
RISK MANAGEMENT AND OPERATIONS

OUR RISK MANAGEMENT STRUCTURE

We are subject to a variety of risks in our daily business operations, including credit risk, operational risk and legal and compliance risk, among which we believe credit risk is our principal exposure. The credit risk management function of our Group is primarily coordinated by our credit risk management function working with the other three departments of our Group, namely legal department, fieldwork department and technical department, to manage the risk management operation.

Legal department

Our legal department is responsible for ensuring that our business operation complies with any applicable laws and regulations in the PRC and handling legal matters for our Group, including handling breach of contracts by our customers, reporting the repossession of leased automobiles to police departments during enforcement action and initiating legal proceedings from time to time in the ordinary course of our business, primarily to repossess leased automobiles or to recover lease receivables owed to us.

In March 2019, as part of our effort to enhance our post-lease risk management, we established the communication unit under our legal department. The communication unit is mainly responsible for handling customer delinquency, in particular, unauthorised modification of the automobiles’ identification information, unauthorised transfer of the automobiles’ ownership, and automobiles tracked running towards the border. Depending on the situation, our communication unit may take different actions in collaboration with other departments and units, including negotiations with customers or other relevant parties, automobile interceptions at borders and initiation of legal actions, to repossess the automobiles concerned. If repossession is impracticable, we try to recover losses from delinquent parties to the extent possible. For instance, our communication unit works with our operation unit to manage more difficult situations in the recovery process, as one of the measures to enhance our post-lease risk management. Our contract unit is in charge of conducting legal training, reviewing and drafting contracts, discussing business compliance and issuing legal opinions, and collecting relevant laws and regulations to our business and compiling them into internal training materials for our regular training programme. Our judicial unit participates in the litigation cases and important business negotiations as our delegate, takes responsibility for the drafting and discussion of new business supporting contracts and gives legal opinions from the perspective of litigation.

Fieldwork department

Our fieldwork department plays an important role in our post-lease credit risk management. Our staff of fieldwork department monitor the activities of our leased automobiles through our GPS tracking devices and our automobile monitoring platform on a regular basis, and conduct on-site inspection and repossession of our leased automobile in case of irregular activities or default by our customers.

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In particular, in March 2019, we established the operation unit, which together with our communication unit, focus on handling more difficult situations, in particular, where the customers were default in payment for more than three months or that the automobiles concerned were considered less likely to be successfully repossessed. The operation unit is mainly responsible for handling difficulties in the automobile repossession process, including vanishing GPS signals, automobiles with unusual tracked locations, and automobiles mortgaged to third parties. Following a set of detailed operational guidelines, the operation unit collects and analyses various types of data, including locations of automobiles, customer behaviour, and traffic contravention information, and collaborates with the fieldwork units to facilitate effective automobile repossession.

Technical department

Our technical department is responsible for the development of our GPS tracking devices installed on our leased automobiles and our automobile monitoring platform. Our staff in the technical department are also responsible for mounting, dismounting and maintenance of GPS tracking devices on our leased automobiles.

OUR RISK MANAGEMENT MEASURES

We are subject to a variety of risks in our daily business operations, including credit risk, operational risk and legal and compliance risk, among which we believe credit risk is our principal exposure. We recognise the importance of identifying and mitigating these risks. As such, we have developed a risk management system as follows to address the risks that we are exposed to.

Credit Risk Management

We are exposed to credit risks from our customers in our automobile retail and finance, and automobile operating lease businesses. Credit risk arises when our customers are unable or unwilling to make timely payments to us. As such, we have developed a credit risk management system which can be divided into pre-lease and post-lease credit risk management. Our pre-lease and post-lease credit risk management are led by Mr. Chen Xiong, our vice president of Fujian Xidun and Mr. Chen Shirong, our manager of pre-lease credit risk management, each respectively has over four years of dedicated experience in risk management. In particular, with the development of our automobile monitoring platform, we received the Best Risk Management Capability Award at the 3rd China Auto Finance International Summit (第三屆中國汽車金融國際峰會) in 2018.

We actively monitor historical past due ratio and continuously improve our data analytics capabilities, as well as execute post-lease management and loss recovery measures through our automobile monitoring platform and our patent-protected GPS tracking devices installed on all automobiles leased by us.

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The following table sets out the past due ratios as at the dates indicated:

	As at 31 December			As at
	2020	2021	2022	30 June 2023
Over one month past due ratio	1.8%	1.5%	1.7%	1.8%
Over three months past due ratio	0.7%	0.7%	0.7%	0.8%
Over six months past due ratio	0.4%	0.3%	0.3%	0.2%
Over one year past due ratio	0.1%	0.1%	0.1%	0.1%

See “Financial Information — Description of Certain Items of Consolidated Statements of Financial Position — Finance lease receivables” for definitions and details of the past due ratios.

Pre-lease credit risk management

Our pre-lease credit risk management focuses on credit assessment and approval process. While our potential customers may choose different lease terms and offerings based on their needs, all of them need to go through a credit assessment and approval process. During our credit assessment and approval process, we generally consider both (i) qualitative factors, which may include age, location, driving penalty records, credit history and litigation records; and (ii) quantitative factors, which may include the proposed principal amount of the lease transaction, value of the personal assets and personal income level.

