You should read this section in conjunction with our financial information, including the notes thereto, as set out in "Appendix I — Accountant's Report" to this document. The financial information has been prepared in accordance with IFRS. You should read the entire Accountant's Report and not merely rely on the information contained in this section.

The following discussion and analysis contains forward-looking statements that involves risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in "Risk Factors".

OVERVIEW

We are an established automobile finance lease service provider for our self-operated automobile retail business in the PRC. Our Group's principal businesses comprise: (i) automobile retail and finance, where we sell non-luxury automobiles mostly on direct finance lease primarily through our sales outlets; and (ii) automobile-related services, where we offer automobile operating lease service and other automobile-related services. According to the CIC Report, we ranked 4th in terms of transaction volume of direct finance lease and 19th in terms of transaction volume of retail automobile finance lease among RAFLCs in the PRC in 2021.

During the Track Record Period, our automobile retail and finance business was the principal revenue contributor, which accounted for 79.7%, 86.4% and 87.4% of total revenue for the years ended 31 December 2020, 2021 and 2022, respectively.

We recorded profit for the year of RMB10.3 million, RMB30.7 million and RMB77.1 million for the years ended 31 December 2020, 2021 and 2022, respectively. Our profit for the year increased by 199.3% from RMB10.3 million for the year ended 31 December 2020 to RMB30.7 million for the year ended 31 December 2021, mainly driven by our revenue growth due to the recovery from the adverse impact of COVID-19 in 2020. Our profit for the year increased by 151.2% from RMB30.7 million for the year ended 31 December 2021 to RMB77.1 million for the year ended 31 December 2022, mainly due to the fair value gain on ordinary shares with redemption right of RMB47.3 million for the year ended 31 December 2022 whereas we recorded fair value loss on ordinary shares with redemption right of RMB4.2 million for the year ended 31 December 2021.

Our adjusted net profit (Non-IFRS measures) amounted to RMB21.3 million, RMB49.5 million and RMB42.4 million for the years ended 31 December 2020, 2021 and 2022, respectively. The adjusted net profit (Non-IFRS measures) is presented as an additional financial measure which is not required by, nor presented in accordance with IFRS. See "Financial Information — Non-IFRS Measures" for further details.

We place top priority on the management of the risks associated with our business. As a result of our risk management system, we have managed to maintain relatively low non-performing asset ratios during the Track Record Period. As at 31 December 2020, 2021 and 2022, our non-performing asset ratios were 0.7%, 0.7% and 0.7%, respectively. As a result of our effective automobile repossession and disposal measures, as well as the legal proceeding we initiated against our default customers, as at the Latest Practicable Date, out of the early terminated contracts for the years ended 31 December 2020, 2021 and 2022, 99.6%, 99.2% and 98.7% of the automobiles were successfully repossessed and sold, leased or put into our own commercial use, representing 97.3%, 96.1% and 96.9% of the outstanding amount of finance lease receivables of such early terminated contracts for the corresponding year, respectively.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 29 March 2019 as an exempted company with limited liability under the Cayman Companies Act. Through a corporate reorganisation as further explained in "History, Reorganisation and Corporate Structure — Reorganisation" in this document, the **[REDACTED]** Business (as defined in the Accountant's Report in Appendix I to this document) was transferred to and held by our Company. The Reorganisation is merely a recapitalisation of the **[REDACTED]** Business with no change in management of such business and the ultimate owners of the **[REDACTED]** Business remain substantially the same. Accordingly, our Group resulting from the Reorganisation is regarded as a continuation of the **[REDACTED]** Business. Financial information of our Group has been prepared and presented as a continuation of the **[REDACTED]** Business (as defined in the Accountant's Report in Appendix I to this document) with the assets and liabilities of our Group recognised and measured at the carrying amounts of the **[REDACTED]** Business for all periods presented, on the basis set out in the Accountant's Report in Appendix I to this document.

Our financial information has been prepared in accordance with IFRS issued by the IASB and has been prepared on a historical cost basis, except for financial assets and financial liabilities (including derivative instruments) that are measured at fair value. The financial information is presented in RMB, which is our Group's functional currency.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our financial condition and results of operation have been, and/or will be affected by a number of factors, including those set out below:

Demand for automobile direct finance lease in the PRC

Our business, financial condition and results of operations depend significantly on automobile retail and finance business. Our operations primarily focus on the tier two, and tier three and below cities in the PRC. Therefore, the demand for non-luxury automobiles in tier two, and tier three and below cities in the PRC, and especially for the automobiles of the brands we sell, directly affects our sales of automobile under finance lease upon which our business, financial condition and results of operations depend significantly. Our revenue from automobile retail and finance business contributed 79.7%, 86.4% and 87.4% of total revenue for the years ended 31 December 2020, 2021 and 2022, respectively. We sold a total number of 3,901, 7,375 and 7,153 automobiles under finance lease for the years ended 31 December 2020, 2021 and 2022, respectively.

According to the CIC Report, market demand for retail automobile finance lease in general in the PRC is driven by various factors including, among others, the rising consumer awareness of retail automobile finance lease, the development of the residual value forecasting model, the legal and regulatory environment, the risk control systems, the maturing used car market, favorable policies and regulations and the stimulation by the Internet. In 2022, the loan volume of the direct finance lease market reached 0.3 million units, increasing from 0.2 million units in 2018, representing a CAGR of 11.1% from 2018 to 2022. Driven by benefit of lower down payment and the expansion of e-hailing vehicle platform, the loan volume of direct finance lease market is expected to reach 0.6 million units in 2027, representing a CAGR of 15.6% from 2022 to 2027.

Interest rate environment

We generate a portion of our revenue from interest arising from our finance lease arrangements. For the years ended 31 December 2020, 2021 and 2022, our finance lease income accounted for 31.3%, 20.0 % and 23.0% of our total revenue for the corresponding year, respectively. Our average effective interest rate charged on newly entered finance lease agreements was at 20.5%, 19.4% and 18.5% for the years ended 31 December 2020, 2021 and 2022, respectively.

We primarily finance our business through borrowings. As at 31 December 2020, 2021 and 2022, our borrowings amounted to RMB1,156.0 million, RMB1,382.8 million and RMB1,713.4 million, respectively, and our weighted average effective interest rate of borrowings was 8.5%, 8.5% and 8.6%, respectively. For details of analysis, please refer to the paragraph below headed "Indebtedness" in this section.

The interest rates we charge our customers is an important factor that influences our revenue. The interest rate charged to a customer is determined by taking into account factors including prevailing market interest rates, market competition, the creditworthiness of customers, our funding cost, potential impairment losses and our target profit margin. Such funding cost is sensitive to many factors beyond our control, including the regulatory framework of the banking and financial sectors in the PRC and domestic and international economic and political conditions. Significant change in interest rates will have a direct impact on our finance lease income, cost of funding and net interest margin, which will in turn affect our profitability and financial condition. In the event of interest rate increase or the perception of increase, our ability to obtain funding at a favourable rate could be adversely affected. If we are unable to obtain funding at a favourable rate or we cannot fully pass the finance cost increment onto our customers, there will be a material adverse impact on our financial condition and results of operation.

Our funding capabilities

Our automobile retail and finance business and automobile operating lease business are capital intensive. During the Track Record Period, we were able to fund our Group through debt financing and equity financing. Our debt financing included (i) interest-bearing loans; (ii) automobile finance lease arrangement; (iii) factoring of finance lease receivables; (iv) asset-backed securities; and (v) convertible bond. As at 31 December 2020, 2021 and 2022, our borrowings in aggregate amounted to RMB1,156.0 million, RMB1,382.8 million and RMB1,713.4 million, respectively. Our equity financing was mainly from equity investment from our Shareholders.

We do not rely on any single source of funding and we regularly adjust our borrowings with our operational needs. After the **[REDACTED]**, as we become a public company, we expect to have better access to capital markets and enhanced funding capabilities. Our ability to continue to access additional funding may be influenced by factors affecting the PRC and global credit environment over which we have no control, including the cyclical nature of the credit supply and any changes in policies or regulations or new policies and regulations that impact these funding sources. Any developments such as these may impact our ability to sustain our funding or to expand our business and would impact our business and profitability.

Our risk management capabilities

We are subject to a variety of risks, primarily interest rate risk, credit risk and liquidity risk. We have developed a risk management and internal control system to address the risks we are subject to and to minimise the potential adverse effect on the financial performance of our Group. Our management also continue to monitor, evaluate and review the operation and performance of our risk management and internal control system, and adapt to the changes in market conditions, our product and service offerings, and the regulatory environment. For details of our Group's risk management, please refer to the section headed "Risk Management and Operations" in this document.

Products and service mix

We provide a wide range of automobile related finance and operating lease products and services. Our Group's principal businesses comprise: (i) automobile retail and finance, where we sell non-luxury automobiles mostly on direct finance lease primarily through our sales outlets; and (ii) automobile-related services, where we offer automobile operating lease service and other automobile-related services.

During the Track Record Period, sales of automobile under finance lease was the largest component of our total revenue, which contributed 48.4%, 66.4% and 64.4% of our total revenue for the years ended 31 December 2020, 2021 and 2022, respectively. However, the gross profit margin of our sales of automobile under finance lease was lower than the gross profit margin of our finance lease income during the Track Record Period. For example, our gross profit margin decreased from 40.5% for the year ended 31 December 2020 to 30.9% for the year ended 31 December 2021, which was mainly attributable to the significant increase in the revenue from sales of automobile under finance lease from RMB362.9 million for the year ended 31 December 2020 to RMB777.9 million for the year ended 31 December 2021, the contribution of which to our total revenue increased from 48.4% for the year ended 31 December 2020 to 66.4% for the year ended 31 December 2021.

As each of the existing or new services and products often carries a different cost structure and gross profit margin, our product and service mix will impact our overall cost structure and gross profit margin. Thus, our results of operation may vary from period to period as a result of the change in the composition of our revenue from different product and service mix.

Expansion of our self-operated sales outlets

Expansion of our self-operated sales outlets has an effect on our results of operations and financial condition. During the Track Record Period, our self-operated sales outlets were mainly located in tier two, tier three and below cities in the PRC. As at 31 December 2022, we operated one self-operated sales outlet in tier one city in the PRC, 33 self-operated sales outlets in tier two cities in the PRC and 34 self-operated sales outlets in tier three and below cities in the PRC.

The growth of our business, to a certain extent, depends on our ability to expand into new markets and acquire new customers efficiently. We have a proven track record of successfully expanding our geographic footprint in tier two, tier three and below cities.

Impact of outbreak of diseases or epidemic in the PRC

In 2020, the outbreak of a novel coronavirus (COVID-19) affected the economic activities in the PRC. In response to the spread of COVID-19 in the PRC in 2020, the PRC government imposed quarantine measures across the PRC, and local governments imposed temporary mobility restrictions or travel bans to control the spread of COVID-19 in the PRC in 2020, which affected market demand for our products and services.

Following the resurgence of COVID-19 in a number of provinces in the PRC, lockdown of several cities and regions in the PRC and pandemic control measures were implemented during the period from October 2022 to early December 2022 as a means to contain the spread of COVID-19. The pandemic control measures impacted our operations as certain of our self-operated sales outlets had to temporarily suspend operations.

Any recurrence of an outbreak of COVID-19 or any occurrence of other diseases or epidemics in the PRC may affect our financial results and financial condition.

For details, please refer to "Business — Impact of COVID-19 on Our Business" and "Risk Factors — Risks Relating to Our Business and Industry".

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

We have identified certain accounting policies that are most significant to the preparation of our Group's financial statements in accordance with IFRSs. The financial statements of our Group has been prepared in accordance with the principal accounting policies as set out in Accountant's Report which are in accordance with IFRSs issued by IASB. Note 2 to the Accountant's Report in Appendix I to this document sets out these significant accounting policies, which are important to understand our financial conditions and results of operations.

Some of our accounting policies involve subjective assumptions, estimates, as well as complex judgements relating to assets, liabilities, income, expenses and other accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. The significant accounting estimates and judgements are set out in detail in Note 4 to the Accountant's Report in Appendix I to this document. We set out below those accounting policies and estimates that we believe involve the most significant estimates and judgements used in the preparation of our consolidated financial statements.

In the relation to the valuation of our Group's financial assets and liabilities measured at fair value through profit and loss (FVTPL) categorised within level 3 of fair value measurement, our Group had (i) carefully considered the valuation model prepared by the independent qualified valuer in determining the fair value of such financial assets and liabilities and the valuation related policies, methodologies and techniques; and (ii) reviewed relevant agreements and supporting documents, including investment agreements, memorandum of associations, among others, to understand the detailed underlying terms and conditions that may affect the valuation of financial instruments. Based on the above-mentioned work, our management is satisfied with the categorisation within level 3 of fair value measurement pursuant to the SFC's "Guidance note on directors' duties in the context of valuations in corporate transactions."

The Sole Sponsor has conducted relevant due diligence work, including (i) understanding from the Company's nature and details of the financial assets and liabilities measured at FVTPL categorised within level 3 of fair value measurement and obtaining and reviewing the list of such financial assets and liabilities during the Track Record Period; (ii) obtaining and reviewing the terms of the relevant agreements and documents regarding such financial assets and liabilities; (iii) reviewing relevant notes in the Accountant's Report as contained in Appendix I to this document; (iv) understanding from the independent qualified valuer the key bases, assumptions and methodologies used in the valuation report; (v) understanding from the Company the key bases and assumptions for the valuation of the financial assets and liabilities; and (vi) discussing with the Reporting Accountant to understand the work it has performed in relation to financial assets and liabilities for the purpose of reporting on the historical financial information, as a whole, of our Group. Having considered the work done by the management and the independent qualified valuer, and the relevant due diligence done as stated above, nothing material has come to the Sole Sponsor's attention that indicates that the Company's management have not undertaken independent and sufficient investigation and due diligence on such financial assets and liabilities.

Details of the fair value measurement of such financial assets and liabilities, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, and the relationship of unobservable inputs to fair value are disclosed in Note 3.3 to the Accountant's Report set out in Appendix I to this document, which was reported on by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant's opinion on the historical financial information of our Group for the Track Record Period as a whole is set out on pages I-1 to I-3 of Appendix I to this document.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for sales of goods and services rendered in the ordinary course of our Group's activities, stated net of discounts and after eliminated sales within our Group. Revenue is recognised when or as the control of goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, revenue may be recognised over time or at a point in time.

Control of the good or service is transferred over time if our Group's performance:

— provides all of the benefits received and consumed simultaneously by the customer;

— creates or enhances an asset that the customer controls as our Group performs; or

— does not create an asset with an alternative use to our Group and our Group has an enforceable right to payment for performance completed to date.

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

A contract liability is our Group's obligation to render the goods or services to a customer for which our Group has received consideration from the customer.

Further details of our Group's revenue and other income recognition policies are as follows:

(a) Sales of automobile under finance lease arrangement

Revenue from sales of automobile under finance lease arrangement is recognised upon transfer of control to customer which generally coincides with the time when the automobiles are delivered and accepted by the customers, which is determined as the lower of the fair value of the underlying automobiles and the present value of the lease payment accruing to the Group. The corresponding leased asset is derecognised when finance lease receivable is recognised on the consolidated statements of financial position.

(b) Finance lease income

Our Group provides automobile finance lease services to customers, with the sales of automobile. The income under finance lease is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial lease receivables.

(c) Automobile operating lease income

Our Group provides automobile operating lease services to individual and corporate customers. Revenue from these services is recognised on a straight-line basis in accordance with the terms of the operating leases.

(d) Other automobile-related services

For our other automobile-related services, we mainly promote our business-end customers' insurance service and automobile after-market service to our car-user customers, in return, we receive service fees from our business-end customers for such services we provided.

Lease

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

(a) Our Group as a lessee

Our Group leases various properties to operate our offices and stores. These leases are typically made for fixed periods of one to eight years. Lease terms are negotiated on an individual basis and contain various different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by our Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Neither extension nor termination options are included in property leases across our Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities substantially include the net present value of fixed payments (including in-substance fixed payments). The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or our Group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of twelve months or less. Low-value assets comprise IT-equipment and small items of office furniture.

(b) Our Group as a lessor

Operating lease

Leases of leased assets where our Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessees) is recognised in consolidated statements of comprehensive income on a straight-line basis over the lease term.

Initial direct costs incurred by our Group in negotiating and arranging operating leases are added to the carrying amount of the leased assets and recognised as an expense in consolidated statements of comprehensive income over the lease term on the same basis as the lease income. Contingent rents are recognised as income in consolidated statements of comprehensive income when earned.

Finance lease

Leases where our Group has transferred substantially all risks and rewards incidental to ownership of the leased assets to the lessees are classified as finance leases. Our Group will recognise as sales revenue, arising from the leased assets, at a lower of the fair value or present value of the minimum lease payments computed at a market interest rate. The difference between the sales revenue and the cost of sales is the selling profit or loss.

The leased asset is derecognised and the present value of the lease receivable is recognised on the consolidated statements of financial position and included in finance lease receivables. The difference between the gross receivables and the present value of the lease receivables is recognised as unearned finance income.

Each lease payment received is applied against the gross investment in the finance lease receivables to reduce both the principal and the unearned finance income. The finance income is recognised in consolidated statement of comprehensive income on a basis that reflects a constant periodic rate of return on the net investment in the finance lease receivables.

Initial direct costs incurred by our Group in negotiating and arranging finance leases is recognised in consolidated statements of comprehensive income in the financial period corresponding to the recognition of selling profit.

Finance lease receivables that are factored out to financial institutions with recourse to our Group is not derecognised until the recourse period has expired and the risk and rewards of the finance lease receivables have been fully transferred.

RESULTS OF OPERATIONS

The following table summarises our consolidated statements of comprehensive income for the years ended 31 December 2020, 2021 and 2022, as extracted from the Accountant's Report set out in Appendix I to this document:

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	749,761	1,171,262	1,141,526
Cost of revenue	(446,163)	(809,506)	(767,079)
Gross profit	303,598	361,756	374,447
Selling and marketing expenses	(75,056)	(83,164)	(81,096)
Administrative expenses	(105,629)	(114,879)	(115,146)
Research and development expenses	(423)	(2,106)	(722)
Provision for credit loss	(2,098)	(3,870)	(4,877)
Fair value (loss)/gain on ordinary shares with redemption right	(6,932)	(4,153)	47,251
Other income, net	23,302	15,960	21,748
Other losses, net	(6,621)	(8,713)	(6,814)
Operating profit	130,141	160,831	234,791
Finance income	1,849	2,008	973
Finance cost	(111,021)	(119,829)	(143,991)
Finance cost, net	(109,172)	(117,821)	(143,018)
Profit before income tax	20,969	43,010	91,773
Income tax expenses	(10,716)	(12,323)	(14,691)
Profit for the year	10,253	30,687	77,082
Profit attributable to:			
— Owners of the Company	12,341	34,112	78,913
— Non-controlling interests	(2,088)	(3,425)	(1,831)
	10,253	30,687	77,082

NON-IFRS MEASURES

To supplement our historical financial information set out in Appendix I to this document, we also present adjusted net profit (Non-IFRS measures) and adjusted net profit margin (Non-IFRS measures) as additional financial measures, which are not required by, nor presented in accordance with IFRS. We present these financial measures because our management use them to evaluate our financial performance by eliminating the impact of certain items. We believe that these non-IFRS measures provide additional information to investors and others in understanding and evaluating our business performance.

