(i)).
- fair value through other comprehensive income (“FVOCI”) — recycling, if the contractual cash flows of the financial instrument comprise solely payments of principal and interest and the financial instrument is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the financial instrument is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

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

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

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

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies, in other comprehensive income (“OCI”); and
- the Company may irrevocably designate a debt instrument that meets the amortised cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Financial assets carried at amortised cost

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

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

Financial assets carried at amortised cost (continued)

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

Financial assets carried at amortised cost are subject to impairment.

Other financial liabilities

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

(ii) *Impairment of financial assets*

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

Measurement of ECLs

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

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

- fixed-rate financial assets, interest receivables, other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;
- finance lease receivables: discount rate used in the measurement of the finance lease receivable.

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

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

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date (referred to as Stage 1); and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies (referred to as Stage 2 and Stage 3).

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

Credit-impaired financial assets

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

Definition of default

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

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

- the borrower is past due more than 60 days on any material credit obligation to the Company;
or
- the borrower is unlikely to pay its credit obligations to the Company in full.

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

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

Significant increases in credit risk

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

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

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument’s external or internal credit rating (if available);

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

Definition of default (continued)

Significant increases in credit risk (continued)

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

(ii) Impairment of financial assets (continued)

Definition of default (continued)

Presentation of allowance for ECL in the statements of financial position

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

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

Write-off policy

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

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

(iii) Fair value measurement

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (continued)

(iv) Derecognition of financial assets and financial liabilities

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

- the contractual rights to the cash flows from the financial asset expire; or
- the Company transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

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

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

(v) Offsetting

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

(i) Impairment of other assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of other assets (continued)

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

(j) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Company recognises the related revenue (see Note 1(p)). A contract liability would also be recognised if the Company has an unconditional right to receive non-refundable consideration before the Company recognises the related revenue.

(k) Interest-bearing borrowings

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Cash and cash equivalents

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

(m) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution retirement plan

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

(iii) Termination benefits

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

(n) Income tax

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Income tax (continued)

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

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

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

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

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

- in the case of current tax assets and liabilities, the Company intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Provisions and contingent liabilities

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

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

(p) Revenue recognition

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Revenue recognition (continued)

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

(i) Interest income

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

(ii) Fee and commission income

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

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

(q) Government grants

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

(r) Borrowing costs

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

(s) Related parties

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

- (i) has control or joint control over the Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of the key management personnel of the Company or the Company's parent.

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Related parties (continued)

- (b) An entity is related to the Company if any of the following conditions applies:
- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a company of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

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

(t) Segment reporting

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

2 ACCOUNTING JUDGMENT AND ESTIMATES

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

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

Recognition of income taxes and deferred tax assets

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

(b) Sources of estimation uncertainty

Notes 13 and 14 contain information about the assumptions and their risk factors relating to impairment of financial assets. Notes 1(e) and 1(f) contain information about the assumptions and their risk factors relating to depreciation and amortisation. Note 25(f) contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other significant sources of estimation uncertainty are as follows:

Determining the lease term

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

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

3 NET INTEREST INCOME

	2020 RMB'000	2019 RMB'000
Interest income arising from		
Loans and advances to customers	737,326	978,697
Deposits with central bank and other banks	2,796	13,620
Finance lease receivables	3,230	7,416
Sub-total	743,352	999,733
Interest expenses arising from		
Placements from banks	(248,209)	(463,800)
Deposits from shareholders	—	(133)
Sub-total	(248,209)	(463,933)
Net interest income	495,143	535,800

4 NET FEE AND COMMISSION INCOME

	2020 RMB'000	2019 RMB'000
Fee and commission income arising from		
Joint loan services	48,505	69,954
Consulting services	12,901	91,615
Others	11,906	13,387
Sub-total	73,312	174,956
Fee and commission expenses arising from		
Commission fees	—	(221)
Others	(805)	(987)
Sub-total	(805)	(1,208)
Net fee and commission income	72,507	173,748

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

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

5 OTHER NET INCOME

	Note	2020 RMB'000	2019 RMB'000
Government grants	(a)	12,164	50,817
Net exchange (losses)/gains		(995)	39,703
Others		(1,648)	(250)
Total		9,521	90,270

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

6 PROFIT BEFORE TAXATION

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

(a) Staff costs

	2020 RMB'000	2019 RMB'000
Salaries, bonuses and allowances	62,683	81,869
Other social welfare	6,418	8,459
Contributions to pension schemes	749	8,115
Total	69,850	98,443

(b) Impairment losses

	Note	2020 RMB'000	2019 RMB'000
Loans and advances to customers	13(e)	369,426	118,183
Finance lease receivables	14(b)	565	(3,630)
Other assets	17(a)	11,409	—
Total		381,400	114,553

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

6 PROFIT BEFORE TAXATION (CONTINUED)

(c) Other items

	2020 RMB'000	2019 RMB'000
Depreciation and amortisation		
— right-of-use assets	9,290	8,609
— intangible assets	5,536	6,488
— property and equipment	3,143	2,563
Tax and surcharges	7,955	8,645
Legal consultancy	4,662	3,277
Auditor's remuneration	3,800	2,800
Maintenance fees	2,116	4,577
Travel expenses	1,851	4,251
Office expenses	942	4,681
Expense relating to short-term leases	320	345
Listing expenses	—	9,207
Others	10,436	9,967
Sub-total	50,051	65,410
Finance costs	1,899	1,633
Total	51,950	67,043

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

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

	Note	2020 RMB'000	2019 RMB'000
Current tax			
Provision for the year		76,780	111,121
Over-provision in respect of prior years		(143)	—
Sub-total	21(a)	76,637	111,121
Deferred tax			
Origination of temporary differences	21(b)	(57,651)	19,257
Total		18,986	130,378

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

7 INCOME TAX IN THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)**(b) Reconciliation between tax expense and accounting profit at applicable tax rates:**