We generally require potential finance lease and operating lease customers to fulfil our preliminary requirements, including (i) holding a valid PRC identity card; (ii) holding a valid PRC driving licence (with less than 12 points deducted); and (iii) aged between 18 to 60 years old, inclusively. For customers in certain regions, we may also require our customers to produce (i) property ownership certificate; (ii) business registration certificate (for corporate customers); and/or (iii) proof of employment and recent six months of salaries.

Having satisfied the above preliminary requirements, we will perform credit assessment based on the potential customers’ information such as checking their name, identity card number and mobile phone number against our self-maintained database as well as third party blacklists. We also analyse the contact lists and call logs of our customers, after obtaining their permissions to access such data, to assess their character and creditworthiness by checking whether their contact lists include any contact of blacklisted

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persons or any financial institutions that offer loans on mortgage or pledge, and whether frequent calls have been made with these contacts. As confirmed by our PRC Legal Advisers, we were in compliance with the applicable PRC laws, rules and regulations in relation to analysis of customers’ contact lists and call logs in credit assessments. Depending on the results of credit assessments and the principal amount of automobile finance, we might also obtain credit assessment reports from third parties. For our recurring customer, we will also assess the customer’s credit history maintained with us and whether there is any outstanding amount which has not been settled by the customer. Further, our risk management system allows a bilateral flow of statistics and data between our management systems for pre-credit risk and post-credit risk. The statistics of default or delinquency behaviours identified in our post-lease credit risk management system are shared with our pre-lease credit risk management system for screening out potential customers with similar background during our pre-lease credit risk assessment, which is conducive to the enrichment of our database and the improvement of our future credit risk analysis. Leveraging our data analytics capabilities, we are able to complete the credit assessment and approval within a relatively short period of time to maintain our competitiveness.

Post-lease credit risk management

Our post-lease credit risk management involves (i) monitoring of periodic payments and automobile activities; (ii) repossession of automobiles; and (iii) disposal of repossessed automobiles and legal actions against default or delinquent customers.

Monitoring of periodic payments and automobile activities

We lease our automobiles in return for monthly lease payments or periodic rental payments by our finance lease and operating lease customers, respectively. Our customer service department delivers payment reminders usually three to five days before the due date of the respective payment mostly through text messages to our customers. Most of the settlements are conducted by our system automatically. There is a small number of settlements conducted manually, where our finance department checks and monitors the collection of payments from our customers on a daily basis and inputs the payment records into our ERP system. If any default or delinquency on payment arises, our customer service department will continue to send out reminders to these customers.

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We closely monitor the quality of our finance lease receivables, which we classified into the following six categories:

- (i) Normal : Lease payments which have always been on time
- (ii) Special mention : Lease payments which are overdue up to one month
- (iii) Sub-standard : Lease payments which are overdue for one to three months
- (iv) Doubtful : Lease payments which are overdue for three to six months
- (v) High risk : Lease payments which are overdue for six months to one year
- (vi) Loss : Lease payments which are overdue for more than one year

Generally, we downgrade the classification of finance lease receivables as the overdue period of the lease payment increases. We may also consider downgrading the finance lease receivables from normal to special mention based on any irregular activities of the leased automobile detected by our automobile monitoring platform.

We recognise the impairment of finance lease receivables by applying the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The impairment losses provided for finance lease receivables are determined based on historically observed default rates over the expected life of finance lease receivables with similar credit risk characteristics and are adjusted for forward-looking estimates.

We classify the finance lease receivables as non-performing assets when the lease payments are overdue for more than three months. As at 31 December 2020, 2021, 2022 and 30 June 2023, our non-performing assets ratios were 0.7%, 0.7%, 0.7% and 0.8%, respectively.

We write off the finance lease receivables when a lessee fails to make contractual payments for one year, and there is no realistic prospect of recovery of contractual payments or automobile repossession. As at 31 December 2020, 2021, 2022 and 30 June 2023, the finance lease receivables written-off amounted to RMB2.5 million, RMB3.3 million, RMB3.0 million and RMB3.7 million, respectively.

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According to CIC, our classification criteria of finance lease receivables are set with reference to the classification set out in the Guidelines on Loan Classification (《貸款分類指導原則》) published by the PBOC. The following table sets out a breakdown of our finance lease receivables balance before deducting the allowance for impairment losses under our finance lease receivable classifications:

		As at/Year ended 31 December						As at/Six months ended 30 June	
		2020		2021		2022		2023	
		RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Normal	As at the beginning of the year/period	1,044,835		955,256		1,233,278		1,398,133	
	Addition of the year/period, net	503,575		810,654		871,054		578,880	
	Deduction of the year/period, net	(593,154)		(532,632)		(706,199)		(528,613)	
	As at the ending of the year/period	955,256	94.5	1,233,278	94.3	1,398,133	94.2	1,448,400	94.2
Special mention	As at the beginning of the year/period	44,140		38,020		54,337		60,501	
	Addition of the year/period, net	37,036		52,208		58,874		58,993	
	Deduction of the year/period, net	(43,156)		(35,891)		(52,710)		(57,327)	
	As at the ending of the year/period	38,020	3.8	54,337	4.2	60,501	4.1	62,167	4.0
Sub-standard	As at the beginning of the year/period	17,104		10,806		11,638		14,569	
	Addition of the year/period, net	10,806		11,564		14,509		14,941	
	Deduction of the year/period, net	(17,104)		(10,732)		(11,578)		(14,336)	
	As at the ending of the year/period	10,806	1.1	11,638	0.9	14,569	1.0	15,174	1.0
Doubtful	As at the beginning of the year/period	4,105		3,412		4,158		5,578	
	Addition of the year/period, net	3,412		4,158		5,578		8,123	
	Deduction of the year/period, net	(4,105)		(3,412)		(4,158)		(5,578)	
	As at the ending of the year/period	3,412	0.3	4,158	0.3	5,578	0.4	8,123	0.5
High risk	As at the beginning of the year/period	1,767		2,723		3,266		3,331	
	Addition of the year/period, net	2,723		3,266		3,331		2,399	
	Deduction of the year/period, net	(1,767)		(2,723)		(3,266)		(3,331)	
	As at the ending of the year/period	2,723	0.2	3,266	0.2	3,331	0.2	2,399	0.2
Loss	As at the beginning of the year/period	110		844		1,204		1,515	
	Addition of the year/period, net	844		1,204		1,515		1,235	
	Deduction of the year/period, net	(110)		(844)		(1,204)		(1,372)	
	As at the ending of the year/period	844	0.1	1,204	0.1	1,515	0.1	1,378	0.1
Total	1,011,061	100.0	1,307,881	100.0	1,483,627	100.0	1,537,641	100.0	

The amount of doubtful, high risk and loss finance lease receivables were all below 1% of the total balance as at 31 December 2020, 2021, 2022 and 30 June 2023.

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Each of our leased automobiles is installed with our GPS tracking devices by our technical department, which can be used to track and record the data of the leased automobile including the travelling speed and real time location. These data will be stored onto our automobile monitoring platform for analysis. Our automobile monitoring platform performs automatic risk analysis by detecting vehicle trajectory and status of GPS signal. Through its automated data analytic ability, the platform sends timely alert messages to our staff upon detecting any irregular activities, which typically include the followings:

Types of irregular activities	Potential risk
Vanishing or unstable GPS signals	Unauthorised dismantling or disabling of the GPS tracking devices installed in the lease automobiles
Automobiles tracked in unusual locations in our database including automobile dealerships and retailers and used car transaction market	Unauthorised disposal of the leased automobiles
Automobiles stationed for an unreasonably long duration	Unauthorised pledge of the leased automobiles
Automobiles tracked running towards restricted boundaries	Default of payment obligations under the lease agreements with the intention to run away with the leased automobiles

Our Directors believe that our automobile monitoring platform improves automation in our risk management, thereby lowering the risk of human errors. In addition, the operation unit of our fieldwork department also monitors the status of our leased automobiles through the GPS tracking devices and the automobile monitoring platform on a daily basis for every newly leased automobile in the first week, automobiles recorded with irregular activities, and automobiles the user of which defaulted previous payment, while on a weekly basis for other automobiles. In case of any sustained irregular activities of our leased automobiles, our fieldwork unit staff may conduct an on-site inspection on the subject automobile by attending to the tracked location, taking photos and reporting the status of the automobile to the fieldwork department and legal department, either of which may order to take repossession action as it seems fit.

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Repossession of automobiles

Generally, if (i) any payment is overdue for over 35 days despite our repeated reminders; or (ii) any irregular behaviour is observed for at least three days on our automobile monitoring platform, we may exercise our right to repossess the automobile directly. Leveraging our patent-protected GPS tracking devices and automobile monitoring platform, in managing our post-lease credit risk for customers in default, we track down the relevant automobiles and take repossession action. After the repossession, our technical department will check and remove any GPS tracking devices not installed by us to avoid any potential tracking and stealing of the automobiles by the customers in breach. Our legal department will also negotiate with the relevant customers on the amount of penalty and a repayment plan, which can either be scheduled periodic payments or a lump sum payment. The customers may also decide to terminate the contracts and in such case, we will retain the repossessed automobiles. During the negotiation, we take into account qualitative factors, such as the attitude of the customer, the difficulty in repossessing the automobile, the condition of the automobile, and quantitative factors, such as the income level of the customers and the market value of the automobile.