Adjusted net profit (Non-IFRS measures) and adjusted net profit margin (Non-IFRS measures) eliminate the effect of certain items, mainly **[REDACTED]** expenses and fair value loss/(gain) on ordinary shares with redemption right.

The following table reconciles our adjusted net profit (Non-IFRS measures) and adjusted net profit margin (Non-IFRS measures) presented to the most directly comparable financial measures calculated and presented in accordance with IFRS. **[REDACTED]** expenses represent expenses relate to the **[REDACTED]**, net of the PRC enterprise income tax. Fair value loss/(gain) on ordinary shares with redemption right represents the changes arising from change in fair value to ordinary shares with redemption right. Such changes are non-cash in nature. Upon the **[REDACTED]**, all ordinary shares with redemption right will be automatically converted into ordinary shares which will no longer be recognised as financial liabilities at fair value through profit or loss.

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Profit for the year	10,253	30,687	77,082
Add:			
[REDACTED] expenses, net of tax	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Fair value loss/(gain) on ordinary shares with redemption right	6,932	4,153	(47,251)
Adjusted net profit (Non-IFRS measures)	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Adjusted net profit margin (Non-IFRS measures)[(Note)]	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

Note:

Adjusted net profit margin (Non-IFRS measures) is calculated based on the adjusted net profit (Non-IFRS measures) for the year divided by revenue for the respective year.

DESCRIPTION OF SELECTED ITEMS IN CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Our Group's principal businesses mainly comprise (i) automobile retail and finance; and (ii) automobile-related services. For our automobile retail and finance business, we mainly generate revenue through sales of automobile mostly on direct finance lease. Our automobile-related services business primarily represents the revenue generated from automobile operating lease.

For the years ended 31 December 2020, 2021 and 2022, our revenue was RMB749.8 million, RMB1,171.3 million and RMB1,141.5 million, respectively. One of the key reasons behind the significant increase in revenue from RMB749.8 million for the year ended 31 December 2020 to RMB1,171.3 million for the year ended 31 December 2021, was driven by our tactic changes in hiring in sales headcounts to counter the challenges that COVID-19's related control measures introduced by the Chinese national and regional governments during the Track Record Period. Our overall business performance was materially affected by COVID-19's situation in China due to the nature of our business in automobile industry. In 2020, we took a series of measures in response to the COVID-19 outbreak in the PRC, such as temporary closure of some of our sales outlets due to the limitations on in-store operation during the pandemic, and executed headcount freeze. When the market recovered in 2021, we increased our hiring to capture the market opportunities. Therefore, the decrease in revenue for the year ended 31 December 2020 created a low base, and with our efforts in 2021, we quickly adjusted our hiring plan to capture the market opportunities and delivered a stronger performance for the year ended 31 December 2021 comparing to the year ended 31 December 2020. As at 31 December 2020, 2021 and 2022, the number of sales headcounts for our self-operated sales outlets was 336, 495 and 472, respectively. Our total revenue for the year ended 31 December 2022 decreased by 2.5% as compared to the year ended 31 December 2021, mainly due to the impact on our in-store operation in various cities in the PRC brought by the strict pandemic control and lockdown measures as a result of the resurgence of COVID-19 pandemic in various parts in the PRC in 2022, which decreased our sales of automobile under finance lease and our e-hailing operating lease in certain regions in the PRC for the year ended 31 December 2022. The following table sets out a breakdown of our revenue by service type for the years indicated:

	Year ended 31 December					
	2020		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Automobile retail and finance						
Sales of automobile under finance lease	362,934	48.4	777,856	66.4	734,600	64.4
Finance lease income	234,705	31.3	234,561	20.0	262,498	23.0
Sub-total	597,639	79.7	1,012,417	86.4	997,098	87.4
Automobile-related services						
Automobile operating lease	132,606	17.7	144,163	12.3	126,018	11.0
Other automobile-related services	19,516	2.6	14,682	1.3	18,410	1.6
Sub-total	152,122	20.3	158,845	13.6	144,428	12.6
Total	749,761	100.0	1,171,262	100.0	1,141,526	100.0

Automobile retail and finance

We sell our automobiles, including both passenger vehicles and e-hailing vehicles, mainly on direct finance lease. We provide a variety of financing packages to our customers. Our direct finance lease involves leasing of (i) our newly acquired automobiles mainly from auto dealers which we generate both sales of automobile and finance lease income; and (ii) repossessed automobiles due to customers' default which we record finance lease income only. Occasionally, depending on the availability of our resources, we may also provide automobile sale-leaseback arrangement to customers to generate finance lease income. For the years ended 31 December 2020, 2021 and 2022, the number of new automobiles sold under finance lease was 3,901 units, 7,375 units and 7,153 units, respectively, and the number of newly entered finance lease agreements was 7,859, 11,308 and 12,754, respectively.

Our revenue from this business amounted to RMB597.6 million, RMB1,012.4 million and RMB997.1 million, representing 79.7%, 86.4% and 87.4% of our total revenue for the years ended 31 December 2020, 2021 and 2022. Our revenue from automobile retail and finance by way of direct finance lease accounted for 98.9%, 99.7% and 99.8% of total revenue generated from our automobile retail and finance business for the years ended 31 December 2020, 2021 and 2022, respectively.

Sales of automobile under finance lease

During the Track Record Period, we conducted our sales of automobile under finance lease principally through our self-operated sales outlets. We also worked with third party agents to promote passenger vehicles and e-hailing vehicles for our automobile retail and finance business. However, the non-performing asset ratio of our finance lease agreements through this channel was higher than that through our sales outlets. In 2021 we ceased to work with any third party agents to promote passenger vehicles for our automobile retail and finance business.

The following table sets out the breakdown of the number of new automobiles sold, the average price of new automobiles sold and our revenue from sales of automobile under finance lease by sales channel for the years indicated:

	Year ended 31 December											
	2020				2021				2022			
	Number of new automobiles sold	Average price of new automobiles sold	Revenue from sales of automobile under finance lease		Number of new automobiles sold	Average price of new automobiles sold	Revenue from sales of automobile under finance lease		Number of new automobiles sold	Average price of new automobiles sold	Revenue from sales of automobile under finance lease	
		RMB'000	*RMB'000*	*%*		*RMB'000*	*RMB'000*	*%*		*RMB'000*	*RMB'000*	*%*
Self-operated sales outlets	3,706	93	344,445	94.9	7,360	105	776,299	99.8	7,119	103	731,232	99.5
Automobile agents	195	95	18,489	5.1	15	104	1,557	0.2	34	99	3,368	0.5
Total	3,901	93	362,934	100.0	7,375	105	777,856	100.0	7,153	103	734,600	100.0

Self-operated sales outlets

Our sales of automobile under finance lease from self-operated sales outlets amounted to RMB344.4 million, RMB776.3 million and RMB731.2 million for the years ended 31 December 2020, 2021 and 2022, respectively, accounted for 94.9%, 99.8% and 99.5% of our sales of automobile under finance lease for the corresponding year, respectively. During the Track Record Period, we took a series of measures in response to the COVID-19 outbreak in the PRC, such as temporary closure of some of our sales outlets due to the limitations on in-store operation during the pandemic, and executed headcount freeze in 2020, and when the market recovered in 2021, we increased our hiring to capture the market opportunities. As at 31 December 2020, 2021 and 2022, the number of sales headcounts for our self-operated sales outlets was 336, 495 and 472, respectively.

Our sales of automobile under finance lease from self-operated sales outlets increased by RMB431.9 million or 125.4% from RMB344.4 million for the year ended 31 December 2020 to RMB776.3 million for the year ended 31 December 2021. Such increase was attributable to the increase in the number of new automobiles sold under finance lease through our self-operate sales outlets from 3,706 units for the year ended 31 December 2020 to 7,360 units for the year ended 31 December 2021, primarily due to the strong recovery from the significant adverse effects caused by the outbreak of COVID-19 in the PRC in 2020 that led to (i) the demand of new automobiles under finance lease reduced during the year ended 31 December 2020; and (ii) the temporary diversion of sales focus to the finance lease of our repossessed automobiles during the period from February 2020 to July 2020 to better manage our inventory level and minimise non-performing assets as there was a significant increase in the number of terminated contracts during the aforesaid period.

Our sales of automobile under finance lease from self-operated sales outlets decreased by RMB45.1 million or 5.8% from RMB776.3 million for the year ended 31 December 2021 to RMB732.2 million for the year ended 31 December 2022, mainly due to the impact on our in-store operation in various cities of the PRC brought by the strict pandemic control and lockdown measures as a result of the resurgence of COVID-19 pandemic in various parts of the PRC in 2022.

We had 66, 65 and 68 self-operated sales outlets as at 31 December 2020, 2021 and 2022, respectively. As at the Latest Practicable Date, majority of our sales outlets were located in tier two, and tier three and below cities. During the Track Record Period, more than one-third of our sales of automobile under finance lease were generated from sales outlets located in Eastern PRC.

The following table sets out the breakdown of the number of new automobiles sold, number of sales outlets, sales of automobile under finance lease from self-operated sales outlets and average price of new automobiles sold by geographical location for the years/dates indicated:

	As at/Year ended 31 December														
	2020					2021					2022				
	Number of new automobiles sold	Number of sales outlets	Revenue from sales of automobile under finance lease from self-operated sales outlets		Average price of new automobiles sold	Number of new automobiles sold	Number of sales outlets	Revenue from sales of automobile under finance lease from self-operated sales outlets		Average price of new automobiles sold	Number of new automobiles sold	Number of sales outlets	Revenue from sales of automobile under finance lease from self-operated sales outlets		Average price of new automobiles sold
			RMB'000	*%*	*RMB'000*			*RMB'000*	*%*	*RMB'000*			*RMB'000*	*%*	*RMB'000*
Eastern PRC	1,457	27	135,709	39.4	93	2,749	25	291,593	37.6	106	2,841	27	293,497	40.1	103
Southern PRC	654	8	60,940	17.7	93	1,452	9	152,993	19.7	105	1,401	10	141,739	19.4	101
Southwestern PRC	652	9	60,847	17.7	93	1,131	9	118,761	15.3	105	997	9	102,967	14.1	103
Central PRC	429	9	39,799	11.6	93	918	8	97,385	12.5	106	792	8	82,129	11.2	104
Northern PRC	332	5	30,717	8.9	93	670	5	70,068	9.0	105	559	5	58,059	7.9	104
Northwestern PRC	175	4	15,573	4.5	89	375	4	38,626	5.0	103	402	4	40,148	5.5	100
Northeastern PRC	7	4	860	0.2	123	65	5	6,873	0.9	106	127	5	12,693	1.8	100
Total	3,706	66	344,445	100.0	93	7,360	65	776,299	100.0	105	7,119	68	731,232	100.0	103

Our sales of automobile under finance lease from self-operated sales outlets in most provinces of the PRC increased for the year ended 31 December 2021 as compared to the year ended 31 December 2020, primarily owing to the recovery from the significant adverse effects caused by the outbreak of COVID-19 in the PRC in 2020 that led to (i) the demand of new automobiles under finance lease reduced during the year ended 31 December 2020; and (ii) the temporary diversion of sales focus to the finance lease of our repossessed automobiles during the period from February 2020 to July 2020 to better manage our inventory level and minimise non-performing assets as there was a significant increase in the number of terminated contracts during the aforesaid period.

Our sales of automobile under finance lease from self-operated sales outlets decreased for the year ended 31 December 2022 as compared to the year ended 31 December 2021, primarily due to the impact on our in-store operation in various cities in the PRC brought by the strict pandemic control and lockdown measures as a result of the resurgence of COVID-19 pandemic in various parts in the PRC in 2022.

The following table sets out the breakdown of the number of new automobiles sold, number of sales outlets, sales of automobile under finance lease from self-operated sales outlets and average price of new automobiles sold by city tier for the years/dates indicated:

	As at/Year ended 31 December														
	2020					2021					2022				
	Number of new automobiles sold	Number of sales outlets	Revenue from sales of automobile under finance lease from self-operated sales outlets		Average price of new automobiles sold	Number of new automobiles sold	Number of sales outlets	Revenue from sales of automobile under finance lease from self-operated sales outlets		Average price of new automobiles sold	Number of new automobiles sold	Number of sales outlets	Revenue from sales of automobile under finance lease from self-operated sales outlets		Average price of new automobiles sold
			RMB'000	*%*	*RMB'000*			*RMB'000*	*%*	*RMB'000*			*RMB'000*	*%*	*RMB'000*
Tier one city	—	1	—	—	—	—	—	—	—	—	10	1	994	0.1	99
Tier two cities	3,212	30	297,737	86.4	93	6,425	32	678,178	87.4	106	6,008	33	619,084	84.7	103
Tier three and below cities	494	35	46,708	13.6	95	935	33	98,121	12.6	105	1,101	34	111,154	15.2	101
Total	3,706	66	344,445	100.0	93	7,360	65	776,299	100.0	105	7,119	68	731,232	100.0	103

We had one self-operated sales outlet in Guangzhou, of which we re-purposed this sales outlet and engaged in automobile finance lease and operating lease business in 2020 and did not generate any revenue from sales of automobile under finance lease for the year ended 31 December 2020 and 2021. In late 2022, we expanded our Guangzhou branch office to a self-operated sales outlet which focuses on automobile retail and finance and operating lease of e-hailing vehicles.

Our revenue from sales of automobile under finance lease generated from self-operated sales outlet located in tier one city was nil, nil and RMB1.0 million for the years ended 31 December 2020, 2021 and 2022, accounted for nil, nil and 0.1% of our sales of automobile under finance lease generated from self-operated sales outlets for the corresponding year. As at 31 December 2020, 2021 and 2022, the number of our self-operated sales outlet in tier one city was 1, nil and 1, respectively.

Our revenue from sales of automobile under finance lease generated from self-operated sales outlets located in tier two cities was RMB297.7 million, RMB678.2 million and RMB619.1 million for the years ended 31 December 2020, 2021 and 2022, accounted for 86.4%, 87.4% and 84.7%, respectively, of our revenue from sales of automobile under finance lease generated from self-operated sales outlets for the corresponding year. As at 31 December 2020, 2021 and 2022, the number of our self-operated sales outlets in tier two cities was 30, 32 and 33, respectively.

Our revenue from sales of automobile under finance lease generated from self-operated sales outlets located in tier three and below cities was RMB46.7 million, RMB98.1 million and RMB111.2 million for the years ended 31 December 2020, 2021 and 2022, accounted for 13.6%, 12.6% and 15.2%, respectively, of our revenue from sales of automobile under finance lease generated from self-operated sales outlets for the corresponding year. As at 31 December 2020, 2021 and 2022, the number of our self-operated sales outlets in tier three and below cities was 35, 33 and 34, respectively.

Automobile agents

Our revenue from sales of automobile under finance lease through our automobile agents were RMB18.5 million, RMB1.6 million and RMB3.4 million for the years ended 31 December 2020, 2021 and 2022, accounted for 5.1%, 0.2% and 0.5% of total revenue generated from sales of automobile under finance lease for the corresponding year, respectively. The lower contribution of our sales of automobile under finance lease through our automobile agents for the years ended 31 December 2021 and 2022 as compared to the year ended 31 December 2020 was mainly because we reduced the number of automobile agents to promote passenger vehicles in 2021, due to the higher non-performing asset ratio on the sales of automobile under finance lease through our automobile agents as compared to that through our self-operated sales outlets as at the end of 2020. In 2021, we ceased working with any automobile agent to promote our passenger vehicles for our automobile retail and finance business. We continue to engage third party agents to promote our e-hailing vehicles for our automobile retail and finance business.

Finance lease income

Our finance lease income represents income arising from the provision of finance lease services primarily to individual customers for acquisition of new automobiles under finance lease and repossessed automobiles under finance lease. For our repossessed automobiles sold under finance lease, we only recognise finance lease income as revenue from sales of automobile under finance lease in respect of such vehicles were recognised when such automobiles were first sold as brand new automobiles. Occasionally, depending on the availability of our resources, we may also provide automobile sale-leaseback service to business-end customers in respect of automobiles in batches to generate finance lease income. Our finance lease income amounted to RMB234.7 million, RMB234.6 million and RMB262.5 million, accounted for 31.3%, 20.0% and 23.0% of our total revenue for the years ended 31 December 2020, 2021 and 2022, respectively.

Our finance lease income depends on the interest rate of the outstanding finance lease agreements and the outstanding principal amount of the finance lease agreements during the period. For the purpose of illustrating the impacts of the two factors on our finance lease income, the average of average effective interest rate charged (calculated by the sum of the average effective interest rate of finance lease agreements as at 1 January and 31 December divided by two) and the average total principal amount of finance lease agreements (calculated by the sum of the total principal amount as at 1 January and 31 December divided by two) are used in the below analysis.

Our Directors do not regard our Group generating revenue from sales of automobile under finance lease for finance leasing of repossessed automobiles, as (i) the finance lease of the repossessed automobiles is seen as one of the primary methods to recover the value of the outstanding finance lease receivables from the terminated contracts; (ii) we apply manufacturer or dealer lessor to the finance lease of new automobiles, however, in the finance lease of repossessed automobiles, we did not identify a profit attributable to activities similar to a dealer; and (iii) we price the finance lease contracts of the repossessed automobiles based on a target interest rate. The pricing only represented the finance income management required to earn. Therefore, as advised by our Auditor and Reporting Accountant, we determine that manufacturer or dealer lessor accounting under IFRS 16 para 71 is not applicable to the finance lease of repossessed automobiles. Accordingly, no sales revenue of finance lease of repossessed automobile is generated.

Our finance lease income remained relatively stable at RMB234.7 million and RMB234.6 million for the year ended 31 December 2020 and 2021, respectively, which was primarily attributable to the combined effect of (i) the increase by 13.6% in the average total principal amount of finance lease agreements for the year ended 31 December 2021 as compared to that for the year ended 31 December 2020; and (ii) the completion of certain of relatively higher average yield finance lease agreements, which were entered into prior to 2019 and generally had a term ranging from two to four years and led to the further decrease in the average of effective interest rate charged for finance lease agreements from 23.6% for the year ended 31 December 2020 to 21.1% for the year ended 31 December 2021.

Our finance lease income increased from RMB234.6 million for the year ended 31 December 2021 to RMB262.5 million for the year ended 31 December 2022, primarily due to (i) the increase by 20.4% in the average total principal amount of finance lease agreements for the year ended 31 December 2022 as compared to that for the year ended 31 December 2021; and partially offset by (ii) the decrease in the average effective interest rate charged for finance lease agreements from 21.1% for the year ended 31 December 2021 to 19.6% for the year ended 31 December 2022.

Please refer to section headed "Business — Our Business Model and Operation — (A) Automobile retail and finance" for details about the movement in the number of finance lease agreements, principal amount and average effective interest rate charged for finance lease agreements during the Track Record Period.

Automobile-related services

Our automobile-related services business consists of (i) automobile operating lease; and (ii) other automobile-related services. Our revenue generated from automobile-related services business amounted to RMB152.1 million, RMB158.8 million and RMB144.4 million, representing 20.3%, 13.6% and 12.6% of our total revenue for the years ended 31 December 2020, 2021 and 2022, respectively.