	Note	2020 RMB'000	2019 RMB'000
Profit before taxation:		73,971	519,779
Notional tax on profit before taxation	(i)	18,493	129,945
Tax effect of non-deductible expenses		636	433
Over-provision in respect of prior years		(143)	—
Actual tax expense		18,986	130,378

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

8 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

	Note	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to pension schemes RMB'000	2020 Total RMB'000
Executive directors						
Mr. Lin Fan		—	1,435	—	2	1,437
Mr. Shao Yongjun		—	754	—	2	756
Non-executive directors						
Mr. Koh Tee Choong		—	—	—	—	—
Mr. Li Guozhou	(1)	—	—	—	—	—
Independent non-executive directors						
Mr. Lin Zheyang	(2)	139	—	—	—	139
Ms. Liang Yanjun		278	—	—	—	278
Mr. Wong Man Chung Francis	(3)	236	—	—	—	236
Supervisors						
Mr. Li Huihua		—	—	—	—	—
Mr. Li Tao		—	—	—	—	—
Ms. Wang Qing		—	296	—	2	298

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

8 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

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

- (1) Mr. Li Guozhou was appointed as non-executive director on 23 September 2019.
- (2) Mr. Lin Zheyang resigned as independent non-executive directors on 30 June 2020.
- (3) Mr. Wong Man Chung Francis was appointed as independent non-executive directors on 24 February 2020.
- (4) Mr. Yin Yaoliang resigned as non-executive director on 23 September 2019.
- (5) Ms. Bao Xiaoli resigned as independent non-executive directors on 8 March 2019.
- (6) Mr. Lau Wai Leung Anders was appointed as independent non-executive directors on 8 March 2019 and resigned on 31 December 2019.

None of the directors or supervisors (except Lin Fan, Shao Yongjun, Lin Zheyang, Liang Yanjun, Wong Man Chung Francis and Wang Qing) (2019: Lin Fan, Shao Yongjun, Lin Zheyang, Liang Yanjun, Bao Xiaoli, Lau Wai Leung Anders and Wang Qing) received any fees or emoluments in respect of their services to the Company during the reporting periods as they were paid by the Company's shareholders.

No director received other remuneration or benefits in kind from the Company in respect of the reporting periods. Under the arrangement currently in force as of 31 December 2020, there was no arrangement under which a director or supervisor has waived or agreed to waive any emoluments during the reporting periods.

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2019: one) is director whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other four (2019: four) individuals are as follows:

	2020 RMB'000	2019 RMB'000
Salaries and other emoluments	5,169	6,387
Discretionary bonuses	198	—
Contributions to pension schemes	16	205
	5,383	6,592

The emoluments of the four (2019: four) individuals with the highest emoluments are within the following bands:

	2020 Number of individuals	2019 Number of individuals
Nil-HK\$1,000,000	—	—
HK\$1,000,001-HK\$1,500,000	3	1
HK\$1,500,001-HK\$2,000,000	1	2
HK\$2,000,001-HK\$2,500,000	—	1
	4	4

10 EARNINGS PER SHARE**(a) Basic and diluted earnings per share**

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB54,985 thousands (2019: RMB389,401 thousands) and the weighted average of 2,139,651 thousands ordinary shares (2019: 2,001,771 thousands ordinary shares) in issue during the year, which is set out as follows:

Weighted average number of ordinary shares

	2020	2019
Number of ordinary shares at 1 January (in thousands)	2,139,651	1,600,000
Effect of issuance of H-shares (in thousands)	—	401,771
Weighted average number of ordinary shares at 31 December (in thousands)	2,139,651	2,001,771

On 3 April 2019, the Company was listed on the Main Board of the HKSE, pursuant to which 533,336 thousands ordinary shares were issued. On 25 April 2019, the over-allotment option granted by the Company was partially exercised, pursuant to which 6,315 thousands ordinary shares were issued.

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

10 EARNINGS PER SHARE (CONTINUED)

(a) Basic and diluted earnings per share (continued)

Weighted average number of ordinary shares (continued)

	2020	2019
Profit attributable to ordinary equity shareholders of the Company (RMB'000)	54,985	389,401
Weighted average number of ordinary shares issued (in thousands)	2,139,651	2,001,771
Basic and diluted earnings per share attributable to shareholders (RMB)	0.0257	0.1945

There were no dilutive potential ordinary shares for the year ended 31 December 2020 or 2019. Therefore, diluted earnings per share are equivalent to basic earnings per share.

11 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	2020 RMB'000	2019 RMB'000
Deposits with central bank			
— Statutory deposit reserves	(a)	4,796	9,424
— Surplus deposit reserves	(b)	226	50
Sub-total		5,022	9,474
Accrued interest		3	5
Total		5,025	9,479

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

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

	2020 RMB'000	2019 RMB'000
Reserve ratio for deposits	6.0%	6.0%

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

12 DEPOSITS WITH BANKS

	2020 RMB'000	2019 RMB'000
Deposits with banks	90,379	126,469
Accrued interest	17	55
Total	90,396	126,524

13 LOANS AND ADVANCES TO CUSTOMERS**(a) Analysed by nature**

	2020 RMB'000	2019 RMB'000
Retail loans	3,563,067	7,522,352
Dealer's loans	2,581,294	2,625,086
Gross loans and advances to customers	6,144,361	10,147,438
Accrued interest	58,581	48,079
Sub-total	6,202,942	10,195,517
Less: Allowances for impairment losses	(451,667)	(191,364)
Net loans and advances to customers	5,751,275	10,004,153

As at 31 December 2020, the Company has pledged its retail loans amounting to RMB2.36 billion as collateral to certain placements from banks to the Company (2019: Nil).

(b) Analysed by type of collateral

	2020 RMB'000	2019 RMB'000
Collateralized loans	3,563,067	7,522,352
Guaranteed loans	2,581,294	2,625,086
Gross loans and advances to customers	6,144,361	10,147,438
Accrued interest	58,581	48,079
Less: Allowances for impairment losses	(451,667)	(191,364)
Net loans and advances to customers	5,751,275	10,004,153

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

13 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	31 December 2020				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	
Collateralized loans	33,337	8,282	7,545	1,520	50,684

	31 December 2019				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	
Collateralized loans	89,974	17,012	12,800	3,385	123,171

Overdue loans represent loans and advances to customers, of which the whole or part of the principal or interest was overdue for one day or more. All amounts are shown as gross amount of overdue loans and advances to customers before any allowances for impairment losses. As at 31 December 2020, there was no overdue guaranteed loan (as at 31 December 2019: Nil).