Disposal of repossessed automobiles and legal actions

In the case where our customers are unable to continue with the due performance of the contracts or we cannot get in touch with our customers by all reasonable means, we will terminate the relevant contracts and proceed to dispose of the subject automobiles. As a result, approximately 23.9%, 18.8%, 20.4% and 13.1% of our finance lease contracts, respectively, were early terminated for the years ended 31 December 2020, 2021, 2022 and the six months ended 30 June 2023. Our early termination rate of finance lease contracts was calculated by dividing the number of early terminated contracts of the year/period by the sum of the number of finance lease contracts in effect at the beginning of the year/period and the addition of the number of new finance lease contracts during the year/period. Our early terminated contracts refer to the contracts terminated mainly due to the default in payment or breach of contract by our customers. Our early termination rate of finance lease contracts decreased from 23.9% for the year ended 31 December 2020 to 18.8% for the year ended 31 December 2021, mainly due to the decrease in the number of early terminated contracts and the increase in the addition of new finance lease contracts driven by the recovery from the significant adverse effects caused by the outbreak of COVID-19 in the PRC in 2020. Our early termination rate of finance lease contracts increased from 18.8% for the year ended 31 December 2021 to 20.4% for the year ended 31 December 2022, mainly due to the increase in the number of early terminated contracts partially driven by the adverse effects caused by the regional outbreaks of COVID-19 variants in the PRC in 2022, and offset by the increase in the number of finance lease contracts at the beginning of 2022 and the increase in the addition of new finance lease contracts in 2022. Our early terminated rate of finance lease contracts decreased from 20.4% for the year ended 31 December 2022 to 13.1% for the six months ended 30 June 2023, mainly due to the increase in the number of finance lease contracts at the beginning of 2023 and the increase in the addition of new finance lease contracts for the six months ended 30 June 2023, and partially offset by the increase in the number of early terminated contracts during the period.

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We will evaluate the condition of the repossessed automobiles such as their mileage, accident history and conditions of their mechanical parts, in order to determine the way of disposal, which comprise the followings:

- (i) Sale through finance lease : Automobiles in good conditions, which run normally and are accident-free, will generally be sold through finance lease.

We follow our usual operational flow under our automobile retail and finance business in selling these automobiles including automobile inspection and cleaning before delivery to customers.

- (ii) One-off sale : Automobiles in less satisfactory conditions, which are either (1) of high mileage; (2) manufactured over four years; (3) not accident-free; or (4) not running normally, will be sold in a one-off sale.

We send the list of our repossessed automobiles to be sold in one-off sales from time to time to automobile dealers or traders. If they are interested in buying the automobiles on the list, we will negotiate the transaction terms and sell such automobiles for a lump sum payment.

- (iii) Rent through operating lease : Subject to the demand for our automobile operating lease business, we may from time to time utilise the repossessed automobiles which function normally and had not been involved in any major accident for use in our automobile operating lease business.

We follow our usual operational flow under our automobile operating lease business in renting out these automobiles.

- (iv) Converting for our own commercial use : As some of our employees are involved in outdoor fieldwork such as conducting on-site inspection and repossession of our leased automobiles, they may request an automobile for performing their duties. We will assign such employees with repossessed automobiles that function normally for the performance of their duties.

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If the repossessed automobiles that do not meet the normal safety requirements, such as with severe paint scratches, and severely damaged automobile parts, they will be sent to third party automobile service workshop for repair, in order to be sold under finance lease or operate as operating lease vehicles. Automobiles with severe accidents histories, the repair cost of which is significantly higher than one-off selling price, will be sold directly through one-off sales.

The following table sets out the number, principal amount, outstanding balance and value recovered as at the Latest Practicable Date for our early terminated finance lease agreements by nature of termination for the years ended 31 December 2020, 2021, 2022 and the six months ended 30 June 2023:

	Number of agreements	Principal amount RMB'000	Outstanding balance RMB'000	Value recovered as at the Latest Practicable Date	
				RMB'000	%
For the year ended 31 December 2020					
Finance agreements terminated by the Group arose from default in payment	4,619	406,884	352,235	343,018	81.1
Finance lease agreements voluntarily terminated by customers	886	76,632	65,644	64,947	15.4
Finance lease agreements terminated by the Group for reasons other than default in payment	215	18,959	16,520	14,746	3.5
Other ^(Note 1)	4	322	298	267	—
Total	5,724	502,797	434,697	422,978	100.0
For the year ended 31 December 2021					
Finance agreements terminated by the Group arose from default in payment	3,925	339,251	294,653	282,461	76.1
Finance lease agreements voluntarily terminated by customers	970	84,250	75,548	74,577	20.1
Finance lease agreements terminated by the Group for reasons other than default in payment	197	17,668	15,678	14,053	3.8
Other ^(Note 1)	1	57	55	55	—
Total	5,093	441,226	385,934	371,146	100.0

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	Number of agreements	Principal amount <i>RMB'000</i>	Outstanding balance <i>RMB'000</i>	Value recovered as at the Latest Practicable Date <i>RMB'000</i> %	
<i>For the year ended 31 December 2022</i>					
Finance agreements terminated by the Group arose from default in payment	5,334	499,738	431,989	417,603	81.5
Finance lease agreements voluntarily terminated by customers	1,015	95,040	84,115	82,524	16.1
Finance lease agreement terminated by the Group for reasons other than default in payment	172	15,742	12,923	12,368	2.4
Other ^(Note 1)	—	—	—	—	—
Total	<u>6,521</u>	<u>610,520</u>	<u>529,027</u>	<u>512,495</u>	<u>100.0</u>
<i>For the six months ended 30 June 2023</i>					
Finance agreements terminated by the Group arose from default in payment	2,876	267,601	226,701	218,644	75.7
Finance lease agreements voluntarily terminated by customers	775	72,701	63,206	62,095	21.5
Finance lease agreement terminated by the Group for reasons other than default in payment	107	9,980	9,067	7,927	2.7
Other ^(Note 1)	2	203	160	160	0.1
Total	<u>3,760</u>	<u>350,485</u>	<u>299,134</u>	<u>288,826</u>	<u>100.0</u>

Note: “—” represents percentage less than 0.1%.