Automobile operating lease

Our automobile operating lease business principally involves: (i) e-hailing operating lease; (ii) new energy car-sharing lease, where we offer new energy vehicles on short-term lease; and (iii) other operating lease. The following table sets out a breakdown of our revenue from automobile operating lease for the years indicated:

	Year ended 31 December					
	2020		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
e-hailing operating lease	116,599	87.9	132,846	92.1	115,930	92.0
New energy car-sharing	5,166	3.9	3,959	2.7	791	0.6
Other operating lease	10,841	8.2	7,358	5.2	9,297	7.4
Total	132,606	100.0	144,163	100.0	126,018	100.0

For our e-hailing operating lease, we lease e-hailing vehicles to our customers in return for periodic rental payments. For the years ended 31 December 2020, 2021 and 2022, our revenue from e-hailing operating lease amounted to RMB116.6 million, RMB132.8 million and RMB115.9 million, accounted for 87.9%, 92.1% and 92.0% of our total revenue from automobile operating lease for the corresponding year, respectively. The average occupancy rate for e-hailing operating lease was 78.8%, 90.7% and 85.0% for the years ended 31 December 2020, 2021 and 2022, respectively.

In 2018, we started to provide car-sharing services where we offered new energy automobiles to individual users with shorter lease term, principally priced and charged by minute and/or distance travelled with greater flexibility. For the years ended 31 December 2020, 2021 and 2022, our revenue generated from new energy car-sharing business was RMB5.2 million, RMB4.0 million and RMB0.8 million, accounted for 3.9%, 2.7% and 0.6% of our total revenue from automobile operating lease for the corresponding year, respectively.

For our other operating lease, we lease automobiles to our customers upon customers' request in return for periodic rental payments. For the years ended 31 December 2020, 2021 and 2022, our revenue from other operating lease amounted to RMB10.8 million, RMB7.4 million and RMB9.3 million, accounted for 8.2%, 5.2% and 7.4% of our total revenue from automobile operating lease for the corresponding year, respectively.

The table below sets out the number of automobiles under our operating lease as at the dates indicated:

	As at 31 December		
	2020	**2021**	**2022**
e-hailing operating lease	3,930	4,114	4,122
New energy car-sharing	326	325	—
Other operating lease	604	561	1,101
Total	4,860	5,000	5,223

The table below sets out the number of e-hailing vehicles switched from e-hailing operating lease to finance lease, and the average number of e-hailing vehicles under e-hailing operating lease for the years indicated:

	Year ended 31 December		
	2020	**2021**	**2022**
Switched from e-hailing operating lease to retail and finance	5	—	1,121
The average number automobiles under e-hailing operating lease	3,325	4,072	3,877

As at 31 December 2020, 2021 and 2022, we had 4,860, 5,000 and 5,223 automobiles in our operating lease, respectively.

For our e-hailing operating lease, we had 3,930, 4,114 and 4,122 automobiles, respectively, as at the corresponding date. We increased the number of e-hailing operating lease from 3,930 units as at 31 December 2020 to 4,114 units as at 31 December 2021 to expand our e-hailing operating lease, then maintained the number of e-hailing operating lease automobiles relatively stable as at 31 December 2022. We also provide options for our customers to change the e-hailing vehicles from e-hailing operating lease to e-hailing under finance lease. Such flexibility in our service options can satisfy customers who have financing needs.

During the Track Record Period, the number of e-hailing vehicles switched from e-hailing operating lease to e-hailing under finance lease as required by our customers, was 5 units, nil and 1,121 units, respectively. The significant increase in the number of e-hailing vehicles switched from e-hailing operating lease to e-hailing under finance lease for the year ended 31 December 2022 was mainly due to the increasing demand from our customers as (i) for certain customers who plan to engage in e-hailing business for a longer term, the total payment of purchasing an e-hailing vehicle under finance lease lower than the total payment of leasing an e-hailing vehicle through operating lease, and (ii) in certain case, vehicles under finance lease require a lower monthly lease payment as compared to leasing e-hailing vehicles under operating lease. Therefore, purchasing our e-hailing vehicles under finance lease is commercially more appealing to such customers especially our customer may take ownership of the e-hailing vehicles at the end of finance lease term, where as operating lease our customers will have to return the e-hailing vehicle at the end of the lease term.

The average number of automobiles under e-hailing operating lease during the Track Record Period was 3,325 units, 4,072 units and 3,877 units, respectively. The decrease in the average number of e-hailing vehicles under e-hailing operating lease for the year ended 31 December 2022, was mainly due to we transferred 1,121 units of e-hailing vehicles from e-hailing operating lease to e-hailing under finance lease during the year ended 31 December 2022 to meet our customers' demand and we purchased 897 e-hailing operating lease vehicles in November and December 2022.

For our new energy car-sharing, we had 326, 325 and nil automobiles, respectively, as at 31 December 2020, 2021 and 2022. We maintained the number of automobiles allocated to new energy car-sharing relatively stable as at 31 December 2020 and 2021, then decreased to nil as at 31 December 2022, as we intended to focus and allocate our resources on expanding our automobile retail and finance business, and e-hailing operating lease business, hence we suspended Go Ziyou APP service for our new energy car-sharing business in July 2022. By the end of 2022, all our new energy car-sharing automobiles had been disposed of or reallocated to our automobile retail and finance business.

For our other operating lease, we had 604, 561 and 1,101 automobiles, respectively, as at 31 December 2020, 2021 and 2022. We maintained the number of automobiles in our other operating lease relatively stable as at 31 December 2020 and 2021, then increased to 1,101 units as at 31 December 2022, mainly due to our efforts in developing our other operating lease as COVID-19 control measures have been lifted in late 2022, which eased travel restrictions.

Other automobile-related services

For our other automobile-related services, we mainly promote our business-end customers' insurance service and automobile after-market service to our car-user customers, in return we receive service fees from our business-end customers for such services we provided. For the years ended 31 December 2020, 2021 and 2022, our revenue generated from the auto-insurance promotion service was RMB17.5 million, RMB12.3 million and RMB12.5 million, respectively. We also assist our car-user customers who look for automobile aftermarket usage solutions through our 52 Car APP to cater their various needs during the automobile usage stage. We do not charge our car-user customers or business-end users for downloading or using our 52 Car APP and 52 Car (Business Version) APP. Instead, we receive service fees from our business-end users based on the agreed percentage typically ranging from 5% to 15% of the transaction value of automobile repair orders through our 52 Car App from our car-user customers. For the years ended 31 December 2020, 2021 and 2022, our revenue generated from the services we provided to the third party automobile aftermarket service providers was RMB1.5 million, RMB1.6 million and RMB1.7 million, respectively.

Cost of revenue

Our cost of revenue mainly included (i) cost of inventories; (ii) depreciation expenses; (iii) auto-insurance premium; and (iv) employee benefit expenses. The following table sets out a breakdown of our cost of revenue for the years indicated:

	Year ended 31 December					
	2020		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Cost of inventories	305,900	68.6	633,364	78.2	595,601	77.6
Depreciation expenses	70,288	15.8	88,192	10.9	83,356	10.9
Auto-insurance premium	40,153	9.0	35,923	4.4	37,356	4.9
Employee benefit expenses	15,200	3.4	30,759	3.8	31,284	4.1
Provision for inventories	2,876	0.6	7,674	0.9	6,886	0.9
Motor vehicle expenses	5,509	1.3	7,265	1.0	7,101	0.9
Transportation expenses	3,217	0.7	4,027	0.5	3,648	0.5
Amortisation expenses	1,992	0.4	2,229	0.3	1,653	0.2
Sales commission to automobile agents	1,028	0.2	75	—	194	—
Total	446,163	100.0	809,506	100.0	767,079	100.0

Note: "—" represents percentage less than 0.1%.

Our cost of inventories is the value of our new automobiles sold on finance lease. For the years ended 31 December 2020, 2021 and 2022, our cost of inventories amounted to RMB305.9 million, RMB633.4 million and RMB595.6 million, representing 68.6%, 78.2% and 77.6% of our total cost of revenue and 84.3%, 81.4% and 81.1% of our revenue generated from sales of automobile under finance lease for the corresponding year, respectively. Our increased cost of inventories for the year ended 31 December 2021 was primarily due to the recovery of our automobile retail and finance business from the adverse impact of COVID-19 in the PRC in 2020, resulting in higher sales of automobile under finance lease for the year ended 31

December 2021, as compared to the year ended 31 December 2020. Our cost of inventories decreased for the year ended 31 December 2022, as compared to the year ended 31 December 2021, primarily due to the decrease in our sales of automobile under finance lease for the year ended 31 December 2022 mainly due to the impact on our in-store operation in various cities in the PRC brought by the strict pandemic control and lockdown measures as a result of the resurgence of COVID-19 pandemic in various parts in the PRC in 2022, which decreased the demand for new automobile purchases in certain regions in the PRC for the year ended 31 December 2022.

Our cost of inventories to our revenue generated from sales of automobiles under finance lease remained relatively stable at 81.4% and 81.1% for the years ended 31 December 2021 and 2022, respectively.

As cost of inventories was the largest component of our cost of revenue, the following sensitivity analysis illustrates the impact of hypothetical fluctuations of our cost of inventories on our profit before tax during the Track Record Period. Fluctuations in our cost of inventories are assumed to be 5% and 10% by reference to the historical fluctuations during the Track Record Period, with other variables remained constant:

	Changes in cost of inventories	
	+/– 5%	**+/– 10%**
	RMB'000	*RMB'000*
Decrease/increase in profit before tax		
Year ended 31 December 2020	–/+ 15,295	–/+ 30,590
Year ended 31 December 2021	–/+ 31,668	–/+ 63,336
Year ended 31 December 2022	–/+ 29,780	–/+ 59,560

Our depreciation expenses mainly represent the depreciation charge of our vehicles for our automobile operating lease business. For the years ended 31 December 2020, 2021 and 2022, our depreciation expenses amounted to RMB70.3 million, RMB88.2 million and RMB83.4 million, representing 15.8%, 10.9% and 10.9% of our total cost of revenue and 53.0%, 61.2% and 66.1% of our revenue generated from automobile operating lease for the corresponding year, respectively. The increase in the amount of depreciation expenses for the year ended 31 December 2021, as compared to the year ended 31 December 2020 was primarily due to the average number of our operating lease vehicles increased from approximately 3,900 for the year ended 31 December 2020 to approximately 4,900 for the year ended 31 December 2021. For the year ended 31 December 2022, our depreciation expenses decreased to RMB83.4 million, mainly due to the average number of our operating lease vehicles decreased to approximately 4,700 for the year ended 31 December 2022.

During the Track Record Period, we bore the insurance cost for the period after procuring automobiles inventories and before selling the automobiles to customers. For the majority of sales of automobile under finance lease, we required our customers to purchase the compulsory traffic accident liability insurance and commercial insurance throughout the lease term. For a small portion of automobiles sold under finance lease, we arrange the insurance for the first year typically at the option of the customers, such insurance cost was borne by us and reflected in the down payment, while the insurance cost for the remainder of lease term was borne by the customers. For the years ended 31 December 2020, 2021 and 2022, our auto-insurance premium amounted to RMB40.2 million, RMB35.9 million and RMB37.4 million, representing 9.0%, 4.4% and 4.9% of our total cost of revenue for the corresponding year, respectively. The decrease in auto-insurance premium in the year ended 31 December 2021 as compared to the year ended 31 December 2020, was mainly due to the decrease in our automobile inventory turnover days of which we bore the insurance cost for these automobile inventories as aforementioned. The increase in auto-insurance premium in the year ended 31 December 2022 as compared to the year ended 31 December 2021, was mainly due to the increase in the automobile inventories during the year, of which we bore the insurance cost.

Our employee benefit expenses mainly represent sales commission paid to our sales staff for the new automobiles sold under finance lease. Our employee benefit expenses amounted to RMB15.2 million, RMB30.8 million and RMB31.3 million for the years ended 31 December 2020, 2021 and 2022, representing 3.4%, 3.8% and 4.1% of our total cost of revenue for the corresponding year, respectively. The increase in our employee benefit expenses under cost of revenue for the year ended 31 December 2021, as compared to the year ended 31 December 2020, was mainly attributable to (i) the increase in our sales of automobile under finance lease during the Track Record Period; and (ii) the commission rate varies with the model of new automobiles sold. Our employee benefit expenses remained relatively stable for the year ended 31 December 2022.

Gross profit and gross profit margin

For the years ended 31 December 2020, 2021 and 2022, our gross profit was RMB303.6 million, RMB361.8 million and RMB374.4 million, respectively, while our gross profit margin was 40.5%, 30.9% and 32.8% for the corresponding year, respectively.

The following table sets out our gross profit and gross profit margin by revenue stream for the years indicated:

	Year ended 31 December					
	2020		2021		2022	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Automobile retail and finance	**257,905**	**43.2**	**328,527**	**32.4**	**340,910**	**34.2**
Automobile-related services						
Automobile operating lease						
— e-hailing operating lease	23,438	20.1	25,665	19.3	20,715	17.9
— New energy car-sharing	(1,170)	(22.7)	(4,061)	(102.6)	(1,555)	(196.6)
— Other operating lease	5,639	52.0	(2,361)	(32.1)	(2,586)	(27.8)
Other automobile-related services	17,786	91.1	13,986	95.3	16,963	92.1
Sub-total	**45,693**	**30.0**	**33,229**	**20.9**	**33,537**	**23.2**
Total	**303,598**	**40.5**	**361,756**	**30.9**	**374,447**	**32.8**

Automobile retail and finance

Our gross profit in relation to our automobile retail and finance business amounted to RMB257.9 million, RMB328.5 million and RMB340.9 million for the years ended 31 December 2020, 2021 and 2022, accounted for 84.9%, 90.8% and 91.0% of our total gross profit for the corresponding year, respectively.

Other than the year ended 31 December 2020, our gross profit margin of our automobile retail and finance segment remained relatively stable during the Track Record Period. The higher gross profit margin for the year ended 31 December 2020 as compared to the years ended 31 December 2021 and 2022, was primarily due to the decreased sales of automobile as a result of the impact of the outbreak of COVID-19 in the PRC in 2020, hence the proportional contribution from our sales of automobile for the year ended 31 December 2020 was lower than the years ended 31 December 2021 and 2022. Our cost of revenue principally included cost of inventories, which is the value of our new automobiles sold on finance lease. For the years ended 31 December 2020, 2021 and 2022, our cost of inventories represented 84.3%, 81.4% and 81.1% of our revenue generated from sales of automobile under finance lease. As gross profit margin of sales of automobile under finance lease was lower than that of finance lease income, the change in revenue mix led to the fluctuation of our gross margin for automobile retail and finance segment during the Track Record Period.

Automobile-related services

e-hailing operating lease

The gross profit from our e-hailing operating lease amounted to RMB23.4 million, RMB25.7 million and RMB20.7 million for the years ended 31 December 2020, 2021 and 2022, respectively. Our gross profit from our e-hailing operating lease increased from RMB23.4 million for the year ended 31 December 2020 to RMB25.7 million for the year ended 31 December 2021 was mainly due to the increase in revenue from e-hailing operating lease primarily resulted from the increase in the average occupancy rate for e-hailing operating lease from 78.8% for the year ended 31 December 2020 to 90.7% for the year ended 31 December 2021. The gross profit from our e-hailing operating lease decreased to RMB20.7 million for the year ended 31 December 2022 primarily attribute to the decrease in revenue from our e-hailing operating lease resulted from the decrease in the average occupancy rate for e-hailing operating lease from 90.7% for the year ended 31 December 2021 to 85.0% for the year ended 31 December 2022.

The gross profit margin of our e-hailing operating lease was 20.1%, 19.3% and 17.9%, respectively, during the Track Record Period. The gross profit margin of our e-hailing operating lease remained relatively stable at 20.1% and 19.3% for the years ended 31 December 2020 and 2021, respectively. The gross profit margin of our e-hailing operating lease decreased to 17.9% for the year ended 31 December 2022, which was mainly due to the rate of decrease in our revenue from our e-hailing operating lease was higher than the rate of decrease in the relevant cost for our e-hailing operating lease business, which was mainly depreciation charges. The decrease in revenue from our e-hailing operating lease for the year ended 31 December 2022 as compared to the year ended 31 December 2021, was mainly attributable to (i) the decrease in the average occupancy rate from 90.7% to 85.0% for our e-hailing operating lease business for the corresponding year, due to the impact of the regional outbreaks of COVID-19 variants in the PRC in 2022; and (ii) the decrease in the average number of e-hailing vehicles from 4,072 units for the year ended 31 December 2021 to 3,877 units for the year ended 31 December 2022, mainly due to we switched 1,121 e-hailing vehicles from e-hailing operating lease to e-hailing under finance lease, which was driven by more e-hailing customers selected our e-hailing under finance lease service in 2022.

New energy car-sharing

We recorded gross loss for our new-energy car sharing during the Track Record Period, amounted to RMB1.2 million, RMB4.1 million and RMB1.6 million for the years ended 31 December 2020, 2021 and 2022, respectively. Our gross loss for the new energy car-sharing during the Track Record Period was mainly due to (i) the decrease in our revenue generated from our new energy car-sharing as we gradually shifted our focus on e-hailing operating lease; and (ii) the depreciation expenses of the automobiles used for our new-energy car sharing incurred during the Track Record Period.

We have suspended our new energy car-sharing business in July 2022. By the end of 2022, our new energy car-sharing automobiles had been disposed of or transferred to our automobile retail and finance business.

Other operating lease

The gross profit from our other operating lease amounted to RMB5.6 million for the year ended 31 December 2020. For the years ended 31 December 2021 and 2022, we recorded gross loss from other operating lease, amounted to RMB2.4 million and RMB2.6 million, respectively. Such gross loss was mainly due to (i) the overall decrease in our revenue generated from other operating lease as we gradually shifted our focus to e-hailing operating lease; and (ii) the depreciation expenses of the automobiles for other operating lease incurred during the Track Record Period.

Other automobile-related services

The gross profit of our other automobile-related services decreased from RMB17.8 million for the year ended 31 December 2020 to RMB14.0 million for the year ended 31 December 2021, which was mainly due to the decrease in revenue from our other automobile-related services. Our gross profit increased to RMB17.0 million for the year ended 31 December 2022, which was mainly attributable to the increase in revenue from our other automobile-related services in 2022.

The gross profit margin of our other automobile-related services was 91.1%, 95.3% and 92.1%, respectively, during the Track Record Period. The increase in the gross profit margin of our other automobile-related services from 91.1% for the year ended 31 December 2020 to 95.3% for the year ended 31 December 2021, was primarily due to the decrease in amortisation expenses attributable to other automobile-related services incurred for the year ended 31 December 2021. The decrease in the gross profit margin of our other automobile-related services from 95.3% for the year ended 31 December 2021 to 92.1% for the year ended 31 December 2022 was mainly due to the increase in amortisation expenses attributable to other automobile-related services for the year ended 31 December 2022.