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

13 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**(d) Analysed by methods for assessing allowances for impairment losses**

	31 December 2020			Total RMB'000
	12-month ECL RMB'000	Lifetime ECL for not credit- impaired RMB'000	Lifetime ECL for credit- impaired RMB'000	
Gross loans and advances to customers (including accrued interest)	3,524,437	2,656,341	22,164	6,202,942
Less: Allowances for impairment losses	(64,203)	(366,087)	(21,377)	(451,667)
Net loans and advances to customers	3,460,234	2,290,254	787	5,751,275

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

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

13 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Movements of allowances for impairment losses

	Note	Year ended 31 December 2020			Total RMB'000
		12-month ECL RMB'000	Lifetime ECL for not credit- impaired RMB'000	Lifetime ECL for credit- impaired RMB'000	
		At 1 January 2020	112,932	38,459	
Transferred to:					
— 12-month ECL		400	(352)	(48)	—
— lifetime ECL for not credit-impaired		(95,421)	95,421	—	—
— lifetime ECL for credit-impaired		(2,658)	(2)	2,660	—
Charge for the year	6(b)	48,950	232,561	87,915	369,426
Write-off for the year		—	—	(134,520)	(134,520)
Recovery after write-off		—	—	25,397	25,397
At 31 December 2020		64,203	366,087	21,377	451,667

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

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

14 FINANCE LEASE RECEIVABLES

	2020 RMB'000	2019 RMB'000
Minimum finance lease receivables	25,687	60,577
Less: Unearned finance lease income	(1,634)	(3,443)
Present value of finance lease receivables	24,053	57,134
Less: Allowances for impairment losses	(5,598)	(5,133)
Total	18,455	52,001

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

	31 December 2020		
	Minimum finance lease receivables RMB'000	Unearned finance lease income RMB'000	Present value of finance lease receivables RMB'000
Within 1 year (inclusive)	16,042	(1,186)	14,856
After 1 year but within 2 years (inclusive)	8,405	(420)	7,985
After 2 years but within 3 years (inclusive)	1,240	(28)	1,212
Sub-total	25,687	(1,634)	24,053
Less: Allowances for impairment losses			(5,598)
Total			18,455

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

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

14 FINANCE LEASE RECEIVABLES (CONTINUED)

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

	Note	Year ended 31 December 2020			Total RMB'000
		12-month ECL RMB'000	Lifetime ECL for not credit- impaired RMB'000	Lifetime ECL for credit- impaired RMB'000	
At 1 January 2020		388	795	3,950	5,133
Transferred to:					
– 12-month ECL		74	(74)	–	–
– lifetime ECL for not credit-impaired		(4)	4	–	–
– lifetime ECL for credit-impaired		(3)	–	3	–
(Reversal)/charge for the year	6(b)	(259)	(194)	1,018	565
Write-off for the year		–	–	(100)	(100)
At 31 December 2020		196	531	4,871	5,598

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

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

15 PROPERTY AND EQUIPMENT**(a) Reconciliation of carrying amount**

	Electronic equipment RMB'000	Office furniture RMB'000	Improvement to leasehold property RMB'000	Properties leased for own use carried at cost RMB'000	Total RMB'000
Cost:					
At 1 January 2019	3,597	1,032	7,060	33,918	45,607
Additions	488	50	7,367	15,386	23,291
At 31 December 2019	4,085	1,082	14,427	49,304	68,898
Additions	289	—	1	—	290
Disposals	(7)	—	—	(13,092)	(13,099)
At 31 December 2020	4,367	1,082	14,428	36,212	56,089
Accumulated depreciation:					
At 1 January 2019	(1,442)	(557)	(4,577)	(10,618)	(17,194)
Charge for the year	(734)	(199)	(1,630)	(8,609)	(11,172)
At 31 December 2019	(2,176)	(756)	(6,207)	(19,227)	(28,366)
Charge for the year	(691)	(122)	(2,330)	(9,290)	(12,433)
Disposals	3	—	—	12,941	12,944
At 31 December 2020	(2,864)	(878)	(8,537)	(15,576)	(27,855)
Net book value:					
At 31 December 2020	1,503	204	5,891	20,636	28,234
At 31 December 2019	1,909	326	8,220	30,077	40,532

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

15 PROPERTY AND EQUIPMENT (CONTINUED)

(b) Right-of-use assets

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

	31 December 2020 RMB'000	31 December 2019 RMB'000
Properties leased for own use carried at cost	20,636	30,077

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

	2020 RMB'000	2019 RMB'000
Depreciation charge of right-of-use assets	9,290	8,609
Finance costs (Note 6(c))	1,899	1,633
Expense relating to short-term leases	320	345

16 INTANGIBLE ASSETS

	Computer software RMB'000
Cost:	
At 1 January 2019	30,185
Additions	7,643
At 31 December 2019	37,828
Additions	361
At 31 December 2020	38,189
Accumulated amortisation:	
At 1 January 2019	(14,828)
Charge for the year	(6,488)
At 31 December 2019	(21,316)
Charge for the year	(5,536)
At 31 December 2020	(26,852)
Net book value:	
At 31 December 2020	11,337
At 31 December 2019	16,512

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

17 OTHER ASSETS

	Note	2020 RMB'000	2019 RMB'000
Other receivables	(a)	225,064	12,570
Prepayments		19,997	3,845
Interest receivables		5,154	7,300
Others		1,322	275
Total		251,537	23,990

(a) Other receivables

	2020 RMB'000	2019 RMB'000
Receivables from related party dealers due to third-party loans cancellation	228,188	—
Commission receivables of joint loans	4,872	9,255
Deposits	3,413	3,315
Less: Allowances for impairment losses	(11,409)	—
Total	225,064	12,570

	Note	Allowances for impairment losses RMB'000
At 1 January 2020		—
Charge for the year	6(b)	11,409
At 31 December 2020		11,409

As at 31 December 2020, the ageing of receivables from related party dealers due to third-party loans cancellation is more than 3 months but within 1 year (2019: nil).