1. Other represented the number of finance lease agreements terminated due to the customers decided to switch their automobiles to another automobiles of their choice.

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	Year ended 31 December			Six months ended
	2020	2021	2022	30 June 2023
Number of finance lease agreements in effect as at the beginning of the year/period	16,077	15,839	19,152	22,001
Number of early terminated agreements during the year/period ^(Note 1)	5,724	5,093	6,521	3,760
Addition of new finance lease agreements during the year/period	7,859	11,308	12,754	6,728
Early termination rate ^(Note 2)	23.9%	18.8%	20.4%	13.1%
Number of finance lease agreements terminated by the Group arose from default in payment	4,619	3,925	5,334	3,525
Default rate ^(Note 3)	19.3%	14.5%	16.7%	12.3%
Number of finance lease agreements terminated by the Group for reasons other than default in payment	215	197	172	107
Other termination rate ^(Note 4)	0.9%	0.7%	0.5%	0.4%

Notes:

- As our finance lease agreements generally had a term ranging from two to four years, the number of early terminated agreements during the year/period may include the agreements entered into prior to the Track Record Period.
- Early termination rate of finance lease agreements was calculated by dividing the number of early terminated agreements of the year/period by the sum of the number of finance lease agreements in effect at the beginning of the year/period and the addition of the number of new finance lease agreements during the year/period.
- Default rate of finance lease agreements was calculated by dividing the number of default in payment and finance agreements terminated by the Group of the year/period by the sum of the number of finance lease agreements in effect at the beginning of the year/period and the addition of the number of new finance lease agreements during the year/period.
- Other termination rate was calculated by dividing the total number of finance agreements terminated other than default in payment of the year/period by the total number of finance lease agreements in effect at the beginning of the year/period and the addition of the number of new finance lease agreements during the year/period.

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Our early termination rate and default rate of finance lease agreements decreased from 23.9% and 19.3% for the year ended 31 December 2020 to 18.8% and 14.5% for the year ended 31 December 2021, respectively, mainly due to the increase in our addition of new finance lease agreements for the year ended 31 December 2021, driven by the recovery from the outbreak of the COVID-19 in the PRC in 2020, then increased to 20.4% and 16.7% for the year ended 31 December 2022, respectively, due to the increase in the number of early terminated agreement during the year, driven by the regional outbreaks of COVID-19 variants in the PRC in 2022. The fluctuation of our early termination rate during the Track Record Period mainly depended on (i) the growth rate of the number of early terminated agreements during the year; and (ii) the growth rate of addition of new finance lease agreements during the year. For the year ended 31 December 2021, the number of addition of new finance lease agreements increased by 43.9% as compared to the year ended 31 December 2020, as our business recovered from the adverse impact of COVID-19 in the PRC in 2020, in comparison, the number of early terminated agreements decreased by 11.0% for the corresponding year, hence our early termination rate decreased. For the year ended 31 December 2022, the number of addition of new finance lease agreements increased by 12.8% as compared to the year ended 31 December 2021, however, the number of early terminated agreements increased by 28.0% due to the regional outbreaks of COVID-19 variants in the PRC in 2022, hence our early termination rate increased. Our early termination rate and default rate of finance lease agreements decreased to 13.1% and 12.3% for the six months ended 30 June 2023, respectively, mainly due to the increase in our addition of new finance lease agreements during the period. Customers may voluntarily terminate the finance lease contracts due to their own considerations such as finance needs.

The actual loss incurred related to the early terminated contracts during the Track Record Period was set out as below, including (i) disposal loss of repossessed automobiles; (ii) provision for inventories; and (iii) finance lease receivables written-off.

	Year ended 31 December			Six months ended 30 June
	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Disposal loss of repossessed automobiles	5,694	5,883	6,750	2,293
Provision for inventories	2,876	7,674	6,886	3,774
Finance lease receivables written-off	<u>2,459</u>	<u>3,328</u>	<u>2,951</u>	<u>3,707</u>
Total	<u>11,029</u>	<u>16,885</u>	<u>16,587</u>	<u>9,774</u>

The actual loss incurred from the early terminated contracts increased from RMB11.0 million for the year ended 31 December 2020 to RMB16.9 million for the year ended 31 December 2021, mainly due to the increase in our provision for inventories for our increased number of finance lease agreements during the year. The actual loss incurred from

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the early terminated contracts remained relatively stable at RMB16.6 million for the year ended 31 December 2022. The actual loss incurred from the early terminated contracts was RMB9.8 million for the six months ended 30 June 2023.