Net interest margin and net interest spread

The following table sets out the key financial indicators such as our finance lease income, cost of funding, net interest income, net interest spread and net interest margins, average effective interest rate charged for newly entered finance lease agreements, and weighted average effective interest rate of borrowings for the years indicated:

	Year ended 31 December		
	2020	**2021**	**2022**
	(RMB'000, except for percentage)		
Finance lease income	234,705	234,561	262,498
Cost of funding	(98,682)	(108,831)	(131,381)
Net interest income	136,023	125,730	131,117
Average balance of finance lease receivables*(Note 1)*	1,052,541	1,149,328	1,383,649
Average balance of borrowings*(Note 2)*	1,230,067	1,269,390	1,548,119
Average yield of finance lease receivables*(Note 3)*	22.3%	20.4%	19.0%
Average cost of borrowings*(Note 4)*	8.0%	8.6%	8.5%
Net interest spread*(Note 5)*	14.3%	11.8%	10.5%
Net interest margin*(Note 6)*	12.9%	10.9%	9.5%
Average effective interest rate charged for newly entered finance lease agreements *(Note 7)*	20.5%	19.4%	18.5%
Weighted average effective interest rate of borrowings *(Note 8)*	8.5%	8.5%	8.6%

Notes:

(1) Average balance of finance lease receivables is calculated as the sum of the beginning and the ending balance of finance lease receivables for the relevant year divided by two.

(2) Average balance of borrowings is calculated as the sum of the beginning and the ending balance for the relevant year divided by two.

(3) Calculated by dividing finance lease income for the relevant year by the average balance of finance lease receivables.

(4) Calculated by dividing cost of funding for the relevant year by the average balance of borrowings.

(5) Calculated as the difference between average yield of finance lease receivables and average cost of borrowings.

(6) Calculated by dividing net interest income for the relevant year by the average balance of finance lease receivables.

(7) Calculated by dividing sum of effective interest rate of newly entered finance lease agreements by the total number of newly entered finance lease agreements entered for the relevant year.

(8) Calculated by multiplying the effective interest rate of each borrowing by the corresponding ending balance and dividing by the total ending balance of the borrowings as at each year end.

Our average effective interest rate charged for newly entered finance lease agreements remained relatively stable for the years ended 31 December 2020 and 2021 and decreased to 18.5% for the year ended 31 December 2022, which was primarily attributable to the lower contribution of newly entered finance lease agreements for new automobiles to the total newly entered finance lease agreements for the year ended 31 December 2022 as compared to the year ended 31 December 2021, which generally had higher average effective interest rate during the Track Record Period.

Our average yield of finance lease receivables was 22.3%, 20.4% and 19.0% for the years ended 31 December 2020, 2021 and 2022, respectively. The decrease in the average yield of finance lease receivables during the Track Record Period was primarily due to the completion of relatively higher average yield finance lease agreements entered into prior to 2019 which generally had a term ranging from two to four years. According to CIC, the industry average yield of interest-earning assets before 2019 was relatively higher than during the Track Record Period due to higher average effective interest rate per annum charged by RAFLCs prior to 2019. We enjoyed first-mover advantage by operating finance lease business since 2012 ahead of other major third-party RAFLCs. The competition in the RAFLC market in China intensified during 2018 and 2019 with some Internet-backed RAFLCs adopted competitive pricing in order to win more customers, and it was followed by more RAFLCs in order to sustain market share, leading to a downward adjustment of the industry range of the average effective interest rate per annum for finance lease agreements in 2018 and 2019. Our new automobiles have been sold on finance lease generally with a term of two to four years. As such, our sales of automobile under finance lease entered into prior to 2019 with higher average effective interest rate will last through the subsequent two to four years. While we also entered into new sales of automobile under finance lease with lower average effective interest rate subsequent to 2019, hence our average yield of interest-earning assets was lower than prior to 2019. According to CIC, we were able to charge higher average interest rates for the finance lease agreements than other RAFLCs, because of our flexible product offerings, strong offline capability and developed risk management system to expand customer reach and control asset quality. According to CIC, there was no major issue which may exert significant downward pressure on effective interest rates charged by industry players as the Latest Practicable Date. Lower effective interest rates of automobile finance lease services may be charged by industry players from time to time if the RAFLCs offer occasional promotions and more competitive pricing options to car buyers, and fluctuations in market interest rates could also affect the level of effective interest rates charged by RAFLCs. However, the greater market acceptance of automobile finance lease services in the PRC can potentially offset the aforesaid impacts, if any.

Our average cost of borrowings was 8.0%, 8.6% and 8.5% for the years ended 31 December 2020, 2021 and 2022, respectively. Our average cost of borrowings increased from 8.0% for the year ended 31 December 2020 to 8.6% for the year ended 31 December 2021, primarily owing to the fact that the increase in the average balance of borrowings (calculated by the sum of the beginning balance and the ending balance divided by two) by RMB39.3 million or 3.2% from RMB1,230.1 million for the year ended 31 December 2020 to RMB1,269.4 million for the year ended 31 December 2021, while the cost of funding increased by RMB10.1 million or 10.3% from RMB98.7 million for the year ended 31 December 2020 to RMB108.8 million for the year ended 31 December 2021. Our average cost of borrowings remained relatively stable for the year ended 31 December 2022 as compared to that for the year ended 31 December 2021.

The decrease in net interest spread from 14.3% for the year ended 31 December 2020 to 11.8% for the year ended 31 December 2021, then remained relatively stable at 10.5% for the year ended 31 December 2022, were primarily due to the decrease in the average yield of finance lease receivables from 22.3% for the year ended 31 December 2020 to 20.4% for the year ended 31 December 2021, then further decreased to 19.0% for the year ended 31 December 2022, while the average cost of borrowings increased from 8.0% for the year ended 31 December 2020 to 8.6% for the year ended 31 December 2021, then remained relatively stable at 8.5% for the year ended 31 December 2022.

The decrease in our net interest margin from 12.9% for the year ended 31 December 2020 to 10.9% for the year ended 31 December 2021, then further decreased to 9.5% for the year ended 31 December 2022, primarily due to the increase in our finance cost during the Track Record Period, driven by our increased borrowings to support our business growth.

Our weighted average effective interest rate of borrowings was relatively stable at 8.5%, 8.5% and 8.6% for the years ended 31 December 2020, 2021 and 2022, respectively.

The decrease in net interest spread and net interest margin were primarily due to the decrease in the average yield of finance lease receivables as explained above.

Yield of operating lease

The following table sets out the yield of our operating lease for the years indicated:

	Year ended 31 December		
	2020	**2021**	**2022**
Yield of operating lease	31.6%	28.9%	25.0%

Notes:

1. Yield of operating lease is calculated by dividing the operating lease income during the year generated from operating lease assets owned by us by the average book value automobiles under property and equipment and multiplied by 100%. Average book value automobiles under property and equipment is calculated as the sum of the beginning and the ending balance of the book value of the automobiles under property and equipment for the relevant year divided by two.

2. The calculation excluded lease income generated from sub-operating lease of the automobiles rented by us.

Our yield of operating lease decreased from 31.6% for the year ended 31 December 2020 to 28.9% for the year ended 31 December 2021, primarily due to the significant increase in the number of e-hailing vehicles purchased for our automobile operating lease business from 3,930 units as at 31 December 2020 to 4,114 units as at 31 December 2021. Our yield of operating lease decreased to 25.0% for the year ended 31 December 2022, which was mainly due to our automobile operating lease income decreased by 12.6% for the year ended 31 December 2022 as compared to the year ended 31 December 2021; while the average book value of our automobiles under property and equipment decreased by 7.7% for the year ended 31 December 2022 as compared to the year ended 31 December 2021 as result of the decrease in the average number of our operating lease vehicles from approximately 4,900 for the year ended 31 December 2021 to approximately 4,700 for the year ended 31 December 2022.

As advised by our PRC Legal Advisers, there is no specific regulation which governs the yield on operating lease business. After reviewing the relevant operating lease agreements provided by our Group, our PRC Legal Advisers are of view that the yield of operating lease of our Group during the Track Record Period did not violate any applicable PRC laws and regulations on operating lease business in the PRC.

Other income, net

The following table sets out a breakdown of our other income, net for the years indicated:

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Government grants	24,395	16,676	22,638
Donation	(395)	—	(340)
Others	(698)	(716)	(550)
	23,302	15,960	21,748

Other income, net, includes (i) government grants, comprising (a) VAT related tax benefits; and (b) government subsidies; (ii) donations; and (iii) others. For the years ended 31 December 2020, 2021 and 2022, we recorded other income, net of RMB23.3 million, RMB16.0 million and RMB21.7 million, respectively. Government grants primarily consist of the fiscal support that local governments offer to the Group entities engaged in the finance leasing business in the PRC. There are no unfulfilled conditions or other contingencies attaching to these grants.

(a) VAT related tax benefits

Pursuant to the Circular on Comprehensively Promoting the Pilot Scheme of the Collection of Value-added Tax In Lieu of Business Tax (《關於全面推開營業稅改徵增值稅試點的通知》) (the "**Circular 36**"), which was implemented on 1 May 2016 and last amended and became effective on 1 April 2019, the pilot programme of the collection of VAT in lieu of business tax shall be promoted nationwide in a comprehensive manner starting from 1 May 2016. We have received VAT related tax benefits since 2016. According to the Circular 36, for pilot scheme taxpayers approved by PBOC, CBRC or MOFCOM to engage in finance lease business and provide finance lease services, the sales amount shall be the balance after deducting loan interest paid (including interest of foreign currency loans and Renminbi loans), interest on bonds issued and vehicle purchase tax from the total money and other charges received.

For general taxpayers among pilot scheme taxpayers approved by the PBOC, CBRC or MOFCOM to engage in finance lease, if they provide services of finance lease of tangible movables and sale-leaseback financing of tangible movables, the portion of their actual amount of VAT which exceeds 3% shall be subject to refund upon levy of the VAT. For general taxpayers among pilot scheme taxpayers approved to engage in finance lease business and sale-leaseback financing by the provincial commerce authorities and national economic and technological development zones authorised by MOFCOM, if the paid capital attains RMB170 million after 1 May 2016, the aforesaid provisions will be applicable to such taxpayer with effect from the month in which the threshold is reached. As we were an entity engaging in finance lease business and its registered capital had attained RMB170 million as at 1 May 2016, we were eligible for the tax refund if it has paid VAT at a rate of over 3%.

According to the Announcement on Relevant Policies for Deepening Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》) promulgated by MOFCOM, SAT and General Administration of Customs on 20 March 2019 and became effective on 1 April 2019, taxpayers in the production and living service industries (including the finance lease industry) are entitled to an additional 10% of deductible input tax for the current tax period from the amount of payable tax from 1 April 2019 to 31 December 2021, which was further extended to 31 December 2023 pursuant to the Announcement on VAT Policies for Facilitating the Relief and Development of Industries with Difficulties in the Service Sector (《關於促進服務業領域困難行業紓困發展有關增值稅政策的公告》) promulgated by MOFCOM and SAT on 3 March 2022 and the Announcement on Clarifying VAT Relief and Other Policies for Small-scale VAT Taxpayers (《關於明確增值稅小規模納稅人減免增值稅等政策的公告》) promulgated by MOFCOM and SAT on 9 January 2023.

The abovementioned tax benefits, including refunds for VAT payment and the additional 10% of deductible input tax, were computed based on the net VAT paid and tax payable respectively, both of which directly arose from our finance lease income and purchase of finance lease automobiles during our ordinary and usual course of business. Accordingly, we consider that such tax benefits as other income generated in the ordinary and usual course of business.

(b) Government subsidies

Examples of the various government subsidies received include rebates of handling fees from the relevant tax authorities arising from withholding and payment of employees' personal income tax by us at the time of wage payment (the "**Handling Fee Rebates**") which incurred annually; subsidies for share transfers; rewards for stable industrial production and operation; and various employment subsidies, including those for long-term job stabilisation and employment support in order to stabilise the employment during the outbreak of COVID-19 in the PRC in 2020.

Amongst the various government subsidies granted to us, certain types of government subsidies arose from the ordinary and usual course of business, such as rewards for stable industrial production and operation and employment support subsidies, which are recurring; while certain types of government subsidies did not arise from the usual and ordinary course of our business and one-off subsidies are not recurring, such as share transfer subsidies and the Handling Fee Rebates. The government subsidies amounted to approximately RMB4.1 million, RMB3.8 million and RMB1.6 million for the years ended 31 December 2020, 2021 and 2022, respectively. Government subsidies, net of tax together amounted to approximately RMB3.2 million, RMB3.0 million and RMB1.2 million for the years ended 31 December 2020, 2021 and 2022, respectively.

Other losses, net

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Loss on disposal of property and equipment	(927)	(2,822)	(2,062)
Others	(5,694)	(5,891)	(4,752)
	(6,621)	(8,713)	(6,814)

Our other losses, net, primarily included loss on disposal of property and equipment.

Selling and marketing expenses

Selling and marketing expenses amounted to RMB75.1 million, RMB83.2 million and RMB81.1 million, respectively, for the years ended 31 December 2020, 2021 and 2022. Selling and marketing expenses mainly include (i) employee benefit expenses; (ii) depreciation and amortisation; and (iii) advertising expenses.

The following table sets out a breakdown of our selling and marketing expenses for the years indicated:

	Year ended 31 December					
	2020		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Employee benefit expenses	31,979	42.6	33,214	39.9	33,374	41.2
Depreciation and amortisation	13,042	17.4	15,201	18.3	16,209	20.0
Repair and maintenance	6,316	8.4	9,812	11.8	10,379	12.8
Advertising expenses	8,537	11.4	10,834	13.0	8,423	10.4
Motor vehicle expenses	6,382	8.5	4,711	5.7	5,208	6.4
Travelling expenses	1,592	2.1	1,239	1.5	637	0.8
Office expenses	1,562	2.1	1,458	1.8	1,084	1.3
Rental expenses	2,030	2.7	3,712	4.5	2,511	3.1
Other expenses	3,616	4.8	2,983	3.5	3,271	4.0
	75,056	100.0	83,164	100.0	81,096	100.0

Employee benefit expenses mainly consist of salaries, bonuses and contribution to social insurance for our sales staff. Employee benefit expenses amounted to RMB32.0 million, RMB33.2 million and RMB33.4 million for the years ended 31 December 2020, 2021 and 2022, respectively. Our employee benefit expenses increased for the year ended 31 December 2021 as compared to the year ended 31 December 2020, primarily due to the increase in the average number of headcounts of sales staff to capture the market opportunities as a result of recovery of the market in 2021. Our employee benefit expenses remained relatively stable for the year ended 31 December 2022 as compared to the year ended 31 December 2021.

Depreciation and amortisation mainly consist of depreciation charges of our right-of-use assets, office equipment and leasehold improvement and amortisation of our intangible assets. Depreciation and amortisation expenses amounted to RMB13.0 million, RMB15.2 million and RMB16.2 million for the years ended 31 December 2020, 2021 and 2022, respectively. The increasing trend in deprecation and amortisation expenses was primarily due to the continuous enhancement of our existing self-developed internal operation systems and applications.

Advertising expenses amounted to RMB8.5 million, RMB10.8 million and RMB8.4 million for the years ended 31 December 2020, 2021 and 2022, respectively. The increase in advertising expenses from the year ended 31 December 2020 to the year ended 31 December 2021 was mainly attributable to more marketing efforts made to capture the business opportunity when the overall market recovered from the outbreak of COVID-19 in the PRC. Our advertising expenses decreased for the year ended 31 December 2022 as compared to the year ended 31 December 2021, primarily due to our cost control measures on advertising as a result of the regional outbreaks of COVID-19 variants in the PRC in 2022.

Administrative expenses

Administrative expenses amounted to RMB105.6 million, RMB114.9 million and RMB115.1 million, respectively, for the years ended 31 December 2020, 2021 and 2022. Administrative expenses mainly include (i) employee benefit expenses; (ii) **[REDACTED]** expenses; (iii) travelling expenses; (iv) traffic contravention penalty; and (v) depreciation and amortisation expenses.

The following table sets out a breakdown of our administrative expenses for the years indicated:

	Year ended 31 December					
	2020		**2021**		**2022**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Employee benefit expenses	62,229	58.9	54,452	47.4	55,178	47.9
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Depreciation and amortisation	12,030	11.4	10,987	9.6	10,663	9.3
Travelling expenses	4,568	4.3	3,948	3.4	6,334	5.5
Traffic contravention penalty	4,818	4.6	5,688	5.0	4,305	3.7
Legal and professional expenses	2,119	2.0	3,529	3.1	4,089	3.6
Office expenses	3,427	3.2	3,174	2.8	3,582	3.1
Other taxation expenses	4,029	3.8	6,868	6.0	9,268	8.0
Other expenses	7,776	7.4	8,502	7.3	8,033	7.0
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Employee benefit expenses mainly consist of salaries, bonuses, social insurance and share-based compensation expenses for our administrative staff. For the years ended 31 December 2020, 2021 and 2022, our employee benefit expenses amounted to RMB62.2 million, RMB54.5 million and RMB55.2 million, respectively. The decrease in employee benefit expenses for the years ended 31 December 2021, as compared to the years ended 31 December 2020 was primarily due to the decrease in the average number of headcounts of sales staff. Our employee benefit expenses remained relatively stable at RMB55.2 million and RMB54.5 million for the years ended 31 December 2021 and 2022, respectively.

Traffic contravention penalty mainly represents fees in relation to handling and settlement of traffic contravention penalties incurred by our finance lease and operating lease customers which we were unable to recover from them. Since the finance lease automobiles were registered under our Group, we incurred expenses to handle and settle the traffic contravention penalty. Traffic contravention penalty amounted to RMB4.8 million, RMB5.7 million and RMB4.3 million for the years ended 31 December 2020, 2021 and 2022, respectively.

Up to 31 December 2022, we incurred **[REDACTED]** expenses of RMB**[REDACTED]** million of which RMB**[REDACTED]** million was charged to our administrative expenses and RMB**[REDACTED]** million was capitalised. For details, please refer to the section "Financial Information — **[REDACTED]** Expenses".

Provision for credit loss

Provision for credit loss comprises of provision of trade and other receivables and finance lease receivables. Provision for credit loss was RMB2.1 million, RMB3.9 million and RMB4.9 million for the years ended 31 December 2020, 2021 and 2022, respectively. Our provision for credit loss increased during the Track Record Period was in line with the increase in the average balance of our finance lease receivables for the years ended 31 December 2020, 2021 and 2022, respectively.

Fair value loss/gain on ordinary shares with redemption right

We recorded fair value gain on ordinary shares with redemption right of RMB47.3 million in the year ended 31 December 2022, primarily due to a decrease in the fair value of ordinary shares with redemption right issued by our Company to certain **[REDACTED]** Investors during the year ended 31 December 2018 to 2021, which was mainly attributable to a decrease in our Group's underlying equity value based on the valuation by an independent valuer. In the valuation of our Group, the independent valuer has taken into account effect of the economic condition of China in general and the stabilising performance during the year ended 31 December 2022. For details about the issuance of ordinary shares with redemption right, see "History, Reorganization and Corporate Structure — **[REDACTED]** Investments;" for details about our latest performance, see "Summary — Recent Developments."

Research and development expenses

During the Track Record Period, we incurred research and development expenses in developing intangible assets such as automobile monitoring platform and mobile applications. Our research and development expenses amounted to RMB0.4 million, RMB2.1 million and RMB0.7 million, for the years ended 31 December 2020, 2021 and 2022, respectively. See "Business — Research and development" for further details.

Finance cost, net

We incurred net finance cost amounted to RMB109.2 million, RMB117.8 million and RMB143.0 million for the years ended 31 December 2020, 2021 and 2022, respectively. Our finance cost comprises (i) costs of funding; (ii) interest expenses on other borrowings; and (iii) interest expenses on lease liabilities, while our finance income mainly comprises (i) bank interest income; and (ii) imputed interest income from deposits for borrowings.