18 PLACEMENTS FROM BANKS

	2020 RMB'000	2019 RMB'000
Placements from banks		
— secured	1,333,000	—
— unsecured	689,776	5,848,488
Accrued interest	11,135	42,933
Total	2,033,911	5,891,421

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

19 GUARANTEE DEPOSITS

	2020 RMB'000	2019 RMB'000
Deposits provided by dealers for dealer's loans	19,738	135,585
Deposits from finance lease clients	5,995	15,005
Deposits provided by dealers for retail business	4,566	6,255
Total	30,299	156,845

20 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Company's lease liabilities:

	31 December 2020		31 December 2019	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year (inclusive)	10,628	11,017	8,982	10,887
After 1 year but within 2 years (inclusive)	9,066	10,023	9,775	11,053
After 2 years but within 3 years (inclusive)	3,678	4,332	9,419	10,023
More than 3 years	—	—	4,212	4,332
	12,744	14,355	23,406	25,408
	23,372	25,372	32,388	36,295
Less: total future interest expenses		(2,000)		(3,907)
Present value of lease liabilities		23,372		32,388

21 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

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

	Note	2020 RMB'000	2019 RMB'000
Balance at the beginning of the year		70,961	59,478
Provision for current income tax for the year	7(a)	76,637	111,121
Payment during the year		(129,219)	(99,638)
Balance at the end of the year		18,379	70,961

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

21 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (CONTINUED)**(b) Deferred tax assets and liabilities recognised:**

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

Deferred tax arising from:	Allowances for impairment losses RMB'000	Subsidies for retail loans RMB'000	Depreciation charge of right-of-use assets RMB'000	Total RMB'000
Balance at 1 January 2019	15,169	58,635	305	74,109
Credited/(charged) to profit or loss	10,351	(29,881)	273	(19,257)
Balance at 31 December 2019	25,520	28,754	578	54,852
Credited/(charged) to profit or loss	77,187	(19,633)	97	57,651
Balance at 31 December 2020	102,707	9,121	675	112,503

22 OTHER LIABILITIES

	Note	2020 RMB'000	2019 RMB'000
Other payables	(a)	96,550	165,881
Advance receipts		1,691	972
Total		98,241	166,853

(a) Other payables

	2020 RMB'000	2019 RMB'000
Payables of joint loans	34,910	76,133
IPO service fees payable	26,132	32,962
Employee benefits payables	11,921	12,569
Brokerage fees payable	11,539	12,281
Accruals	5,257	14,155
Tax and surcharges and other taxation payable	3,399	12,707
Others	3,392	5,074
Total	96,550	165,881

NOTES TO THE FINANCIAL STATEMENTS
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23 CAPITAL AND RESERVES

(a) Movement in components of equity

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

(b) Dividends

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

	2020 RMB'000	2019 RMB'000
Interim dividend proposed after interim period (2019: RMB0.08 per share)	—	171,172

(c) Share capital

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

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

(d) Nature and purpose of reserves

(i) Capital reserve

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

(ii) Surplus reserve

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

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

23 CAPITAL AND RESERVES (CONTINUED)

(d) Nature and purpose of reserves (continued)

(ii) Surplus reserve (continued)

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 of the PRC ("MOF"), the Company is required to set aside a general reserve through profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets on an annual basis. The general risk reserve balance of the Company as at 31 December 2020 amounted to RMB156,047 thousands (31 December 2019: RMB156,047 thousands), which has reached the requirement.

(e) Capital management

The Company's primary objectives when managing capital are to safeguard the Company's sustainable development, so that it can continue to provide returns and benefits to shareholders, by pricing services to 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 accompanied by higher risk levels of borrowings and the advantages and stability resulted from a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

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

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

23 CAPITAL AND RESERVES (CONTINUED)

(e) Capital management (continued)

The Company calculates the capital adequacy ratios as at 31 December 2020 and 31 December 2019 in accordance with the Regulation Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) issued by the former China Banking Regulatory Commission (the “CBRC”) in 2012 and relevant requirements promulgated by the China Banking and Insurance Regulatory Commission (the “CBIRC”) as follows:

	31 December 2020 RMB'000	31 December 2019 RMB'000
Core tier-one capital		
– Share capital	2,139,651	2,139,651
– Capital reserve	1,173,857	1,173,857
– Surplus reserve	89,690	84,192
– General risk reserve	156,047	156,047
– Retained earnings	505,315	455,828
Total core tier-one capital	4,064,560	4,009,575
Core tier-one capital deductions		
– Net value of intangible asset after deduction of related deferred income tax liabilities	(11,337)	(16,512)
Net core tier-one capital	4,053,223	3,993,063
Net tier-one capital	4,053,223	3,993,063
Tier-two capital		
– Surplus provision for loan impairment	68,770	105,563
Net tier-two capital	68,770	105,563
Net capital base	4,121,993	4,098,626
Credit risk-weighted assets	5,570,340	8,550,586
Operational risk-weighted assets	1,372,488	1,297,962
Total risk-weighted assets	6,942,828	9,848,548
Core tier-one capital adequacy ratio	58.38%	40.54%
Tier-one capital adequacy ratio	58.38%	40.54%
Capital adequacy ratio	59.37%	41.62%

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(Express in thousands of Renminbi, unless otherwise stated)

24 NOTES TO CASH FLOW STATEMENTS**(a) Cash and cash equivalents comprise**

	Note	2020 RMB'000	2019 RMB'000
Deposit reserves with central bank	11	226	50
Deposits with banks within original maturity of three months or less		90,379	116,469
Cash and cash equivalents in the cash flow statements		90,605	116,519