The following table sets out the number of repossessed and disposed automobiles, and the value recovered, as at the Latest Practicable Date, from our early terminated finance lease agreements by the source of recovery for the years ended 31 December 2020, 2021, 2022 and the six months ended 30 June 2023:

	Number of repossessed and disposed automobiles	Value recovered RMB'000	%
<i>For the year ended 31 December 2020</i>			
Sale through finance lease	3,256	258,702	59.8
One-off sale	1,913	125,025	28.9
Rent through operating lease	504	45,365	10.5
Convert for our own commercial use	<u>30</u>	<u>3,507</u>	<u>0.8</u>
Total	<u><u>5,703</u></u>	<u><u>432,599</u></u>	<u><u>100.0</u></u>
<i>For the year ended 31 December 2021</i>			
Sale through finance lease	3,114	249,948	65.3
One-off sale	1,482	97,103	25.4
Rent through operating lease	446	34,184	8.9
Convert for our own commercial use	<u>13</u>	<u>1,383</u>	<u>0.4</u>
Total	<u><u>5,055</u></u>	<u><u>382,618</u></u>	<u><u>100.0</u></u>
<i>For the year ended 31 December 2022</i>			
Sale through finance lease	4,590	397,423	75.1
One-off sale	1,124	64,866	12.3
Rent through operating lease	796	65,540	12.4
Convert for our own commercial use	<u>7</u>	<u>917</u>	<u>0.2</u>
Total	<u><u>6,517</u></u>	<u><u>528,746</u></u>	<u><u>100.0</u></u>
<i>For the six months ended 30 June 2023</i>			
Sale through finance lease	2,714	228,823	77.0
One-off sale	508	28,005	9.4
Rent through operating lease	518	40,373	13.6
Convert for our own commercial use	<u>1</u>	<u>146</u>	<u>—</u>
Total	<u><u>3,741</u></u>	<u><u>297,347</u></u>	<u><u>100.0</u></u>

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For the years ended 31 December 2020, 2021, 2022 and the six months ended 30 June 2023, the number of instances of customer default on repayments, which refers any payment of principal or interest being overdue for more than three months, were 80, 99, 126 and 158, respectively. The following table sets out the non-performing asset ratio by sales channel for the dates indicated:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
Self-operated sales outlets	0.7%	0.6%	0.7%	0.8%
Automobile agents	0.7%	2.4%	0.03%	0.002%

As a result of our risk management system, we had managed to maintain relatively low credit losses during the Track Record Period. As at 31 December 2020, 2021, 2022 and 30 June 2023, our non-performing asset ratios were 0.7%, 0.7%, 0.7% and 0.8%, respectively. According to the CIC Report, the industry average non-performing asset ratio as at 31 December 2021 and 2022 were 1.5% and 2.0%, respectively. As such, our non-performing asset ratios as at 31 December 2021 and 2022 were lower than the industry average.

We also initiate legal proceedings against the default or delinquent customers to recover overdue payments and related administrative fees from time to time in order to preserve our automobile assets, to put pressure on our customers for figuring out a repayment schedule with us, or to identify additional assets that our customers can provide as collateral to secure the outstanding receivables. As at the Latest Practicable Date, we had a total of 75 outstanding legal proceedings mainly against our customers.

As at the Latest Practicable Date, out of the early terminated contracts, 99.6%, 99.3%, 99.9% and 99.5% of the automobiles were successfully repossessed and sold, leased or put into our own commercial use, representing 97.3%, 96.2%, 96.9% and 96.5% of the outstanding amount of lease receivables of the early terminated contracts for the years ended 31 December 2020, 2021, 2022 and the six months ended 30 June 2023, respectively. As a result of our effective automobile repossession and disposal measures, as well as the legal proceedings we initiated against our default customers, the actual loss incurred related to the early terminated contracts accounted for 1.5%, 1.4%, 1.5% and 1.9% of the total revenue for the years ended 31 December 2020, 2021, 2022 and the six months ended 30 June 2023, respectively.

Operational Risk Management

Liquidity risk

Liquidity risk is the risk that we may not have sufficient funds to meet our payment obligations as they become due. We aim at maintaining an appropriate level of liquidity, allowing our Group to meet payment obligations and support our operations.

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We believe that our funding strategy that aims to avoid any significant gap between the maturity profile of assets and liabilities and to diversify our sources of funding can minimise our liquidity risk. We use a broad range of financing instruments such as shareholders’ equity, interest-bearing loans, automobile finance lease arrangement, factoring of finance lease receivables to maintain diverse funding sources. Please see the section headed “Business — Our Lenders and Funding Capabilities” for further details. We also aim to maintain an appropriate level of liquid assets.

Our liquidity risk management is led by our finance department under the leadership of Ms. Zhang Jinghua, our executive Director who has over 18 years of experience in financial management. For further details of Ms. Zhang’s qualifications and experience, please see the section headed “Directors and Senior Management — Executive Directors”.