The following table sets out a breakdown of our finance cost, net for the years indicated:

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Finance cost:			
Cost of funding[(Note)]	(98,682)	(108,831)	(131,381)
Interest expenses on other borrowings	(10,887)	(10,122)	(11,807)
Interest expenses on lease liabilities	(1,452)	(876)	(803)
	(111,021)	(119,829)	(143,991)
Finance income:			
Bank interest income	763	320	228
Net gain on extension of borrowing from a **[REDACTED]** Investor	—	683	—
Imputed interest income from deposits for borrowings	1,086	1,005	745
	1,849	2,008	973
Finance cost, net	(109,172)	(117,821)	(143,018)

Note: Cost of funding represented finance cost for purchase of automobiles for lease.

Our cost of funding mainly represents interest expenses of our borrowings for the purchase of automobiles for lease. For the years ended 31 December 2020, 2021 and 2022, our costs of funding amounted to RMB98.7 million, RMB108.8 million and RMB131.4 million, respectively. The increasing trend of our cost of funding during the Track Record Period was primarily due to the overall increase in borrowing to finance our automobile retail and finance business as well as our automobile operating lease business for e-hailing vehicles.

The following table sets out the breakdown of our cost of funding and interest expenses on other borrowings by funding sources for the years indicated:

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Interest-bearing loans	71,722	51,564	41,265
Automobile finance lease arrangements	37,430	62,441	97,765
Factoring of finance lease receivables	417	3,197	3,403
Asset-backed securities	—	1,751	755
Total	109,569	118,953	143,188

For illustrative purpose, the following sensitivity analysis illustrates the impact of hypothetical fluctuations of our costs of funding on our profit before tax during the Track Record Period, assuming the fluctuation of our costs of funding to be 1%, 3% and 5% by reference to the historical fluctuation during the Track Record Period, with other variables remained constant:

	Changes in costs of funding		
	+/– 1%	**+/– 3%**	**+/– 5%**
	RMB'000	*RMB'000*	*RMB'000*
Decrease/increase in profit before tax			
Year ended 31 December 2020	–/+ 987	–/+ 2,960	–/+ 4,934
Year ended 31 December 2021	–/+ 1,088	–/+ 3,265	–/+ 5,442
Year ended 31 December 2022	–/+ 1,314	–/+ 3,941	–/+ 6,569

Income tax expenses

Our PRC subsidiaries are subject to the enterprise income tax in the PRC. The income tax of our Group in respect of its operations in the PRC was calculated at the tax rate of 25% on the assessable profits for the Track Record Period, other than our two subsidiaries certified as High and New Technology Enterprises (HNTE) which is entitled to concessionary tax rate of 15% for three consecutive years from 2020 to 2022. Since 2022, one of the certified subsidiary did not renew the HNTE certificate and therefore the tax rate was changed to 25%.

No Hong Kong profits tax was provided for as there was no assessable profit that was subject to Hong Kong profits tax during the Track Record Period.

Under the current laws of the BVI, the BVI subsidiary is not subject to tax on its income or capital gains. In addition, any payments of dividends are not subject to withholding tax in the BVI.

Our Company is incorporated under the law of the Cayman Islands as an exempted company with limited liability and is not subject to the Cayman Islands income tax.

Our income tax expenses were RMB10.7 million, RMB12.3 million and RMB14.7 million for the years ended 31 December 2020, 2021 and 2022, respectively. The effective tax rates for the corresponding year were 51.1%, 28.7% and 16.0%, respectively. The effective tax rates for the years ended 31 December 2020 and 2021 were higher than the statutory enterprise income tax of 25%, primarily due to the tax effect of some expenses recognised for the years ended 31 December 2020 and 2021, including (i) fair value loss on ordinary shares with redemption right; and (ii) certain **[REDACTED]** expenses, which are not deductible for tax purposes. The effective tax rates decreased to 16.0% for the year ended 31 December 2022, which was primarily attributable to the tax effect of the fair value gain on ordinary shares with redemption right of RMB47.3 million for the year ended 31 December 2022, which is not taxable for tax purpose; while we recorded fair value loss on ordinary shares with redemption right for the years ended 31 December 2020 and 2021.

REVIEW OF HISTORICAL RESULTS OF OPERATION

Year ended 31 December 2022 compared to year ended 31 December 2021

Revenue

Our total revenue decreased by 2.5% from RMB1,171.3 million for the year ended 31 December 2021 to RMB1,141.5 million for the year ended 31 December 2022. The decrease was primarily driven by the combined effect of:

(i) Automobile retail and finance

Our revenue generated from the sales of automobile under finance lease decreased by 5.6% from RMB777.9 million for the year ended 31 December 2021 to RMB734.6 million for the year ended 31 December 2022, which was mainly driven by the decrease in the number of automobiles sold under finance lease from 7,375 units to 7,153 units for the corresponding year, mainly due to the impact on our in-store operation in various cities in the PRC brought by the strict pandemic control and lockdown measures as a result of the resurgence of COVID-19 pandemic in various parts in the PRC, which decreased the demand for new automobile purchases in certain regions in the PRC in 2022.

Our revenue generated from finance lease income increased by 11.9% from RMB234.6 million for the year ended 31 December 2021 to RMB262.5 million for the year ended 31 December 2022, which was primarily driven by the increase in the average total principal amount of finance lease agreements by 20.4% for the year ended 31 December 2022 as compared to that for the year ended 31 December 2021; and partially offset by (ii) the decrease in the average effective interest rate charged for finance lease agreements from 21.1% for the year ended 31 December 2021 to 19.6% for the year ended 31 December 2022.

(ii) Automobile-related services

Our revenue from automobile-related services decreased from RMB158.8 million for the year ended 31 December 2021 to RMB144.4 million, or 9.1%, for the year ended 31 December 2022, primarily due to the decrease in revenue generated from our automobile operating lease, which was partially offset by the increase in revenue from our other automobile-related services. The decrease in our automobile operating lease was mainly due to the decrease in revenue from our e-hailing operating lease for the year ended 31 December 2022 as compared to the year ended 31 December 2021, was attributable to (i) the decrease in the average occupancy rate from 90.7% to 85.0% for its e-hailing operating lease business for the corresponding year, due to the impact of the regional outbreaks of COVID-19 variants in the PRC in 2022; and (ii) the decrease in the average number of e-hailing vehicles from 4,072 units for the year ended 31 December 2021 to 3,877 units for the year ended 31 December 2022, mainly due to the Group switched 1,121 e-hailing vehicles from e-hailing operating lease to e-hailing under finance lease, which was driven by more e-hailing customers selected its e-hailing under finance lease service during the year.

Cost of revenue

Our cost of revenue decreased from RMB809.5 million for the year ended 31 December 2021 to RMB767.1 million for the year ended 31 December 2022, mainly resulted from the decrease in cost of inventories, from RMB633.4 million for the year ended 31 December 2021 to RMB595.6 million for the year ended 31 December 2022, primarily due to the decrease in our sales of automobile under finance lease as aforementioned.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased from RMB361.8 million for the year ended 31 December 2021 to RMB374.4 million for the year ended 31 December 2022. Our gross profit margin increased from 30.9% for the year ended 31 December 2021 to 32.8% for the year ended 31 December 2022, mainly due to a higher gross profit contribution from our finance lease income, which has a higher gross profit margin as compared to sales of automobile under finance lease.

Other income, net

Our other income, net, increased from RMB16.0 million for the year ended 31 December 2021 to RMB21.7 million for the year ended 31 December 2022, primarily due to the increase in refund of VAT from the government as a result of the increase in net VAT paid and tax payable arose from the increase in our finance lease income and our purchase of finance lease automobiles for the year ended 31 December 2022 as compared to the year ended 31 December 2021. See "Other income — (a) VAT related tax benefits" for details in this section.

Other losses, net

Our other losses, net, decreased from RMB8.7 million for the year ended 31 December 2021 to RMB6.8 million for the year ended 31 December 2022, mainly due to the change from fair value loss on revaluation of financial assets at fair value through profit and loss of RMB8,000 for the year ended 31 December 2021 to fair value gain on revaluation of financial assets at fair value through profit and loss of RMB1.5 million for the year ended 31 December 2022.

Selling and marketing expenses

Selling and marketing expenses decreased from RMB83.2 million for the year ended 31 December 2021 to RMB81.1 million for the year ended 31 December 2022, primarily due to the decrease in advertising expenses by RMB2.4 million from RMB10.8 million for the year ended 31 December 2021 to RMB8.4 million for the year ended 31 December 2022, resulted from our cost control measures on advertising during the regional outbreaks of COVID-19 variants in the PRC in 2022.

Administrative expenses

Administrative expenses increased from RMB114.9 million for the year ended 31 December 2021 to RMB115.1 million for the year ended 31 December 2022, primarily due to (i) the decrease in **[REDACTED]** expenses by RMB**[REDACTED]** million; and partially offset by the increase in (ii) other taxation expenses by RMB2.4 million mainly resulted from the increase in addition of our operating lease vehicles amounted to RMB206.0 million for the year ended 31 December 2022 as compared to that amounted to RMB50.5 million for the year ended 31 December 2021; and (iii) travelling expenses by RMB2.4 million for the corresponding year.

Research and development expenses

We had insignificant research and development expenses of RMB0.7 million for the year ended 31 December 2022, as compared to RMB2.1 million for the year ended 31 December 2021.

Finance cost, net

Our finance cost, net, increased from RMB117.8 million for the year ended 31 December 2021 to RMB143.0 million for the year ended 31 December 2022, primarily due to the increase in the average balance of borrowings from RMB1,269.4 million for the year ended 31 December 2021 to RMB1,548.1 million for the year ended 31 December 2022.

Income tax expenses

Our income tax expenses increased from RMB12.3 million for the year ended 31 December 2021 to RMB14.7 million for the year ended 31 December 2022. Our effective tax rate was 16.0% for the year ended 31 December 2022, which was mainly attributable to the tax effect of the fair value gain on ordinary shares with redemption right of RMB47.3 million for the year ended 31 December 2022, which is not taxable for tax purposes.

Profit for the year

As a result of the foregoing, we recorded net profit of RMB77.1 million for the year ended 31 December 2022, as compared to RMB30.7 million for the year ended 31 December 2021.

Non-IFRS measures

Adjusted net profit (Non-IFRS measures) and adjusted net profit margin (Non-IFRS measures)

Our adjusted net profit (Non-IFRS measures) decreased from RMB49.5 million for the year ended 31 December 2021 to RMB42.4 million for the year ended 31 December 2022, mainly due to the decrease in total revenue from RMB1,171.3 million to RMB1,141.5 million for the corresponding year. The decrease in total revenue for the year ended 31 December 2022 as compared to the year ended 31 December 2021 was mainly due to (i) the decrease in revenue from sales of automobile under finance lease from RMB777.9 million for the year ended 31 December 2021 to RMB734.6 million for the year ended 31 December 2022, or 5.6% decrease for the corresponding year, caused by the regional outbreaks of COVID-19 variants in the PRC in 2022; and (ii) the decrease in revenue from e-hailing operating lease from RMB132.8 million for the year ended 31 December 2021 to RMB115.9 million the year ended 31 December 2022 or 12.7% decrease for the corresponding year, affected by (a) the decrease in the average occupancy rate from 90.7% to 85.0% for our e-hailing operating lease business for the corresponding year, due to the impact of the regional outbreaks of COVID-19 variants in the PRC in 2022; and (b) the decrease in the average number of e-hailing vehicles from 4,072 units for the year ended 31 December 2021 to 3,877 units for the year ended 31 December 2022, which was driven by more e-hailing customers selected our e-hailing under finance lease service in 2022, resulting the revenue from these switched e-hailing vehicles were recorded in finance lease income instead of e-hailing operating lease.

Adjusted net profit margin (Non-IFRS measures) was 4.2% and 3.7% for the years ended 31 December 2021 and 2022, respectively.

Year ended 31 December 2021 compared to year ended 31 December 2020

Revenue

For the year ended 31 December 2021, our total revenue was RMB1,171.3 million, increased by 56.2% from RMB749.8 million for the year ended 31 December 2020. The increase was primarily due to the combined effect of:

(i) Automobile retail and finance

Our sales of automobile under finance lease was RMB777.9 million for the year ended 31 December 2021, increased by 114.3% from RMB362.9 million for the year ended 31 December 2020. Such increase was primarily attributable to the increase in the number of new automobiles sold under finance lease from 3,901 units in 2020 to 7,375 units in 2021 driven by the recovery of our operation along with the recovery of the automobile sales market after the adverse impact of COVID-19 outbreak in the PRC in 2020, and our increased sales headcounts in our self-operated sales outlets from 336 as at 31 December 2020 to 495 as at 31 December 2021 to capture the market opportunities.

Our revenue generated from finance lease income slightly decreased to RMB234.6 million for the year ended 31 December 2021 from RMB234.7 million for the year ended 31 December 2020, primarily due to a combined impact of (i) the fading out of our finance lease agreements entered into prior to 2019 which had relatively higher average yield and generally had a term ranging from two to four years; and (ii) partially offset by an increase of 20.9% in the number of finance lease agreements in effect from 15,839 agreements as at 31 December 2020 to 19,152 agreements as at 31 December 2021, while our average effective interest rate charged for the newly signed finance lease agreements remained relatively stable at 20.5% and 19.4% for the years ended 31 December 2020 and 2021, respectively.

(ii) Automobile-related services

Our revenue generated from automobile-related services was RMB158.8 million for the year ended 31 December 2021, increased by 4.4% from RMB152.1 million for the year ended 31 December 2020, primarily driven by the increase in revenue generated from our automobile operating lease business from RMB132.6 million for the year ended 31 December 2020 to RMB144.2 million for the year ended 31 December 2021, which was primarily attributable to the increase in revenue generated from (i) our e-hailing operating lease from RMB116.6 million to RMB132.8 million as a result of the continuous expansion of our e-hailing operating lease business; and partially offset by the decrease in revenue generated from (ii) our new energy car-sharing by RMB1.2 million; and (iii) our other operating lease by RMB3.5 million, for the corresponding year, respectively.

Cost of revenue

Our cost of revenue increased from RMB446.2 million for the year ended 31 December 2020 to RMB809.5 million for the year ended 31 December 2021. Such increase was primarily due to (i) the increase in cost of inventories by RMB327.5 million as a result of the increase in the number of automobiles sold under finance lease for the year ended 31 December 2021; (ii) the increase in depreciation expenses by RMB17.9 million as a result of purchase of automobiles for the expansion of our e-hailing operating lease business; and (iii) the increase in employee benefit expenses by RMB15.6 million due to the increase in the sales commission paid to our sales staff resulted from the increase in the sales of automobile under finance lease for the year ended 31 December 2021 as compared to the year ended 31 December 2020.

Gross profit and gross profit margin

Our gross profit increased from RMB303.6 million for the year ended 31 December 2020 to RMB361.8 million for the year ended 31 December 2021. Our gross profit margin decreased from 40.5% for the year ended 31 December 2020 to 30.9% for the year ended 31 December 2021. The lower gross profit margin for the year ended 31 December 2021 as compared to the year ended 31 December 2020 was primarily owing to the higher revenue contribution from the sales of automobile under finance lease for the year ended 31 December 2021, as compared to the year ended 31 December 2020, as a result of the recovery of our sales of automobile under finance lease from the impact of COVID-19 in the PRC. Our gross profit margin of sales of automobile under finance lease was lower than that of finance lease. The lower contribution from our sales of automobile under finance lease in 2020 led to a mathematically inflated gross profit margin for automobile retail and finance segment for the year ended 31 December 2020. For the year ended 31 December 2021, the sales of automobile under finance lease recovered, thus the revenue contribution of our sales of automobile under finance lease increased, which decreased our overall gross profit margin as compared to the year ended 31 December 2020.

Other income, net

Our other income net decreased from RMB23.3 million for the year ended 31 December 2020 to RMB16.0 million for the year ended 31 December 2021, primarily due to the decrease in the refund of VAT.

Other losses, net

Our other net losses increased from RMB6.6 million for the year ended 31 December 2020 to RMB8.7 million for the year ended 31 December 2021, primarily attributable to the increase in loss on disposal of property and equipment by RMB1.9 million, mainly due to the increase in the number of our automobiles used for our operating lease business disposed during the year ended 31 December 2021.

Selling and marketing expenses

Selling and marketing expenses increased from RMB75.1 million for the year ended 31 December 2020 to RMB83.2 million for the year ended 31 December 2021, primarily due to the increase in (i) repair and maintenance expenses by RMB3.5 million, mainly for our operating lease vehicles and repossessed automobiles; (ii) advertising expenses by RMB2.3 million; (iii) depreciation and amortisation expenses by RMB2.2 million primarily resulted from the increase in our self-developed application for the year ended 31 December 2021; and partially offset by (iv) the decrease in motor vehicle expenses by RMB1.7 million for the corresponding year.

Administrative expenses

Administrative expenses increased from RMB105.6 million for the year ended 31 December 2020 to RMB114.9 million for the year ended 31 December 2021, primarily due to the increase in (i) **[REDACTED]** expenses by RMB**[REDACTED]** million; (ii) our taxes and surcharges by RMB2.8 million, mainly resulted from the growth of our operation; and partially offset by the decrease in (iii) employee benefit expenses by RMB7.8 million, as a result of the decrease in the average number of headcounts of administrative staff, for the corresponding year.

Research and development expenses

Our research and development expenses increased from RMB0.4 million for the year ended 31 December 2020 to RMB2.1 million for the year ended 31 December 2021, primarily due to the increased expenses incurred for the enhancement of our internal operation system, of which we did not put too much focus and efforts during the year ended 31 December 2020 mainly because of the outbreak of COVID-19 in the PRC in 2020.

Finance cost, net

Our finance cost, net, increased from RMB109.2 million for the year ended 31 December 2020 to RMB117.8 million for the year ended 31 December 2021, primarily due to the increase in the average balance of borrowings for the year ended 31 December 2020 as compared to that for the year ended 31 December 2021.

Income tax expenses

Income tax expenses increased from RMB10.7 million for the year ended 31 December 2020 to RMB12.3 million for the year ended 31 December 2021, primarily due to the increase in profit before income tax. Our effective tax rate decreased from 51.1% for the year ended 31 December 2020 to 28.7% for the year ended 31 December 2021, primarily attributable to the increase of **[REDACTED]** expenses by RMB**[REDACTED]** million and certain of which are not deductible for tax purposes.

Profit for the year

As a result of the foregoing, our net profit increased from RMB10.3 million for the year ended 31 December 2020 to RMB30.7 million for the year ended 31 December 2021, whereas our net profit margin improved from 1.4% to 2.6% for the corresponding year, respectively.

Non-IFRS measures

Adjusted net profit (Non-IFRS measures) and adjusted net profit margin (Non-IFRS measures)

Our adjusted net profit (Non-IFRS measures) increased from RMB21.3 million for the year ended 31 December 2020 to RMB49.5 million for the year ended 31 December 2021. Our adjusted net profit margin (Non-IFRS measures) increased from approximately 2.8% for the year ended 31 December 2020 to 4.2% for the year ended 31 December 2021.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Our primary uses of capital are to fund our automobiles for finance leases and operating leases and to manage the working capital of our daily operations. During the Track Record Period, we financed our business operations primarily through our own capital and interest-bearing borrowings. After **[REDACTED]**, we also expect to fund part of our capital needs using the **[REDACTED]** from the **[REDACTED]**. As at the Latest Practicable Date, we did not experience any material difficulty in raising funds by borrowings or any liquidity problems in settling our payables in the normal course of business and repaying our borrowings when they fall due. We invest in purchasing automobiles for our automobile retail and finance lease business, while the payments made by our automobile finance lease customers are based on periodic installments. Our business model may lead to a net operating cash outflow from operating activities for a particular period. The certainty of our cashflow thus depends on our operating activities, which vary from period to period.