(b) Reconciliation of liabilities arising from financing activities

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

	IPO service fees payable (Note 22(a)) RMB'000	Lease liabilities (Note 20) RMB'000	Total RMB'000
At 1 January 2020	32,962	32,388	65,350
Changes from financing cash flows:			
Capital element of lease rentals paid	—	(8,900)	(8,900)
Interest element of lease rentals paid	—	(1,899)	(1,899)
Payments for listing expenses	(5,185)	—	(5,185)
Total changes from financing cash flows	(5,185)	(10,799)	(15,984)
Exchange adjustment	(1,645)	—	(1,645)
Other changes:			
Finance costs (Note 6(c))	—	1,899	1,899
Decrease in lease liabilities from disposal of leases during the year	—	(116)	(116)
Total other changes	—	1,783	1,783
At 31 December 2020	26,132	23,372	49,504

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

24 NOTES TO CASH FLOW STATEMENTS (CONTINUED)

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

	IPO service fees payable (Note 22(a)) RMB'000	Lease liabilities (Note 20) RMB'000	Total RMB'000
At 1 January 2019	29,971	24,520	54,491
Changes from financing cash flows:			
Capital element of finance lease rentals paid	—	(7,518)	(7,518)
Interest element of finance lease rentals paid	—	(1,633)	(1,633)
Payments for listing expenses	(80,078)	—	(80,078)
Total changes from financing cash flows	(80,078)	(9,151)	(89,229)
Other changes:			
Increase in lease liabilities from entering into new leases during the period	—	15,386	15,386
Finance costs (Note 6(c))	—	1,633	1,633
Capitalised listing expenses	73,862	—	73,862
Expensed listing expenses	9,207	—	9,207
Total other changes	83,069	17,019	100,088
At 31 December 2019	32,962	32,388	65,350

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

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

(a) Credit risk

(i) Management of credit risk

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

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**(a) Credit risk (continued)****(i) Management of credit risk (continued)**

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

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

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

(ii) Assessing credit risk of financial assets

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

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

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

(a) **Credit risk (continued)**

(ii) *Assessing credit risk of financial assets*

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

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

For the year ended 31 December 2020, the Company has written off loans and advances to customers of RMB134,520 thousands (31 December 2019: RMB66,750 thousands) and finance lease receivables of RMB100 thousands (31 December 2019: RMB3,244 thousands) as the Company had identified these debtors have financial difficulties.

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

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**(a) Credit risk (continued)****(ii) Assessing credit risk of financial assets (continued)**

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

	31 December 2020						
	Loans and advances to customers		Finance lease receivables		Other receivables		Total
	RMB'000	Provision ratio (%)	RMB'000	Provision ratio (%)	RMB'000	Provision ratio (%)	
Gross balance are assessed for 12-month ECL							
— Neither overdue nor credit-impaired (including accrued interest)	3,524,437		15,565		8,285		3,548,287
Allowances for impairment losses	(64,203)		(196)		—		(64,399)
Net balance	3,460,234	1.82%	15,369	1.26%	8,285	NA	3,483,888
Gross balance are not credit-impaired and assessed for lifetime ECL							
— Overdue but not credit-impaired	28,520		3,617		—		32,137
— Neither overdue nor credit-impaired (including accrued interest)	2,627,821		—		228,188		2,856,009
Sub-total	2,656,341		3,617		228,188		2,888,146
Allowances for impairment losses	(366,087)		(531)		(11,409)		(378,027)
Net balance	2,290,254	13.78%	3,086	14.68%	216,779	5.00%	2,510,119
Gross balance are credit-impaired and assessed for lifetime ECL							
— Overdue and credit-impaired	22,164		4,871		—		27,035
Allowances for impairment losses	(21,377)		(4,871)		—		(26,248)
Net balance	787	96.45%	—	100.00%	—	NA	787
Book value	5,751,275		18,455		225,064		5,994,794

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

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

(a) Credit risk (continued)

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

	31 December 2019				Total RMB'000
	Loans and advances to customers		Finance lease receivables		
	RMB'000	Provision ratio (%)	RMB'000	Provision ratio (%)	
Gross balance are assessed for 12-month ECL					
— Neither overdue nor credit-impaired (including accrued interest)	10,072,109		49,394		10,121,503
Allowances for impairment losses	(112,932)		(388)		(113,320)
Net balance	9,959,177	1.12%	49,006	0.79%	10,008,183
Gross balance are not credit-impaired and assessed for lifetime ECL					
— Overdue but not credit-impaired	77,938		3,241		81,179
— Neither overdue nor credit-impaired (including accrued interest)	237		—		237
Sub-total	78,175		3,241		81,416
Allowances for impairment losses	(38,459)		(795)		(39,254)
Net balance	39,716	49.20%	2,446	24.53%	42,162
Gross balance are credit-impaired and assessed for lifetime ECL					
— Overdue and credit-impaired	45,233		4,499		49,732
Allowances for impairment losses	(39,973)		(3,950)		(43,923)
Net balance	5,260	88.37%	549	87.79%	5,809
Book value	10,004,153		52,001		10,056,154

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**(b) Liquidity risk**

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

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

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

	31 December 2020						
	Repayable on demand/ terms undated RMB'000	Within one month RMB'000	Between one month and three months RMB'000	Between three months and one year RMB'000	Between one year and five years RMB'000	Total RMB'000	Carrying amount RMB'000
Assets							
Cash and deposits with central bank	5,025	—	—	—	—	5,025	5,025
Deposits with banks	90,396	—	—	—	—	90,396	90,396
Loans and advances to customers	20,461	267,726	913,945	3,573,863	1,447,715	6,223,710	5,751,275
Finance lease receivables	96	893	1,786	8,037	9,277	20,089	18,455
Other assets	230,218	—	—	—	—	230,218	230,218
Total	346,196	268,619	915,731	3,581,900	1,456,992	6,569,438	6,095,369
Liabilities							
Placements from banks	—	(680,701)	(588,123)	(768,431)	—	(2,037,255)	(2,033,911)
Guarantee deposits	(24,372)	—	(1,240)	(2,390)	(2,297)	(30,299)	(30,299)
Lease liabilities	—	(1,471)	(2,941)	(6,605)	(14,355)	(25,372)	(23,372)
Other liabilities	(58,241)	(3,963)	(5,097)	(14,097)	(11,753)	(93,151)	(93,151)
Total	(82,613)	(686,135)	(597,401)	(791,523)	(28,405)	(2,186,077)	(2,180,733)
Net position	263,583	(417,516)	318,330	2,790,377	1,428,587	4,383,361	3,914,636