We have adopted the following measures to control and monitor our short-term and long-term liquidity risk exposure:

- strive to match the cash outflow relating to our borrowings with the cash inflow of our automobile finance leases (generally not more than four years);
- maintain diverse funding sources;
- maintain an appropriate level of liquid assets;
- maintain an appropriate level of unutilised funding facilities; and
- monitor our short-term and long-term liquidity risk using internal metrics and regulatory indicators as set out below:
 - without taking into account the financing of e-hailing vehicle operating lease, current ratio shall not be lower than one;

The aforesaid automobiles are classified as non-current assets. Thus, our Company considers that the inclusion of such current liabilities in the calculation of current ratio is not appropriate.

- debt ratio (defined as total assets divided by total liabilities) shall not exceed 85%; and
- the level of risk assets shall comply with the requirements stipulated by the relevant PRC laws and regulations.

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Data Privacy

Our operating risk management is principally led by our vice president of Fujian Xidun, Mr. Chen Xiong. Operating risk is the risk resulting from inadequate internal controls and systems, human errors, information technology system failures or external events. In particular, we face the risk of failing to protect the confidentiality of our customers’ personal data. During our credit assessment and approval process, we collect and store personal information about our customers, for example, names, identity card numbers, driving licences, bank card numbers, addresses and mobile phone numbers. We also collect behavioural data on customers’ usage of the leased automobiles through the GPS tracking devices installed on the automobiles with customers’ consent. We have adopted corresponding internal control measures to ensure the security of our data system and confidentiality of our customers’ personal and behavioural data, which we require our employees to strictly adhere to and have established a penalty mechanism to ensure our employees’ compliance with our internal control measures. Such measures include, but not limited to the followings:

- Access to our customers’ data is restricted by assigning different security clearance level to our employees of different departments. Our employees are generally allowed to access such data for the purpose of conducting our credit assessment and approval, and monitoring and tracking automobile activities. However, they can only access our customers’ data for other purposes based on business needs with prior approval of the head of our technical department and Fujian Xidun. We cancel the right of access to customers’ personal data for resigned or dismissed employees. In relation to employees on leave for more than one month, we suspend their access to customers’ personal data during their leave period. Our employees are required to adhere to all relevant laws and regulations, as well as our internal control measures in relation to the data privacy protection.
- We store the data on customers’ usage of the leased automobiles on third party cloud servers, the operators of which are not allowed to disclose such data to other third parties without our prior consents. Our agreement with third party cloud server operators stipulated that third party cloud server operators shall not use or disclose any data to other third parties without our prior consent. We also require third party operators to provide periodical “Service Organisation Control” reports during the service period to verify that the security, availability and confidentiality of cloud servers are effective.
- We store our customers’ personal data in our internal server. Our computer systems and information processing facilities are protected by firewalls and anti-virus software to prevent and detect threats by computer viruses and other malicious software. Our employees are not allowed to install any computer software or plug in any external hard drives to our office computers unless approved by our technical department. We have put in place information security measures to implement strict data access control. The passwords for the administrator accounts with higher access rights are set by the database administrator of our IT department. The passwords for the administrator

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accounts with higher access rights are set by the database administrator of our IT department without revealing to any other person. Any alteration of data, such as addition, deletion, and modification, by way of database back-end operation requires authorisation by our IT department and can only be carried out by the personnel of our IT department.

- Repair and maintenance work on our computer systems and information processing facilities are generally performed by our technical department. For any such repair and maintenance works performed by external parties, the staff of our technical department will monitor such works performed on site. If any of our computer systems and information processing facilities have to be taken away for repair and maintenance work, to the extent possible, we will back up and erase all data stored in such device before such device leaves our properties. We will also scan such device for computer virus or any other malicious software before putting it back into our computer systems.
- Our contracts with third party automobile aftermarket service providers generally stipulate that they are not allowed to disclose or publish any information, including customers’ personal data, to other third parties without our prior consents.

We have taken various measures to ensure the collection, storage and use of our customers’ personal data are in compliance with applicable laws and regulations. For example, our customers are required to provide consent to our collection, use and disclosure of their personal data before we conduct our credit assessment, either by signing a consent letter or by acknowledging and consenting to our data privacy policy which can be accessed on our mobile applications. Our collection, use and disclosure of our customers’ personal data are for the purposes consented to by the data subject, who provided the relevant data and remain the owner of such data, and the personal data will not be utilised for any other purposes without their prior consent. We do not set a fixed duration for how long the personal data will be kept on our system. Therefore, unless the owner of the data requests for deletion, we generally will continue to maintain this data in accordance with our policy to ensure security and confidentiality.

Further, our customers are required to provide consent to the installation of GPS tracking devices on the leased automobiles. As advised by our PRC Legal Advisers, as at the Latest Practicable Date, there was no applicable law and regulation in the PRC in relation to the ownership of GPS tracking data. We generally do not set a fixed duration for how long the GPS tracking data will be kept on our system. Such data will generally be kept for a period of at least thirty days. We will remove the GPS tracking devices installed on the leased automobiles at the end of the lease terms.

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During the Track Record Period, we had not been in material breach of any PRC laws or regulations in relation to the privacy and personal information protection during our collection, use, disclosure and protection of personal information. During the Track Record Period, our Directors confirmed that we had not received any complaints from any third party, or been involved in any dispute with any third party, or been investigated or punished by any competent authority in relation to privacy and personal information protection. Taking into account the above, our PRC Legal Advisers are of the view that our Group complied with the applicable PRC laws, rules and regulations relating to the collection, storage, use, disclosure of personal data in all material respects during the Track Record Period.