The following table summarises our consolidated statements of cash flows during the Track Record Period:

	Year ended 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Operating cash flow before changes in working capital	240,327	295,967	311,248
Changes in working capital	130,884	(266,037)	(227,379)
Income tax paid	(15,737)	(8,958)	(14,406)
Interest paid	(125,593)	(98,381)	(143,463)
Net cash (used in)/generated from operating activities	229,881	(77,409)	(74,000)
Net cash used in investing activities	(171,219)	(58,172)	(119,133)
Net cash generated from/ (used in) financing activities	(163,009)	203,073	314,827
Net (decrease)/increase in cash and cash equivalents	(104,347)	67,493	121,694
Cash and cash equivalents at beginning of year	119,160	11,880	79,373
Effect on foreign exchange rate difference	(2,933)	—	11
Cash and cash equivalents at end of year	11,880	79,373	201,078

Operating activities

During the Track Record Period, our cash inflow from operating activities was principally from sales of automobile under finance lease, interest income from finance leases and automobile rentals. Our operating cash outflow mainly comprises purchase of automobiles for our automobile retail and finance business as well as payments for our operating expenses, interest expenses and tax payments.

For the year ended 31 December 2020, our Group had net cash generated from operating activities of RMB229.9 million, mainly as a result of operating cash flows before changes in working capital of RMB240.3 million, income tax paid of RMB15.7 million, interest paid of RMB125.6 million and positive changes in working capital of RMB130.9 million. Changes in working capital mainly represented (i) the decrease in trade and other receivables and finance lease receivables of RMB100.1 million mainly as a result of the impact of the outbreak of COVID-19 in the PRC in 2020 which resulted in (a) the decrease in the number of new finance lease agreements entered during the year ended 31 December 2020; and (b) the increase in the number of early termination of the existing finance lease agreements and led to repossession during the year ended 31 December 2020; and (ii) the decrease in inventories of RMB41.5 million primarily as a result of the decrease in the number of finance lease agreements terminated during the fourth quarter in 2020 as compared to that during the corresponding period in 2019.

For the year ended 31 December 2021, our Group had net cash used in operating activities of RMB77.4 million, mainly as a result of operating cash flows before changes in working capital of RMB296.0 million, income tax paid of RMB9.0 million, interest paid of RMB98.4 million and negative changes in working capital of RMB266.0 million. Changes in working capital were mainly due to the increase in trade and other receivables and finance lease receivables of RMB287.8 million mainly as a result of the increase in the total number of finance lease agreements that were in effect.

For the year ended 31 December 2022, our Group had net cash used in operating activities of RMB74.0 million, mainly as a result of operating cash flows before changes in working capital of RMB311.2 million, income tax paid of RMB14.4 million, interest paid of RMB143.5 million and negative changes in working capital of RMB227.4 million. Changes in working capital mainly represented (i) the increase in inventories aged 0–30 days of RMB41.5 million mainly due to the increase in purchase of automobiles in December 2022 so as to take advantage of preferential tax benefit, which was set to expire by the end of 2022, according to the Announcement on Reduction of Vehicle Purchase Tax for Certain Passenger Vehicles (《關於減徵部分乘用車車輛購置稅的公告》), which came into effect on 1 June 2022, of which the vehicle purchase tax was halved for passenger vehicles with a displacement up to 2.0 liters with price lower than RMB300,000 per unit, that are purchased between 1 June 2022 and 31 December 2022; (ii) the increase in trade and other payables of RMB38.4 million mainly due to the increase in purchase of automobiles in December 2022; and (iii) the increase in trade and other receivables and finance lease receivables of RMB207.7 million.

We experienced the net cash used in operating activities for business growth during the Track Record Period. This was mainly due to the fact that our new automobile purchases are mainly financed by debt financings, such debt financings are included in another cash flow category, namely net cash generated from financing activities.

While we believe that the net cash outflow from operating activities for the years ended 31 December 2021 and 2022 were attributable to our business growth, we have taken the following measures to monitor our overall liquidity position, including (i) our finance department prepares cash flow forecasts regularly to project liquidity position of our Group for our management to review; and (ii) we continuously enhance our risk management, in particular, we established the communication unit and the operation unit to manage finance lease receivables where our customers default in repayment for over three months in general, in order to ensure prompt collection of finance lease receivables or repossession of leased automobiles. We also strive to match the cash inflow of our finance leases with the cash outflow of our borrowings with the respective terms and tenor. With the above measures, we strive to achieve cash flow from operating activities positive, and decrease liquidity risk. For details about our liquidity risk control measures, please refer to the "Risk Management and Operation — Operational Risk Management — Credit Risk Management" and "Risk Management and Operation — Operational Risk Management — Liquidity Risk".

Investing activities

During the Track Record Period, our cash inflow from investing activities was principally from the interest received and proceeds from the disposal of property and equipment. Our cash outflow from investing activities mainly comprised payment for the purchase of property and equipment, payment for the addition of intangible assets and payment for acquisition of financial assets at fair value through profit or loss.

For the year ended 31 December 2020, our Group had net cash used in investing activities of RMB171.2 million, primarily attributable to payment for the purchase of property and equipment of RMB166.9 million, mainly for the purchase of automobiles used for our operating lease business.

For the year ended 31 December 2021, our Group had net cash used in investing activities of RMB58.2 million, primarily attributable to (i) the payment for the purchase of property and equipment of RMB45.6 million, mainly for the purchase of automobiles used for our operating lease business; (ii) payment for financial assets at fair value through profit or loss of RMB28.0 million; and (iii) payment for addition of intangible assets of RMB11.5 million. Such net cash used in investing activities was partially offset by proceeds obtained from disposal of property and equipment of RMB24.6 million.

For the year ended 31 December 2022, our Group had net cash used in investing activities of RMB119.1 million, primarily attributable to (i) payment for the purchase of property and equipment of RMB137.9 million, mainly automobiles for automobile retail and finance business; and (ii) payment for addition of intangible assets of RMB11.3 million. Such net cash used in investing activities was partially offset by proceeds from disposal of property and equipment of RMB29.8 million.

Financing activities

During the Track Record Period, our cash inflow from financing activities was principally from proceeds from borrowings, capital injection to our Company upon issuance of shares to give effect to the Reorganisation and issuance of ordinary shares with redemption right and convertible bond. Our cash outflow used in financing activities mainly comprises the repayments of borrowings and deemed distribution to the shareholders of the XXF Group for purchasing the **[REDACTED]** Business (as defined in Accountant's Report in Appendix I to this document) as a result of the Reorganisation.

For the year ended 31 December 2020, our Group had net cash used in financing activities of RMB163.0 million, primarily attributable to (i) repayments of borrowings of RMB772.3 million; and (ii) deemed distribution to the shareholders of the XXF Group for purchasing the **[REDACTED]** Business (as defined in Accountant's Report in Appendix I to this document) of RMB219.3 million. Such net cash used in financing activities was partially offset by (i) proceeds from borrowings of RMB638.9 million; and (ii) capital injection to our Company upon issuance of Shares to give effect to the Reorganisation of RMB214.1 million.

For the year ended 31 December 2021, our Group had net cash generated from financing activities of RMB203.1 million, primarily attributable to (i) proceeds from borrowings of RMB1,168.9 million; (ii) repayments of borrowings of RMB963.8 million; (iii) receipt from issuance of ordinary shares of XXF Group with redemption right of RMB20.0 million from Hit Drive Limited, an offshore holding vehicle of Beijing Chesheng; (iv) placement of deposits for borrowings of RMB17.0 million; and (v) redemption of deposits for borrowings of RMB14.0 million.

For the year ended 31 December 2022, our Group had net cash generated from financing activities of RMB314.9 million, primarily attributable to (i) the proceeds from borrowings of RMB1,338.3 million; and (ii) the redemption of deposits for borrowings of RMB18.5 million, which was partially offset by (iii) the repayments of borrowings of RMB1,003.1 million; and (iv) the placement of deposits for borrowings of RMB29.2 million.

Capital Management

Our Group regularly reviews and manages our capital structure to maintain a balance between debt financing and equity financing and makes adjustments to the capital structure in light of changes in economic conditions. No material changes were made in the objectives, policies or processes of our capital management during the Track Record Period.

Our Directors confirmed that our Group does not expect any material changes in the mix and relative cost of capital resources in the foreseeable future.

Our Group monitors capital on the basis of the gearing ratio. The gearing ratio at the end of the Track Record Period were as follows:

	As at 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Borrowings	1,155,958	1,382,822	1,713,415
Lease liabilities	19,161	14,305	13,856
Less: cash and cash equivalents	(11,880)	(79,373)	(201,078)
Net debt	1,163,239	1,317,754	1,526,193
Total equity	408,172	443,512	506,614
Total capital	1,571,411	1,761,266	2,032,807
Gearing ratio	74.0%	74.8%	75.1%

Note: Gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "borrowings and lease liabilities" as shown in the consolidated statement of financial position) less cash and cash equivalents. Our Group does not consider the amount of ordinary shares with redemption right when calculating net debt. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

Our Group manages our capital to ensure that our group companies can repay or refinance debts when they fall due and comply with the PRC laws and regulations while maximising the return to Shareholders through balancing our debt financing and equity financing. We strive to balance the objectives of matching the cash inflow of our customers' automobile finance lease with the cash outflow of our borrowings and growing our business. See "Business — Our Debt Management" for further details of our debt management policy.

Net Current Assets/(Liabilities)

We recorded net current liabilities of RMB57.7 million and RMB147.2 million as at 31 December 2020 and 2021, and net current assets of RMB41.8 million and RMB28.9 million as at 31 December 2022 and 30 April 2023, respectively. The following table sets out our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at
	2020	**2021**	**2022**	**30 April 2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)
Current assets				
Inventories	142,021	141,883	193,634	[157,545]
Finance lease receivables	379,303	464,397	560,061	[593,046]
Trade receivables	6,837	6,741	9,940	[4,778]
Prepayments, deposits and other receivables	238,405	244,535	265,968	[283,465]
Amount due from shareholders	5,733	5,569	6,085	[6,008]
Restricted cash	9,675	5,000	4,534	[3,714]
Cash and cash equivalents	11,880	79,373	201,078	[163,673]
Total current assets	793,854	947,498	1,241,300	[1,212,229]
Current liabilities				
Borrowings	708,578	726,603	828,573	[887,117]
Ordinary shares with redemption right	—	196,640	163,129	[161,082]
Amounts due to shareholders	7,687	7,467	8,158	[8,056]
Trade payables	41,565	68,463	105,860	[32,660]
Other payables and accruals	83,054	78,544	78,939	[79,543]
Lease liabilities	6,419	5,781	6,087	[6,003]
Current income tax payables	4,246	11,225	8,786	[8,908]
Total current liabilities	851,549	1,094,723	1,199,532	[1,183,369]
Net current assets/(liabilities)	(57,695)	(147,225)	41,768	[28,860]

We recorded net current liabilities of RMB147.2 million as at 31 December 2021 as compared to net current liabilities of RMB57.7 million as at 31 December 2020, primarily due to a combined effect of (i) the increase in finance lease receivables; (ii) the increase in cash and cash equivalents; (iii) the increase in prepayment, deposits and other receivables; (iv) the reclassification of ordinary shares with redemption right from non-current liabilities to current liabilities pursuant to the original agreements entered into between the Group and each of the two **[REDACTED]** Investors of which the redemption right upon failure of a qualified **[REDACTED]** would be exercisable within one year from 31 December 2021; (v) the increase in borrowings; (vi) the increase in trade payables; and (vii) the increase in current income tax payable.

We recorded net current assets of RMB41.8 million as at 31 December 2022, as compared to net current liabilities of RMB147.2 million as at 31 December 2021, primarily due to (i) the increase in cash and cash equivalent from RMB79.3 million as at 31 December 2021 to RMB201.1 million as at 31 December 2022, mainly resulted from our net cash generated from financing activities and partially offset by our net cash used in operating and investing activities; (ii) the increase in inventories from RMB141.9 million as at 31 December 2021 to RMB193.6 million as at 31 December 2022 mainly attributable to the increase in the purchase of our automobiles in December 2022 as compared to that as at 31 December 2021; (iii) the increase in finance lease receivables mainly resulted from the increase in the average number of finance lease agreements for the year ended 31 December 2022 as compared to the year ended 31 December 2021; (iv) the decrease in ordinary shares with redemption right from RMB196.6 million as at 31 December 2021 to RMB163.1 million as at 31 December 2022, mainly attributable to the fair value change for the year ended 31 December 2022; and partially offset by (v) the increase in borrowings from RMB726.6 million as at 31 December 2021 to RMB828.6 million as at 31 December 2022 mainly attributable to the increase in purchase of the automobiles used for our finance lease and operating lease business; and (vi) the increase in trade payables from RMB68.5 million as at 31 December 2021 to RMB105.9 million as at 31 December 2022, mainly due to the increase in purchase of automobiles in December 2022.

Our cash and cash equivalent decreased from RMB201.1 million as at 31 December 2022 to RMB[163.7] million as at 30 April 2023, mainly due to the increase in the payments of automobile purchases during the period.

As at 30 April 2023, being the latest practicable date for the purpose of indebtedness statement, we had net current assets of RMB[28.9] million.

The net current liabilities position as at 31 December 2020 and 2021 was mainly due to the factors stated in the sub-section headed "Liquidity" below.

Liquidity

Liquidity risk refers to the risk that the Group encounters difficulty in raising funds through financing facilities or the inability to sell our financial assets quickly to meet the payment obligations to our creditors as such obligations fall due. See "Risk Management and Operations — Liquidity Risk" for further details.

The following table sets out the maturity profile of our Group's financial assets and liabilities based on contractual undiscounted cash flows as at the dates indicated:

	On demand/ Less than one year	Between one and two years	Between two and five years	Over five years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2020					
Financial assets					
Trade receivables	7,106	—	—	—	7,106
Finance lease receivables	524,722	403,494	350,496	—	1,278,712
Deposits and other receivables	50,998	22,052	—	—	73,050
Amount due from shareholders	5,733	—	—	—	5,733
Restricted cash	9,675	—	—	—	9,675
Cash and cash equivalents	11,880	—	—	—	11,880
Total financial assets	610,114	425,546	350,496	—	1,386,156
Financial liabilities					
Trade payables	41,565	—	—	—	41,565
Other payables and accruals	48,170	—	—	—	48,170
Lease liabilities	7,333	6,828	6,722	—	20,883
Borrowings	773,436	332,582	155,251	—	1,261,269
Amounts due to shareholders	7,687	—	—	—	7,687
Total financial liabilities *(Note)*	878,191	339,410	161,973	—	1,379,574
Net liquidity gap	(268,077)	86,136	188,523	—	6,582

	On demand/ Less than one year *RMB'000*	Between one and two years *RMB'000*	Between two and five years *RMB'000*	Over five years *RMB'000*	Total *RMB'000*
As at 31 December 2021					
Financial assets					
Trade receivables	7,026	—	—	—	7,026
Finance lease receivables	647,928	528,257	491,920	—	1,668,105
Deposits and other receivables	68,681	5,577	7,793	—	82,051
Amount due from shareholders	5,569	—	—	—	5,569
Restricted Cash	5,000	—	—	—	5,000
Cash and cash equivalents	79,373	—	—	—	79,373
Financial assets at fair value through profit or loss	5,992	—	—	20,000	25,992
Total financial assets	819,569	533,834	499,713	20,000	1,873,116
Financial liabilities					
Trade payables	68,463	—	—	—	68,463
Other payables and accruals	37,869	—	—	—	37,869
Lease liabilities	6,409	4,774	4,285	—	15,468
Borrowings	831,872	437,155	323,693	—	1,592,720
Amounts due to shareholders	7,467	—	—	—	7,467
Total financial liabilities(*Note*)	952,080	441,929	327,978	—	1,721,987
Net liquidity gap	(132,511)	91,905	171,735	20,000	151,129
As at 31 December 2022					
Financial assets					
Trade receivables	10,567	—	—	—	10,567
Finance lease receivables	752,427	597,330	492,366	—	1,842,123
Deposits and other receivables	65,566	7,538	24,619	—	97,723
Amount due from shareholders	6,085	—	—	—	6,085
Restricted cash	4,534	—	—	—	4,534
Cash and cash equivalents	201,078	—	—	—	201,078
Financial assets at fair value through profit or loss	—	—	—	21,647	21,647
Total financial assets	1,040,257	604,868	516,985	21,647	2,183,757
Financial liabilities					
Trade payables	105,860	—	—	—	105,860
Other payables and accruals	33,186	—	—	—	33,186
Lease liabilities	6,680	4,548	3,727	—	14,955
Borrowings	961,026	585,085	405,718	—	1,951,829
Amounts due to shareholders	8,158	—	—	—	8,158
Total financial liabilities(*Note*)	1,114,910	589,633	409,445	—	2,113,988
Net liquidity gap	(74,653)	15,235	107,540	21,647	69,769

Note: Our Group's current liabilities arising from ordinary shares with redemption right were excluded from the above analysis, as such redemption right was no longer exercisable upon the filing of the **[REDACTED]** application and will be terminated upon **[REDACTED]**. In the event that we completed the **[REDACTED]**, there will be no cash outflow from such redemption right from us. Contractual undiscounted cash flows arising from ordinary shares with redemption right were RMB188.2 million, RMB206.7 million and RMB237.8 million, as at 31 December 2020, 2021 and 2022, respectively.

To manage the maturity gap between our finance lease receivables and relevant borrowing terms, we monitor the maturity profile of our finance lease receivables under financial assets and the relevant borrowings under liabilities based on contractual undiscounted cash flows. The following table sets out the maturity profile of our Group's finance lease receivables and the relevant borrowings under the automobile retail and finance segment as at the dates indicated:

	On demand/ Less than one year	Between one and two years	Between two and five years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2020				
Finance lease receivables	524,722	403,494	350,496	1,278,712
Borrowings (automobile retail and finance)	612,045	247,552	142,648	1,002,245
Maturity gap	(87,323)	155,942	207,848	276,467
As at 31 December 2021				
Finance lease receivables	647,928	528,257	491,920	1,668,105
Borrowings (automobile retail and finance)	733,943	424,533	320,549	1,479,025
Maturity gap	(86,015)	103,724	171,371	189,080
As at 31 December 2022				
Finance lease receivables	752,427	597,330	492,366	1,842,123
Borrowings (automobile retail and finance)	841,840	500,565	350,307	1,692,712
Maturity gap	(89,413)	96,765	142,059	149,411

Note: Maturity gap is calculated by subtracting relevant borrowings under the automobile retail and finance segment from finance lease receivables.