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

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

(b) Liquidity risk (continued)

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

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

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

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

- Fair value interest rate risk

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

- Cash flow interest rate risk

	31 December 2020 RMB'000	31 December 2019 RMB'000
Increase/(decrease) in profit after tax and retained profits		
Interest rates increase by 100 bps	626	893
Interest rates decrease by 100 bps	(626)	(892)

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

(d) Currency risk

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

NOTES TO THE FINANCIAL STATEMENTS

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25 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**(d) Currency risk (continued)****(i) Exposure to currency risk**

	Exposure to foreign currencies (expressed in RMB thousand)			
	As at 31 December 2020		As at 31 December 2019	
	USD	HKD	USD	HKD
Deposits with banks	52	247	56	32,878
Other liabilities	—	(37,671)	—	(45,243)
Net position	52	(37,424)	56	(12,365)

(ii) Sensitivity analysis

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

	31 December 2020 RMB'000	31 December 2019 RMB'000
Changes in profit after tax and equity		
Foreign exchange rate increase by 100 bps	(280)	(92)
Foreign exchange rate decrease by 100 bps	280	92

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

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

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

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

(e) Operational risk

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

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

(f) Fair value

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

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

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

26 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Names and relationships with related parties

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

Company	Relationship
China ZhengTong Auto Services Holding Limited ("ZhengTong")	Parent Company
Baoding Aoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Baotou Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Baotou Luze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Beijing Baozhang Automobile Sales Services Co., Ltd.	Fellow subsidiary
Beijing BWWR Automobile Sales Services Co., Ltd.	Fellow subsidiary
Beijing SCAS North China Automobile Services Co., Ltd.	Fellow subsidiary
Beijing SCAS Zhongguan Automobile Sales Co., Ltd.	Fellow subsidiary
Beijing Zhengtong Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Beijing Zhengtong Dingwo Automobile Sales Services Co., Ltd.	Fellow subsidiary
Changsha Ruibao Automobile Sales Services Co., Ltd.	Fellow subsidiary
Chengdu Qibao Automobile Sales Services Co., Ltd.	Fellow subsidiary
Chenzhou Ruibao Automobile Sales Services Co., Ltd.	Fellow subsidiary
Dingze Insurance Agency Co., Ltd.	Fellow subsidiary
Dongguan Aoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Dongguan Jieyunhang Automobile Sales Services Co., Ltd.	Fellow subsidiary
Dongguan Liaobu SCAS Automobile Sales Services Co., Ltd.	Fellow subsidiary
Dongguan Zhengtong Kaidi Automobile Sales Services Co., Ltd.	Fellow subsidiary
Dongguan SCAS Automobile Sales Service Co., Ltd.	Fellow subsidiary
Foshan Aoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Foshan Dingbaohang Automobile Sales Services Co., Ltd.	Fellow subsidiary
Foshan Baoyunhang Automobile Sales Services Co., Ltd.	Fellow subsidiary
Fujian SCAS Automobile Sales Services Co., Ltd.	Fellow subsidiary
Fuzhou Dingwo Automobile Sales Services Co., Ltd.	Fellow subsidiary
Ganzhou Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Guangdong SCAS Shengwo Automobile Sales Services Co., Ltd.	Fellow subsidiary
Guangdong SCAS Automobile Sales Service Co., Ltd.	Fellow subsidiary
Guangzhoushi Hengyuehang Automobile Sales Services Co., Ltd.	Fellow subsidiary
Guangzhou Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Guangzhou Baotaihang Automobile Sales Services Co., Ltd.	Fellow subsidiary
Hainan SCAS Automobile Sales Services Co., Ltd.	Fellow subsidiary
Henan Jintangsheng Automobile Co., Ltd.	Fellow subsidiary
Hengyang Luze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Hunan SCAS Xingsha Automobile Sales Services Co., Ltd.	Fellow subsidiary

NOTES TO THE FINANCIAL STATEMENTS
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26 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

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

Company	Relationship
Hubei Aoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Hubei Bocheng Automobile Sales Services Co., Ltd.	Fellow subsidiary
Hubei Changze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Hubei Jierui Automobile Sales Services Co., Ltd.	Fellow subsidiary
Hubei Xinrui Automobile Sales Services Co., Ltd.	Fellow subsidiary
Huhhot Jieyun Automobile Sales Services Co., Ltd.	Fellow subsidiary
Huhhot Qibao Automobile Sales Services Co., Ltd.	Fellow subsidiary
Huhhot Infiniti Automobile Sales Services Co., Ltd.	Fellow subsidiary
Hunan SCAS Automobile Sales Services Co., Ltd.	Fellow subsidiary
Inner Mongolia Dingze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Inner Mongolia Dingjie Automobile Trading Co., Ltd.	Fellow subsidiary
Jiangxi Deao Automobile Sales Services Co., Ltd.	Fellow subsidiary
Jieyang Dingjie Automobile Sales Services Co., Ltd.	Fellow subsidiary
Jieyang Luze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Jingmen Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Langfangshi Luze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Nanchang Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Qingdao Huacheng Automobile Services Co., Ltd.	Fellow subsidiary
Qingdao Aoze Automobile Sales Service Co., Ltd.	Fellow subsidiary
Qingyuan Aoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Qingyuan SCAS Hezhong Automobile Sales Services Co., Ltd.	Fellow subsidiary
Qingyuan SCAS Toyota Motor Sales Services Co., Ltd.	Fellow subsidiary
Shantou Hongxiang Materials Co., Ltd.	Fellow subsidiary
Shantou Lujie Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shanghai Aohui Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shanghai Luda Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shanghai Shenxie Automobile Trading Co., Ltd.	Fellow subsidiary
Shanghai Qize Automobile Sales Service Co., Ltd.	Fellow subsidiary
Shanghai Qibao Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shangrao Luze Automobile Sales Service Co., Ltd.	Fellow subsidiary
Shantou Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shenzhen Aoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shenzhen Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shenzhen Chixing Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shenzhen Dingwo Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shenzhen SCAS Tenglong Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shenzhen SCAS Tengxing Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shenzhen Baotaihang Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shenzhen SCAS Infiniti Automobile Sales Services Co., Ltd.	Fellow subsidiary
Shenzhen SCAS Electric Machinery Co., Ltd.	Fellow subsidiary
Shengzhou Aoze Automobile Sales Services Co., Ltd.	Fellow subsidiary