We have also implemented the following measures to monitor and control our other operational risk exposure:

- maintaining a corporate governance structure with clearly defined duties of the Board, senior management, as well as the various committees and departments;
- formulating and adopting standard commercial contracts for our business operations; and
- maintaining and continuously improving our operational procedures and internal control system, and utilising our information technology system to monitor and control the performance of each procedure.
- We have implemented a bribery prevention policy that forbids our Directors, our staff and agents from accepting benefits and giving benefits to business partners. The policy also contains procedures for handling conflicts of interest and whistleblowing. Whistleblowers are given financial rewards for preventing financial loss if the incident was not discovered.
- We have also implemented an anti-corruption policy that further lists out in detail all the benefits that our Directors, our staff and agents should not receive from business partners, including monetary benefits, entertainment-related benefits, discounts, services, loans, employment, stocks, education and gambling. The policy also forbids the use of our assets for personal purposes and gambling, and contains rules on gifting between staff and management. The policy requires the establishment of an internal audit function and lists out its roles and responsibilities.
- Our Directors, our staff and agents are responsible for abiding by the bribery prevention policy and anti-corruption policy. Penalties are given according to the policies if any violations are raised or detected.

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Interest rate risk

Interest rate risk represents exposure to adverse movements in interest rates. The interest rate risk that we face is relatively limited because our assets and liabilities are generally based on fixed interest rates. Our exposure to the risk of changes in market interest rates relates primarily to our interest-bearing borrowings and lease receivables. Our interest rate risk is principally managed by our finance department under the leadership of our executive Director, Ms. Zhang Jinghua. See “Directors and Senior Management — Executive Directors” in the document for further details of Ms. Zhang’s qualification and experience.

To manage our interest rate risk, we have adopted the following measures:

- monitoring interest rate fluctuations regularly; and
- tracking the sensitivity of projected net interest income under varying interest rate scenarios.

Legal and Compliance Risk Management

We are subject to regulation and supervision by national, provincial and local government authorities with regard to our finance lease operations, online platforms and mobile applications. XXF Group, Fujian Xidi and Fujian Shenqi are subject to certain regulatory measures, including the Measures for Finance Lease Enterprises (《融資租賃企業監督管理辦法》) prior to 26 May 2020, which stipulates that the risk assets of a finance lease company shall not exceed 10 times of its total net assets; and the Interim Measures for the Supervision and Administration of Finance Lease Companies (《融資租賃公司監督管理暫行辦法》) (the “**Interim Measures**”) since 26 May 2020, which stipulates that the risk assets of a finance lease company shall not exceed eight times of its net assets. Please see the section headed “Regulatory Overview” for further details of the applicable laws and regulations. If we fail to comply with these laws and regulations, we may be penalised and be required to rectify.

Our legal and compliance risk is managed by our legal department under the leadership of our legal manager, Ms. Ye Ying, who has over eight years of legal-related experience. During the Track Record Period, we have not been prosecuted nor sanctioned for any material non-compliance by any government authorities. In addition, we have implemented the following measures to strengthen our legal and compliance risk management:

- establishing risk-monitoring thresholds (our level of risk assets not exceeding (i) 10 times of our total net assets prior to 26 May 2020; and (ii) eight times of our total net assets since 26 May 2020) in our system in accordance with the relevant legal and regulatory requirements, to monitor and identify and the irregularities and non-compliance incidents in our operations. The risk assets, registered capital and net assets value of each of the XXF Group, Fujian Xidi and Fujian Shenqi were in compliance with the Measures for Finance Lease Enterprise during the

RISK MANAGEMENT AND OPERATIONS

Track Record Period. The following table sets out the risk assets, registered capital and net assets value of each of the XXF Group and Fujian Xidi as at the dates indicated based on the respective statutory/management accounts:

XXF Group

	As at 31 December			As at
	2020	2021	2022	30 June 2023
Risk assets (total assets net of cash and cash equivalents and pledged and restricted deposits) (<i>RMB'000</i>)	1,719,766	2,118,879	2,407,377	2,380,763
Net assets value (<i>RMB'000</i>)	601,363	662,792	693,916	712,405
Risk assets/Net assets value (<i>times</i>)	2.9	3.2	3.5	3.3

Fujian Xidi

	As at 31 December			As at
	2020	2021	2022	30 June 2023
Risk assets (total assets net of cash and cash equivalents and pledged and restricted deposits) (<i>RMB'000</i>)	488,477	340,650	—	—
Net assets value (<i>RMB'000</i>)	174,080	168,006	—	—
Risk assets/Net assets value (<i>times</i>)	2.8	2.0	—	—

Fujian Shenqi started to engage in automobile finance lease business since September 2023. Fujian Xidi has terminated finance lease business since 22 July 2022.

- monitoring legal updates, including updates on the interpretation of applicable laws and regulations by relevant regulatory authorities; and
- engaging lawyers to advise our Group in relation to legal compliance when necessary.