For our finance assets and liabilities with the category of "on demand/less than one year", we had a negative net liquidity gap of approximately RMB268.1 million, RMB132.5 million and RMB74.7 million, as at 31 December 2020, 2021 and 2022, respectively. For our finance lease receivables and the relevant borrowings under the automobile and finance segment with the category of "on demand/less than one year", we had a maturity gap of approximately RMB87.3 million, RMB86.0 million and RMB89.4 million, as at 31 December 2020, 2021 and 2022, respectively. Our negative net liquidity gap and negative maturity gap for the category of "on demand/less than one year" do not indicate that we have a liquidity issue. Set out below is further information relating to our liquidity position:

(i) our automobiles under inventories category that were not pledged amounted to approximately RMB65.8 million, RMB74.5 million and RMB80.4 million as at 31 December 2020, 2021 and 2022, respectively. As automobiles are not financial assets, they are not included in the calculation of the net liquidity gap. These automobiles are ready for sale; and

(ii) our automobiles under inventories category that were pledged amounted to approximately RMB80.3 million, RMB73.7 million and RMB117.2 million, as at 31 December 2020, 2021 and 2022, respectively. These automobiles are not financial assets and, thus, not included in the calculation of liquidity gap. In the extreme case, we can surrender the automobiles to settle part of our current liabilities.

We have established diversified funding channels to ensure the sufficiency of our working capital and manage our capital. During the Track Record Period, we were able to fund our business through debt financing and equity financing. Our debt financing mainly includes (i) interest-bearing loans; (ii) automobile finance lease arrangement; (iii) factoring of finance lease receivables; (iv) asset-backed securities; and (v) convertible bond. We carefully assess various funding options available in the market and select appropriate funding channel by taking into account the cost of funds, the financing ratio, tenor of the loan and the time required for the approval of funds. Accordingly, we have been capable of securing sufficient equity and debt financing to match the growth of our business operations. See "Risk Management and Operations — Liquidity Risk" for our measures to manage our liquidity risk.

As majority of our automobile purchases for our automobile retail and finance were funded by our borrowings, before we sold these automobiles, these automobiles were recorded as inventories, which are non-financial assets, however, the borrowings related to these unsold automobiles were recorded as financial liabilities, which caused the negative liquidity gap and negative maturity gap in the category of on demand/less than one year. According to CIC, cash flow mismatch with negative net liquidity gap and negative maturity gap is an industry norm in the automobile finance leasing industry.

To manage our liquidity risk, we have adopted the following measures: (i) strive to match the cash outflow of our borrowings with the cash inflow of our automobile finance leases (generally not more than four years); (ii) maintain diverse funding sources; (iii) maintain an appropriate level of liquid assets; (iv) maintain an appropriate level of unutilised funding facilities; and (v) monitor our short-term and long-term liquidity risk using internal metrics and regulatory indicators.

Our gearing ratio remained relatively stable at 74.0%, 74.8% and 75.1% as at 31 December 2020, 2021 and 2022, respectively.

As at 30 April 2023, being the latest practicable date for the purpose of indebtedness statement, we had aggregate facilities of RMB[4,751.1] million, of which RMB[4,005.8] million was unutilised.

As at 31 December 2020, 2021 and 2022, finance lease receivables amounted to RMB787.3 million, RMB1,227.6 million and RMB1,357.8 million was pledged as collaterals for our borrowings. As at 30 April 2023, being the latest practicable date for the purpose of indebtedness statement, the finance lease receivables available for utilisation in obtaining additional borrowings was RMB[62.7] million.

Having considered the above, our Directors believe that (i) we have relevant measures to manage our liquidity; and (ii) we have adequate facilities to support our business operation.

Capital Expenditure

Our Group's capital expenditure principally consists expenditures on (i) purchases of property and equipment; and (ii) additions of intangible assets. During the Track Record Period, our Group recorded capital expenditures of RMB185.3 million, RMB77.1 million and RMB224.9 million, for the years ended 31 December 2020, 2021 and 2022, respectively.

Working Capital

We had negative cash flows from operating activities for the years ended 31 December 2021 and 2022, which was primarily due to the increase in our finance lease receivables as a result of our overall business growth in our finance lease business. During the Track Record Period, we invested in purchasing automobiles to expand our automobile finance lease and operating lease businesses and we principally financed our purchase of automobiles by borrowings, while payments by our automobile finance and operating lease customers are based on periodic instalment under the terms in the lease contract, which would generate net cash outflow for a particular period. We may record net cash outflow from operating activities in the future, in which case our working capital may be limited and our financial results and results of operations may be materially and adversely affected. Our cash and cash equivalents amounted to approximately RMB11.9 million, RMB79.4 million and RMB201.1 million as at 31 December 2020, 2021 and 2022, respectively.

Our Directors confirm that, taking into consideration the facilities presently available, other working capital and the estimated **[REDACTED]** from the **[REDACTED]**, we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this document.

DESCRIPTION OF CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property and equipment

Our property and equipment comprise (i) right-of-use assets; (ii) buildings; (iii) office equipment; (iv) automobiles; and (v) leasehold improvements. As at 31 December 2020, 2021 and 2022, the net book value of our property and equipment was RMB431.2 million, RMB353.1 million and RMB367.7 million, respectively.

The following table sets out a breakdown of the carrying amounts of our property and equipment as at the dates indicated:

	As at 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Right-of-use assets	18,115	13,936	13,646
Buildings	3,830	3,685	3,540
Office equipment	3,840	2,395	1,626
Automobiles	398,052	324,096	342,766
Leasehold improvements	7,334	9,026	6,126
	431,171	353,138	367,704

Our property and equipment decreased from RMB431.2 million as at 31 December 2020 to RMB353.1 million as at 31 December 2021, primarily due to the decrease in our automobiles from RMB398.1 million as at 31 December 2020 to RMB324.1 million as at 31 December 2021, mainly resulted from the decrease in new addition of automobiles for our operating lease business and the depreciation expenses incurred during the year.

Our property and equipment increased by RMB14.6 million from RMB353.1 million as at 31 December 2021 to RMB367.7 million as at 31 December 2022, mainly resulted from the increase in automobiles by RMB18.7 million, primarily due to the addition of the automobiles for the year ended 31 December 2022, in order to take advantage of the preferential tax benefit during 2022.

For the years ended 31 December 2020, 2021 and 2022, automobiles classified under property and equipment which were subsequently transferred to inventory amounted to RMB3.0 million, RMB9.0 million and RMB68.8 million, respectively. Such increase during the Track Record Period, was mainly due to the changes of the usage of automobiles from operating lease to finance lease. We adjusted the usage of the operating lease automobiles based on operational needs.

Intangible assets

Our intangible assets comprise (i) computer software; (ii) self-developed applications; and (iii) intangible assets under development. The following table sets out a breakdown of our intangible assets as at the dates indicated:

	As at 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Computer softwares	3,324	1,229	238
Self-developed applications	18,807	22,061	18,844
Intangible assets under development	4,532	831	2,697
	26,663	24,121	21,779

Our intangible assets decreased from RMB26.7 million as at 31 December 2020 to RMB24.1 million as at 31 December 2021, primarily due to the decrease in our intangible assets under development from RMB4.5 million as 31 December 2020 to RMB0.8 million as at 31 December 2021. Our intangible assets decreased from RMB24.1 million as at 31 December 2021 to RMB21.8 million as at 31 December 2022, primarily due to the decrease in (i) self-developed applications from RMB22.1 million as at 31 December 2021 to RMB18.8 million as at 31 December 2022 resulted from the amortisation charged during the year; and (ii) computer software from RMB1.2 million as at 31 December 2021 to RMB0.2 million as at 31 December 2022 resulted from the amortisation charged during the year, and partially offset by (iii) the increase in intangible assets under development from RMB0.8 million as at 31 December 2021 to RMB2.7 million as at 31 December 2022.

Impairment assessment

Our Group has developed the software which is internally used for finance lease operation. Our Group has recognised RMB4.5 million, RMB0.8 million and RMB2.7 million of intangible assets under development as at 31 December 2020, 2021 and 2022, respectively, based on the stage of completion. The intangible assets under development generally would be completed within 12 months and the amount would be transferred to "self-developed applications" upon completion.

The carrying amounts of intangible assets under development of RMB4.5 million, RMB0.8 million and RMB2.7 million as at 31 December 2020, 2021 and 2022 were attributable to our Group's cash-generating units of finance lease business.

For the purpose of impairment test on software under development as at 31 December 2020, 2021 and 2022, the recoverable amounts of the finance lease business units were determined based on value-in-use calculations.

These calculations use pre-tax free cash flow of finance lease business projections based on profit forecast approved by management covering a five-year period and a pre-tax discount rate of 15.1%, which reflects the specific risks relating to the finance lease business in the PRC. The pre-tax discount rate was derived from the post-tax weighted average cost of capital of the cash generating unit with adoption of Capital Asset Pricing Model ("**CAPM**") to estimate the cost of equity. The CAPM inputs including levered beta and historical debt-to capital ratio were obtained via market data of comparable companies, which are listed in major exchange markets and focused in the leasing industry and these inputs were relatively stable throughout the Track Record Period. Please refer to note 15 to Accountant's Report as set out in Appendix I for more details.

The cash flows beyond the five-year period are extrapolated using zero growth rate and the business is assumed that it would operate perpetually.

Other key assumptions to the valuation model used are as follows:

	As at 31 December		
	2020	**2021**	**2022**
Average yield of finance lease receivables	22.3%	20.4%	19.0%

We do not foresee any reasonable change in the key assumptions used in the value-in-use calculations that will cause the recoverable amount of software under development to be less than its carrying amount.

As at 31 December 2020, 2021 and 2022, the management assessed the recoverable amount of the cash generated unit (CGU) and determined that no impairment loss was recognised for the capitalised development costs as the recoverable amounts exceeded the carrying amounts.

The estimated recoverable amount shall exceed its carrying amount (i.e. the headroom) as listed in below table:

	As at 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
CGU of finance lease business	67,189	68,990	78,427

The Directors performed sensitivity analysis based on the assumptions that revenue growth rate or average yield of finance lease receivables has been changed. Had the estimated key assumption during the forecast period been changed as below, the headroom would decrease to the amounts as follows:

	As at 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
CGU of finance lease business			
— Average yield of finance lease receivables decrease by 1%	36,737	38,425	43,951
— Pre-tax WACC increase by 1%	28,516	28,524	32,422

The Directors have not identified any reasonably possible change in the key assumptions on which the recoverable amount is based that would cause the carrying amounts of the CGU to exceed their respective recoverable amounts as at 31 December 2020, 2021 and 2022, respectively.

Inventories

Our inventories include new and repossessed automobiles and vehicle telematics equipment. The following table sets out a breakdown of our inventories as at the dates indicated:

	As at 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Automobiles	146,130	148,151	197,625
Vehicle telematics equipment	1,655	1,559	2,106
	147,785	149,710	199,731
Provision for inventories	(5,764)	(7,827)	(6,097)
	142,021	141,883	193,634

The following table sets out the inventory ageing analysis as at the dates indicated:

	As at 31 December			Subsequent sales/ utilisation of the Group's inventory as at the Latest Practicable Date
	2020	**2021**	**2022**	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–30 days	93,457	104,906	146,023	141,852
31–60 days	13,705	19,844	19,149	18,063
61–90 days	14,651	6,678	10,926	9,762
91–365 days	21,431	15,451	21,759	20,852
Over 365 days	4,541	2,831	1,874	1,727
Total	147,785	149,710	199,731	192,256

Our inventories remained relatively stable at RMB141.9 million as at 31 December 2021 as compared to RMB142.0 million as at 31 December 2020, then increased to RMB193.6 million as at 31 December 2022, primarily attributable to the increase in automobiles by RMB49.5 million mainly due to the increase in inventories aged 0–30 days by RMB41.5 million attributable to the increase in automobile purchase in December 2022 as to take advantage of preferential tax benefit, which was set to expire by the end of 2022.

We monitor our inventories from time to time and strive to maintain an optimal inventory level of automobiles. We keep moving record of our inventory level with the aid of our IT systems and physical records. We conduct daily inspections of the physical condition of our inventories and monthly physical inventory stocktake to ensure the accuracy of our inventory record. During the Track Record Period, provision for inventories amounted to RMB5.8 million, RMB7.8 million and RMB6.1 million, respectively, for automobiles with sufficient stock and decreased demand.

The following table sets out our average inventory turnover days for automobile finance lease business for the years indicated:

	For the year ended 31 December		
	2020	**2021**	**2022**
Average inventory turnover days for automobile finance lease *(Note)*	96	54	58

Note: Average inventory turnover days was calculated using the average balances of inventories divided by cost of inventories for finance lease for the relevant year and multiplied by 365 days for the years ended 31 December 2020, 2021 and 2022. Average balance of inventories is calculated as the sum of the beginning balance and the ending balance for the relevant year divided by two.

Our average inventory turnover days for automobile finance lease were 96 days, 54 days and 58 days for the years ended 31 December 2020, 2021 and 2022, respectively. The average inventory turnover days then decreased from 96 days for the year ended 31 December 2020 to 54 days for the year ended 31 December 2021, primarily due to the increase in cost of inventories for finance lease for the year ended 31 December 2021, as a result of the recovery of our sales of automobile under finance lease from the impact of COVID-19 in the PRC, while the inventory balance remained relatively stable as at 31 December 2020 and 2021. The average inventory turnover days increased to 58 days for the year ended 31 December 2022 which was primarily attributable to the increase in inventories as at 31 December 2022 as compared to that as at 31 December 2021 mainly resulted from the increase in purchase of automobiles in December 2022 as to take advantage of preferential tax benefit, which was set to expire by the end of 2022.

As at the Latest Practicable Date, RMB192.3 million or 96.3% of our inventories outstanding as at 31 December 2022 were sold or utilised.

Our automobiles aged over 90 days mainly represented repossessed automobiles not yet leased or disposed. Repossessed automobiles generally have longer turnover days as these repossessed automobiles usually take longer time for us to release the pledging status in order to be leased or disposed.

Our Directors believe that automobiles are in general durable and not fast obsolete. As such, the inventories aged over 90 days as at 31 December 2022 that were not subsequently sold or utilised as at the Latest Practicable Date does not imply that such inventories are unable to be sold or utilised.

Finance lease receivables

Our finance lease receivable primarily consists receivables from our automobile finance leases business. Finance lease receivable is the gross finance lease receivables less (i) unearned finance income to be recognised over the lease period; and (ii) allowance for impairment of finance lease receivables. Gross finance lease receivables include both interests and principal amounts we expect to receive from our customers under finance lease contracts. Our finance lease receivables under our automobile finance leases are secured by the leased automobiles. At the end of the lease term, the ownership of the automobile will be transferred to our customers who purchased automobiles by way of direct finance lease upon settlement of all outstanding balances. The following table sets out our net finance lease receivables as at the dates indicated:

	As at 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Finance lease receivables			
— Finance lease receivables, gross	1,278,712	1,668,105	1,842,123
— Unearned finance income	(267,651)	(360,224)	(358,496)
Finance lease receivables, net	1,011,061	1,307,881	1,483,627
Less: allowance for impairment of finance lease receivables	(9,372)	(10,915)	(13,296)
Carrying amount of finance lease receivables	1,001,689	1,296,966	1,470,331

Our finance lease receivables increased from RMB1,001.7 million as at 31 December 2020 to RMB1,297.0 million as at 31 December 2021, primarily attributable to the increase in the total number of finance lease agreements that were in effect which was mainly caused by the recovery of our sales of automobile under finance lease from the impact of the outbreak of COVID-19 in the PRC in 2020. Our finance lease receivables further increased to RMB1,470.3 million as at 31 December 2022, primarily due to the increased number of finance lease agreements that were in effect from 19,152 as at 31 December 2021 to 20,577 as at 31 December 2022.

The following table sets out the breakdown of our finance lease receivables by current and non-current asset classification as at the dates indicated:

	As at 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	622,386	832,569	910,270
Current assets	379,303	464,397	560,061
	1,001,689	1,296,966	1,470,331

The following table sets out the breakdown of net finance lease receivables by geographical location as at the dates indicated:

	As at 31 December					
	2020		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Eastern PRC	435,225	43.0	524,325	40.1	587,622	39.6
Southern PRC	173,812	17.2	233,435	17.8	294,778	19.9
Southwestern PRC	174,472	17.3	210,415	16.1	217,881	14.7
Central PRC	103,659	10.3	150,554	11.5	163,759	11.0
Northern PRC	74,248	7.3	116,262	8.9	126,007	8.5
Northwestern PRC	37,619	3.7	57,488	4.4	73,184	4.9
Northeastern PRC	12,026	1.2	15,402	1.2	20,394	1.4
Total	1,011,061	100.0	1,307,881	100.0	1,483,627	100.0

The following table sets out the breakdown of net finance lease receivables by city tier as at the dates indicated:

	As at 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Tier one city	5,367	1,044	29,965
Tier two cities	848,324	1,121,293	1,241,026
Tier three and below cities	157,370	185,544	212,636
Total	1,011,061	1,307,881	1,483,627

Our finance lease agreements generally have a term ranging from two to four years. The following table sets out the details of finance lease receivables as at the dates indicated:

	As at 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Finance lease receivables, gross			
— Within one year	524,722	647,928	752,427
— Between one and two years	403,494	528,257	597,330
— Between two and five years	350,496	491,920	492,366
	1,278,712	1,668,105	1,842,123
Finance lease receivables, net			
— Within one year	383,816	469,316	566,894
— Between one and two years	318,039	409,520	479,080
— Between two and five years	309,206	429,045	437,653
	1,011,061	1,307,881	1,483,627

The following table sets out an ageing analysis based on due dates of our finance lease receivables net as at the dates indicated:

	As at 31 December		
	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*
Not past due	955,256	1,233,278	1,398,133
Past due			
Up to one month	38,020	54,337	60,501
One to three months	10,806	11,638	14,569
Three to six months	3,412	4,158	5,578
Six to twelve months	2,723	3,266	3,331
Over twelve months	844	1,204	1,515
Finance lease receivables, net	1,011,061	1,307,881	1,483,627
Less: allowance for impairment of finance lease receivables	(9,372)	(10,915)	(13,296)
Carrying amount of finance lease receivables	1,001,689	1,296,966	1,470,331

We monitor all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. Our Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime credit loss provision for finance lease receivables. In considering the expected credit losses for finance lease receivable, our Group considers historical loss rates for each category of debtors and adjusts for forward-looking macroeconomic data. 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 and 2022, our non-performing asset ratios, were 0.7%, 0.7% and 0.7%, respectively. According to the CIC Report, the industry average non-performing asset ratios as at 31 December 2021 and 2022 were 1.5% and 1.5%, respectively. As such, our non-performing asset ratios as at 31 December 2021 and 2022 were lower than the industry average. As at 31 December 2020, 2021 and 2022, our allowance for impairment of finance lease receivables amounted to RMB9.4 million, RMB10.9 million and RMB13.3 million, respectively.

The following table sets out our net finance lease receivables, the amount of net finance lease receivables that are past due and the corresponding past due ratios, and the amount of provision for credit losses and the corresponding coverage ratios as at the dates indicated:

	As at 31 December		
	2020	**2021**	**2022**
	(RMB'000, except for percentage)		
Finance lease receivables, net	1,011,061	1,307,881	1,483,627
Allowance for impairment of finance lease receivables	9,372	10,915	13,296
Allowance to net finance lease receivables ratio*(Note 1)*	0.9%	0.8%	0.9%
Past due net finance lease receivables			
Over one month	17,785	20,266	24,993
Over three months	6,979	8,628	10,424
Over six months	3,567	4,470	4,846
Over one year	844	1,204	1,515
Past due ratio*(Note 2)*			
Over one month	1.8%	1.5%	1.7%
Over three months	0.7%	0.7%	0.7%
Over six months	0.4%	0.3%	0.3%
Over one year	0.1%	0.1%	0.1%
Past due coverage ratio*(Note 3)*			
Over one month	52.7%	53.9%	53.2%
Over three months	134.3%	126.5%	127.5%
Over six months	262.7%	244.2%	274.4%
Over one year	1,110.2%	906.5%	877.6%

Notes:

1. Represents allowance for impairment of finance lease receivables as at the end of that corresponding year divided by net finance lease receivables as at the end of that corresponding year.