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

26 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)**(a) Names and relationships with related parties (continued)**

Company	Relationship
Shenzhenshi SCAS Huawo Automobile Sales Services Co., Ltd.	Fellow subsidiary
Suzhou Anzhixing Automobile Sales Services Co., Ltd.	Fellow subsidiary
Tianjin SCAS Automobile Sales Services Co., Ltd.	Fellow subsidiary
Tianjin Automobile Industry SCAS Sales Co., Ltd.	Fellow subsidiary
Weihai Luze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Wuhan Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Wuhan Zhengtong United Industrial Investment Group Co., Ltd.	Fellow subsidiary
Wuhan Zhengtong Yuechi Automobile Sales Services Co., Ltd.	Fellow subsidiary
Wuhan Luze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Wuhan Kaitai Automobile Sales Services Co., Ltd.	Fellow subsidiary
Xiangtan Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Xiangyang Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Yichang Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Yichun Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Yiwu Xinhui Automobile Sales Services Co., Ltd.	Fellow subsidiary
Yongkang Guobang Automobile Sales Co., Ltd.	Fellow subsidiary
Zhanjiang Zhengtong Kaidi Automobile Sales Services Co., Ltd.	Fellow subsidiary
Zhengzhou Aoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Zhengzhou Dingwo Automobile Sales Services Co., Ltd.	Fellow subsidiary
Zhongshan SCAS Automobile Sales Services Co., Ltd.	Fellow subsidiary
Zhuhai Baoze Automobile Sales Services Co., Ltd.	Fellow subsidiary
Zhuhai SCAS Jielu Automobile Sales Services Co., Ltd.	Fellow subsidiary
Zhuhai Zhengtong Tengxing Automobile Sales Services Co., Ltd.	Fellow subsidiary

(b) Significant transactions with related parties

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

	Note	2020 RMB'000	2019 RMB'000
Subsidies receipt for retail loans	(i)	1,700	68,313
Interest income	(i)	188,204	287,552
Interest expenses		—	(133)
Operating expenses		(159)	(283)
Additions of receivables from related party dealers due to loans cancellation		235,574	—
Decrease of receivables from related party dealers due to loans cancellation		(7,386)	—
Additions of deposits from fellow subsidiary		—	362,280
Decrease of deposits from fellow subsidiary		—	(962,280)

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

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

26 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Balances with related parties

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

	Note	31 December 2020 RMB'000	31 December 2019 RMB'000
Assets			
Dealer's loans (including accrued interest)	(i), (iii)	1,465,015	1,497,265
Subsidies for retail loans	(ii)	(13,678)	(80,656)
Mortgage service fees	(ii)	510	1,559
Receivables from related party dealers due to loans cancellation	(iii)	228,188	—
Other receivables		345	345
Liabilities			
Guarantee deposits		—	75,000
Other liabilities		932	1,073
Off-balance sheet item			
Guarantees received for dealer's loans	(iv)	1,465,015	1,497,265

- (i) In 2020, the Company granted loan principal extension and loan interest payment deferral to certain dealer's loan borrowers affected by COVID-19, which including dealer's loans principal and accrued interest with related parties amounted to RMB1,440,044 thousands and RMB24,971 thousands as of 31 December 2020, respectively.
- (ii) The subsidies for retail loans and mortgage service fees are initially recognised in loans and receivables at amortised method.
- (iii) Loss allowances of RMB83,411 thousands have been made on these balances as at 31 December 2020.
- (iv) 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.

All balances with related parties are related to main business of the Company except for other liabilities due to fellow subsidiaries amounting to RMB932 thousands and RMB1,073 thousands as of 31 December 2020 and 31 December 2019, respectively.

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

26 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)**(d) Directors and key management personnel remuneration**

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

	2020 RMB'000	2019 RMB'000
Remuneration of key management personnel	7,874	8,855

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

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

27 SEGMENT REPORTING (CONTINUED)

(a) Business segment (continued)

	Year ended 31 December 2020			
	Retail Business RMB'000	Dealer's loan Business RMB'000	Others RMB'000	Total RMB'000
Net interest income	348,656	143,691	2,796	495,143
Net fee and commission income	72,507	—	—	72,507
Other net income	—	—	9,521	9,521
Operating income	421,163	143,691	12,317	577,171
Operating expenses	(88,060)	(31,841)	—	(119,901)
Impairment losses	(44,033)	(337,367)	—	(381,400)
Finance costs	(1,395)	(504)	—	(1,899)
Profit before taxation	287,675	(226,021)	12,317	73,971
Other segment information				
— Depreciation and amortisation	13,198	4,771	—	17,969

	As at 31 December 2020			
	Retail Business RMB'000	Dealer's loan Business RMB'000	Others RMB'000	Total RMB'000
Reportable segment assets/ total assets	3,715,297	2,282,560	270,905	6,268,762
Reportable segment liabilities/ total liabilities	(1,427,606)	(675,022)	(101,574)	(2,204,202)

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

27 SEGMENT REPORTING (CONTINUED)**(a) Business segment (continued)**

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

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

(b) Geographical information

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

(c) Information about major customers

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

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

28 CONTINGENCIES

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

29 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

Potential disposal of company's shares by China ZhengTong Auto Services Holding Limited ("the parent company")

The Company announced on 3 February 2021 and 3 March 2021 that, as informed by the parent company, it was in discussion with an independent potential purchaser regarding, amongst others, a potential disposal of the shares of the Company (the "Potential Disposal"). As far as the Company is aware, no decision has been made on whether to proceed with the Potential Disposal, no formal agreements have been entered into in respect of the Potential Disposal, and the discussion and negotiation were still in progress, therefore the Potential Disposal may or may not proceed.

Potential disposal of the parent company's shares by its controlling shareholder

The Company announced on 20 October 2020 that, as informed by the parent company, on 19 October 2020, the controlling shareholder of the parent company, i.e. Joy Capital Holdings Limited ("Joy Capital") and Mr. Wang Muqing entered into a sale and purchase agreement (the "SPA") with Xiamen Xindeco Ltd. ("Xindeco", as buyer). Pursuant to the SPA, Joy Capital conditionally agreed to sell and Xindeco conditionally agreed to purchase shares carrying 29.9% of the voting rights of the total issued shares of the parent company at a consideration of HK\$1,403,371,394 (the "Transaction"). Upon completion of the Transaction, Xindeco shall become the single largest shareholder of the parent company and will be able to provide financial support to the parent company and its subsidiaries. The completion of the Transaction is subject to fulfillment or waiver of several conditions precedent set out in the SPA, including obtaining necessary authorizations, agreements or approvals from relevant regulators, etc.

As of the date of approval of these financial statements, as far as the Company is aware, the Transaction is still in process.

NOTES TO THE FINANCIAL STATEMENTS

(Express in thousands of Renminbi, unless otherwise stated)

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Company.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, <i>Definition of a business</i>	1 January 2022
Amendments to HKAS 16, <i>Property, Plant and Equipment</i>	1 January 2022
Amendments to HKAS 37, <i>Onerous Contracts</i>	1 January 2022
Annual Improvements to HKFRSs 2018–2020 Cycle	1 January 2022

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

DEFINITIONS

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

“Articles of Association”	the articles of association of the Company, as amended, modified or otherwise supplemented from time to time
“Audit Committee”	audit committee of the Board
“Board”	the board of Directors
“CBIRC”	the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“CBIRC Shanghai Office”	Shanghai Office of the CBIRC
“Company”	Shanghai Dongzheng Automotive Finance Co., Ltd*. (上海東正汽車金融股份有限公司), a joint stock company incorporated in the PRC with limited liability and whose H Shares are listed on the Stock Exchange (stock code: 2718)
“Company Law”	the Company Law of the PRC
“Corporate Governance Code”	the Corporate Governance Code and Corporate Governance Report 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 RMB1.00 each, which are subscribed for or credited as fully paid in Renminbi
“H Share(s)”	issued ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange
“H Shareholder(s)”	holder(s) of H Shares
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Listing Date”	3 April 2019, the date when the Company was listed on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Nomination Committee”	nomination committee of the Board
“PRC” or “China”	the People’s Republic of China, and for the purpose of this annual report only, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Remuneration Committee”	remuneration and evaluation committee of the Board

DEFINITIONS

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

FIVE YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2016 (RMB'000)	2017 (RMB'000)	2018 (RMB'000)	2019 (RMB'000)	2020 (RMB'000)
Interest income	280,340	424,600	759,035	999,733	743,352
Interest expenses	(121,148)	(169,768)	(320,485)	(463,933)	(248,209)
Net interest income	159,192	254,832	438,550	535,800	495,143
Fee and commission income	170,226	205,323	331,554	174,956	73,312
Fee and commission expenses	(912)	(905)	(1,425)	(1,208)	(805)
Net fee and commission income	169,314	204,418	330,129	173,748	72,507
Other net income	3,913	2,710	47,098	90,270	9,521
Operating income	332,419	461,960	815,777	799,818	577,171
Operating expenses	(67,879)	(70,042)	(127,955)	(163,853)	(119,901)
Impairment losses	(31,795)	(43,395)	(84,343)	(114,553)	(381,400)
Finance costs	—	—	—	(1,633)	(1,899)
Profit before taxation	232,745	348,523	603,479	519,779	73,971
Income tax	(58,260)	(87,750)	(150,962)	(130,378)	(18,986)
Profit and total comprehensive income for the year	174,485	260,773	452,517	389,401	54,985

FIVE YEAR FINANCIAL SUMMARY

	At 31 December				
	2016 (RMB'000)	2017 (RMB'000)	2018 (RMB'000)	2019 (RMB'000)	2020 (RMB'000)
Cash and deposits with central bank	4,280	7,003	35,213	9,479	5,025
Deposits with banks and other financial institutions	239,879	270,494	780,960	126,524	90,396
Loans and advances to customers	3,736,577	5,869,004	8,426,177	10,004,153	5,751,275
Finance lease receivables	—	19,898	102,980	52,001	18,455
Property and equipment	5,874	4,558	5,113	40,532	28,234
Intangible assets	12,460	17,413	15,357	16,512	11,337
Deferred tax assets	20,587	62,193	73,804	54,852	112,503
Other assets	35,283	41,853	92,557	23,990	251,537
Total assets	4,054,940	6,292,416	9,532,161	10,328,043	6,268,762
Liabilities					
Placements from banks and other financial institutions	3,232,885	4,020,000	6,085,347	5,891,421	2,033,911
Guarantee deposits	27,642	78,894	79,632	156,845	30,299
Deposits from shareholders	—	—	600,000	—	—
Lease liabilities	—	—	—	32,388	23,372
Current taxation	54,392	76,884	59,478	70,961	18,379
Other liabilities	40,754	56,598	224,611	166,853	98,241
Total liabilities	3,355,673	4,232,376	7,049,068	6,318,468	2,204,202
NET ASSETS	699,267	2,060,040	2,483,093	4,009,575	4,064,560