2. Represents past due net finance lease receivables as at the end of that corresponding year divided by total net finance lease receivables as at the end of the corresponding year.

3. Represents allowance for impairment of finance lease receivables as at the end of that corresponding year divided by past due net finance lease receivables as at the end of that corresponding year.

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. Therefore, our past due ratios remained at a relatively low level. Our over one month past due ratio decreased from 1.8% as at 31 December 2020 to 1.5% as at 31 December 2021, primarily due to the increase by 28.4% in the total principal amount of finance lease agreements as at 31 December 2021 as compared to that as at 31 December 2020 mainly resulted from the strong recovery from the significant adverse effects caused by the outbreak of COVID-19 in the PRC in 2020; while the past due net finance lease receivables over one month only increased by 13.9% as at 31 December 2021 as compared to that as at 31 December 2020. Our over one month past due ratio then increased to 1.7% as at 31 December 2022, primarily due to the increase by 14.3% in the total principal amount of finance lease agreements as at 31 December 2022 as compared to 31 December 2021 mainly resulted from our organic growth of our business; while the past due net finance lease receivables for over one month increased by 23.3% as at 31 December 2022 as compared to that as at 31 December 2021. Our over one month past due ratio remained at a relatively low level as at 31 December 2020, 2021 and 2022. Our over three months past due ratio, over six months past due ratio and over one year past due ratio were below 1% as at 31 December 2020, 2021 and 2022.

Our over one month past due coverage ratio remained relatively stable at 52.7%, 53.9% and 53.2% as at 31 December 2020, 2021 and 2022.

Our over three months past due coverage ratio decreased from 134.3% as at 31 December 2020 to 126.5% as at 31 December 2021, mainly attributable to the increase in our allowance for impairment of finance lease receivables by 16.5%; while our past due finance lease receivables for over three months increased by 23.6% as at 31 December 2021 as compared to 31 December 2020. Our over three months past due coverage ratio remained relatively stable at 127.5% as at 31 December 2022 as compared to 31 December 2021.

Our over six months past due coverage ratio decreased from 262.7% as at 31 December 2020 to 244.2% as at 31 December 2021 and our over one year past due coverage ratio decreased from 1,110.2% as at 31 December 2020 to 906.5% as at 31 December 2021, mainly due to the increase in our finance lease receivables being overdue for more than six months and over one year. Our over six months past due coverage ratio then increased to 274.4% as at 31 December 2022, primarily due to the increase in our provision for our finance lease receivables and partially offset by the increase in our finance lease receivables being overdue for more than six months. Our over one year past due coverage ratio decreased to 877.6% as at 31 December 2022, as compared to 906.5% as at 31 December 2021, primarily due to the increase in our finance lease receivables being overdue for over one year.

As at the Latest Practicable Date, RMB375.0 million or 20.4% of our finance lease receivables as at 31 December 2022 had been settled. The low subsequent settlement was mainly because the majority of the lease payments were not yet due as at the Latest Practicable Date. Our finance lease receivables were settled by our customers according to payment schedule under the finance lease agreements which generally have a term ranging from two to four years, and we have made sufficient allowance for impairment of finance lease receivables to cover the potential customers' default, therefore there is no major recoverability issue.

Trade receivables

Our trade receivables represent receivables from our automobile-related services. The following table sets out our trade receivables as at the dates indicated:

	As at 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	7,106	7,026	10,567
Less: allowance for impairment of trade receivables	(269)	(285)	(627)
	6,837	6,741	9,940

Our trade receivables remained stable at RMB6.7 million as at 31 December 2021 as compared to RMB6.8 million as at 31 December 2020. Our trade receivables then increased to RMB9.9 million as at 31 December 2022, primarily attributable to the trade receivables for the promotion service we provided to one of our business-end customers in November and December 2022.

The table sets out an ageing analysis of our trade receivables (net of allowance for impairment of trade receivables) based on invoice date as at the dates indicated:

	As at 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Up to three months	6,572	6,591	9,052
Three to six months	51	108	445
Over six months	214	42	443
	6,837	6,741	9,940

Trade receivables were non-interest bearing and generally on 15 to 30 days terms. We normally assess and approve credit terms on a case by case basis. Our Group used a simplified approach for measuring the expected credit losses, which used a lifetime expected loss allowance for all trade receivables. As at 31 December 2020, 2021 and 2022, our allowance for impairment of trade receivables amounted to RMB0.3 million, RMB0.3 million and RMB0.6 million, respectively.

The following table sets out our average trade receivables turnover days for the years indicated:

	For the year ended 31 December		
	2020	**2021**	**2022**
Average trade receivables turnover days*(Note)*	15	16	21

Note: Average trade receivables turnover days was calculated using the average balance of trade receivables divided by revenue from automobile-related services for the relevant year and multiplied by 365 days for the years ended 31 December 2020, 2021 and 2022. Average balance of trade receivables is calculated as the sum of the beginning and the ending balance for the relevant year divided by two.

Our average trade receivables turnover days were 15 days, 16 days and 21 days for the years ended 31 December 2020, 2021 and 2022, respectively. Our average trade receivables turnover days remained stable at 16 days for the year ended 31 December 2021 as compared to 15 days for the year ended 31 December 2020, then increased to 21 days for the year ended 31 December 2022, mainly due to the trade receivables for the promotion service we provided to one of our business-end customers in November and December 2022.

As at the Latest Practicable Date, RMB9.0 million or 85.5% of our trade receivables outstanding as at 31 December 2022 had been settled.

Prepayment, deposits and other receivables

Our prepayment, deposits and other receivables mainly consisted of other tax recoverable, prepayment for auto-insurance premium, deposits and prepayment for inventories. Other tax recoverable refers to the input taxes paid that are deductible during the year pursuant to relevant tax laws in the PRC. The amount of input taxes are determined with reference to the applicable VAT tax rate in effect during the year when the purchase from suppliers and the periodic lease payments are made. Prepaid **[REDACTED]** expenses refer to the prepayment of equity portion of the **[REDACTED]** expenses which will be capitalised in equity upon **[REDACTED]**. The following table sets out a breakdown of our prepayment, deposits and other receivables as at the dates indicated:

	As at 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Non-current assets:			
Deposits	20,646	13,037	32,157
	20,646	13,037	32,157
Current assets:			
Deposits	13,427	24,274	18,528
Purchase rebate receivables	5,641	2,811	4,880
Value added tax refund receivables	10,214	13,222	11,309
Other receivables	21,478	28,001	28,882
	50,760	68,308	63,599
Less: allowance on impairment of other receivables	(683)	(262)	(278)
	50,077	68,046	63,321
Total financial assets	70,723	81,083	95,478
Non-financial assets			
Current			
Prepayment for inventories	41,813	61,217	62,232
Prepayment for auto-insurance premium	26,338	31,199	42,499
Prepaid **[REDACTED]** expenses	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Prepaid expenses	18,105	22,400	20,317
Other tax recoverable	94,570	55,988	70,823
Other receivables	1,238	1,205	1,603
Total non-financial assets	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Total prepayments, deposits and other receivables	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

As at the Latest Practicable Date, RMB20.8 million or 29.4% of our other tax recoverable as at 31 December 2022 was subsequently utilised.

As at the Latest Practicable Date, RMB60.5 million or 97.2% of our prepayment for inventories as at 31 December 2022 were utilised.

As at the Latest Practicable Date, RMB138.8 million or 46.6% of total prepayments, deposits and other receivables as at 31 December 2022 were utilised.

Our prepayments, deposits and other receivables decreased from RMB259.1 million as at 31 December 2020 to RMB257.6 million as at 31 December 2021. Such decrease was primarily due to (i) the decrease in other tax recoverable under current non-financial assets by RMB38.6 million as a result of the increased VAT tax paid; and partially offset by (ii) the increase in prepayment for inventories under current non-financial assets by RMB19.4 million.

Our prepayments, deposits and other receivables increased from RMB257.6 million as at 31 December 2021 to RMB298.1 million as at 31 December 2022. Such increase was primarily due to (i) the increase in other tax recoverable under non-financial assets by RMB14.8 million resulted from the increase in our new automobile sales under finance lease during December 2022 as compared to the corresponding month in 2021; and (ii) the increase in prepayment for auto-insurance premium by RMB11.3 million mainly due to the increase in the number of automobiles for our operating lease and finance lease businesses as at 31 December 2022 as compared to that as at 31 December 2021.

Financial assets at fair value through profit or loss

We have established investment policies, Investment Management Policy (投資管理制度), to monitor and manage our investment activities, and control the risks relating to the purchase of financial assets. Our Investment Management Policy sets out the guidelines for the types of investment assets we invest in, including equity investment and non-equity investment. Our Investment Management Policy sets out the criteria for the selection of investment targets, the maximum amount of investment committed for different level of investment decisions, and the level of the senior management team to approve the investment decision. Before the investment, the investment project leader, and the leader of the finance team review the terms of the relevant assets prudently, consider all information available, and apply various applicable valuations in determining whether to invest in the relevant assets. We mainly invest in equity assets or principal-protected non-equity assets such as bonds or assets backed securities. For our investments prior to the **[REDACTED]**, we normally require shareholder's approval unless the assets or profit ratio of such investment as compared with that of the Group is less than 10% or the assets or profit of such investment is less than a certain amount, where the Board could delegate the investment decision to the general manager.

During the Track Record Period, our financial assets at fair value through profit or loss represented the asset-backed securities units we acquired from Sinolink Securities and the interest we acquired in Hangzhou Jinmuji New Energy Technology Partnership (Limited Partnership)* (杭州金木吉新能源科技合夥企業(有限合夥)) ("**Hangzhou Jinmuji**").

Sinolink Securities Company Limited, the trust firm, has established the asset-back securities plan of Sinolink — Automobile Consumption III. According to the arrangement, Sinolink Securities Company Limited shall use the funds raised in the special plan to purchase our Group's underlying assets, which in particular, include the claims that our Group has towards our automobile lessees and relevant security interests attached to the claims. Our Group, as one of the original stakeholders of such underlying assets, shall pay the balance amount to Sinolink Securities Company Limited at a rate of approximately 9.8% per year. On 31 March 2021, we acquired 80,000 units of asset-backed securities from Sinolink Securities Company Limited. We sold 20,000 units of asset-backed securities during the year ended 31 December 2021. The remaining 60,000 units of asset-backed securities were redeemed during the year ended 31 December 2022. We recorded fair value loss on revaluation of the asset-backed securities of RMB8,000 and fair value gain of RMB351,000 for the years ended 31 December 2021 and 2022, respectively.

In 2021, we acquired the interest in Hangzhou Jinmuji New Energy Technology Partnership (Limited Partnership)* (杭州金木吉新能源科技合夥企業(有限合夥)) ("**Hangzhou Jinmuji**"), in which we had 33.33% equity interest, to engage in investment in electric car charging ports. Hangzhou Jinmuji was incorporated in the PRC and has its principal place of business in the PRC. Hangzhou Jinmuji had a finite life of 7 years. Please refer to note 23 to Accountant's Report as set out in Appendix I for more details. The table below sets out the changes in these assets as at the dates indicated:

	As at 31 December	
	2021	**2022**
	RMB'000	*RMB'000*
At 1 January		
— Asset-backed securities	8,000	5,992
— Interest in a partnership	20,000	20,000
	28,000	25,992
Disposal of financial assets at fair value through profit or loss	(2,000)	(6,343)
Fair value (loss)/gain on revaluation recognised in profit or loss	(8)	1,998
	25,992	21,647

Upon **[REDACTED]**, the investment in such financial assets may constitute notifiable transactions under Chapter 14 of the Listing Rules and we shall comply with the relevant requirements under the Listing Rules.

Trade payables

Our trade and bills payables mainly represent payable for acquisition of our automobiles and vehicle telematics equipment. The following table sets out our trade and bills payables as at the dates indicated:

	As at 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	22,215	58,463	64,493
Bills payables	19,350	10,000	41,367
	41,565	68,463	105,860

Our trade payables increased from RMB41.6 million as at 31 December 2020 to RMB68.5 million as at 31 December 2021, primarily due to the increase in purchase of automobiles near the year end of 2021 to grow our automobile retail and finance, and operating lease business. Our trade and bills payables increased from RMB68.5 million as at 31 December 2021 to RMB105.9 million as at 31 December 2022, primarily owing to the increase in purchase of automobiles as to take advantage of the preferential tax benefit, which was set to expire by the end of 2022.

The average credit period taken for trade purchase was generally 30 to 90 days. The following table sets out our average trade payables turnover days for the years indicated:

	For the year ended 31 December		
	2020	**2021**	**2022**
Average trade payables turnover days*(Note)*	36	32	53

Note: Average trade and bills payables turnover days was calculated using the average balance of trade and bills payables divided by cost of inventories for the relevant years and multiplied by 365 days for the years ended 31 December 2020, 2021 and 2022. Average balance of trade and bills payables is calculated as the sum of the beginning and the ending balance for the relevant year divided by two.

Our average trade payables turnover days were 36 days, 32 days and 53 days for the years ended 31 December 2020, 2021 and 2022, respectively. Our average trade payables turnover days slightly decreased from 36 days for the year ended 31 December 2020 to 32 days for the year ended 31 December 2021, primarily due to the decrease in bills payable by RMB9.4 million. Our average trade payables turnover days increased from 32 days for the year ended 31 December 2021 to 53 days for the year ended 31 December 2022, mainly due to the increase in bills payable by RMB31.4 million as at 31 December 2022 as compared to 31 December 2021.

As at the Latest Practicable Date, RMB104.6 million or 98.8% of our trade payables outstanding as at 31 December 2022 had been settled.

Other payables and accruals

Our other payables and accruals mainly represented (i) guarantee deposit from lessees; (ii) staff costs and welfare accruals; (iii) advance receipt from potential customers; and (iv) other tax payables. The following table sets out a breakdown of our other payables and accruals as at the dates indicated:

	As at 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Guarantee deposit from lessees	30,760	26,810	18,688
Staff costs and welfare accruals	11,645	14,225	21,601
Advance receipt from potential customers	7,793	10,956	7,223
Other tax payables	6,035	6,348	6,079
Advance receipt from scrap sales of inventories	4,487	5,149	6,083
Dividend payable	9,688	3,365	3,365
Accrued **[REDACTED]** expenses	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Contract liabilities	1,998	1,644	910
Others	7,923	7,359	9,679
	[REDACTED]	**[REDACTED]**	**[REDACTED]**

Our other payables and accruals decreased from RMB83.1 million as at 31 December 2020 to RMB78.5 million as at 31 December 2021. Such decrease was primarily due to (i) the decrease in guarantee deposit from lessees by RMB4.0 million as a result of refund of guarantee deposit from lessees upon completion of contracts; and (ii) the decrease in dividend payable by RMB6.3 million; and partially offset by (iii) the increase in advance receipt from potential customers by RMB3.2 million; and (iv) the increase in staff cost and welfare accruals by RMB2.6 million, mainly attributable to the increase in the year end bonus payable to our staff resulted from the growth of our business for the year ended 31 December 2021 as compared to the year ended 31 December 2020.

Our other payables and accruals increased from RMB78.5 million as at 31 December 2021 to RMB78.9 million as at 31 December 2022, primarily due to (i) the increase in staff costs and welfare accruals by RMB7.4 million mainly resulted from the increase in the sales commission for our increased sales of automobiles under finance lease at the year end; (ii) the increase in accrued **[REDACTED]** expenses by RMB**[REDACTED]** million; and partially offset by (iii) the decrease in guarantee deposit from lessees by RMB8.1 million mainly resulted from the decrease in the average number of the operating lease agreements in effect from 4,191 for the year ended 31 December 2021 to 3,614 for the year ended 31 December 2022, respectively.

We had dividend payable of RMB3.4 million as at 31 December 2022, which will be settled prior to **[REDACTED]**.

Amounts due to Shareholders

Our amounts due to Shareholders amounted to RMB7.7 million, RMB7.5 million and RMB8.2 million as at 31 December 2020, 2021 and 2022, respectively. Our amounts due to Shareholders arose from the transfer of the equity interest of XXF Group as a result of Reorganisation. Amounts due to Shareholders were unsecured, interest-free, non-trade in nature, repayable on demand and will be settled before **[REDACTED]**.

Amounts due from Shareholders

Our amount due from Shareholders amounted to RMB5.7 million, RMB5.6 million and RMB6.1 million as at 31 December 2020, 2021 and 2022, respectively. Our amount due from Shareholders represented amount due from shareholders for the transfer of the equity interests of XXF Group as a result of Reorganisation. Such balance was unsecured, interest-fee, non-trade in nature and repayable on demand. Our amount due from Shareholders will be settled before **[REDACTED]**.

Investment in a partnership

In 2021, the Group acquired the interest in Hangzhou Jinmuji New Energy Technology Partnership (Limited Partnership)* (杭州金木吉新能源科技合夥企業(有限合夥)) ("Hangzhou Jinmuji"), in which the Group had 33.33% equity interest, to engage in investment in electric car charging ports. Hangzhou Jinmuji was incorporated in the PRC and has its principal place of business in the PRC. Hangzhou Jinmuji had a finite life of 7 years. As at 31 December 2022, the fair value of the Group's interest in Hangzhou Jinmuji amounted to RMB21.6 million.

CAPITAL COMMITMENTS

As at 31 December 2020, 2021 and 2022, we had no capital commitments.

INDEBTEDNESS

The following table sets out the breakdown of our indebtedness as at the dates indicated:

	As at 31 December			As at 30 April
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Borrowings	1,155,958	1,382,822	1,713,415	[1,814,807]
Ordinary shares with redemption right	177,886	196,640	163,129	[161,082]
Lease liabilities	19,161	14,305	13,856	[13,957]
Total	1,353,005	1,593,767	1,890,400	[1,989,846]

Borrowings

Our borrowings are incurred primarily to finance our business operation. The following table sets out a breakdown of our indebtedness as at the dates indicated:

	As at 31 December			As at 30 April
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Bank borrowings, secured	8,977	13,430	23,077	[27,925]
Bank borrowings, unsecured	9,527	22,610	16,182	[8,834]
Other borrowings, secured	1,135,954	1,337,537	1,609,668	[1,733,217]
Other borrowings, unsecured	1,500	9,245	64,488	[44,831]
	1,155,958	1,382,822	1,713,415	[1,814,807]
Less: non-current portion	(447,380)	(656,219)	(884,842)	[(927,690)]
Current portion	708,578	726,603	828,573	[887,117]

As at 31 December 2020, 2021 and 2022 and 30 April 2023, our Group's borrowings are primarily denominated in RMB. We may be subject to certain restrictions in connection with our borrowings. For details, please see the section headed "Business — Our Lenders and Funding Capabilities — Events of default." We have capital management measures in place to monitor our funding requirements and the restrictions. We consider our capital management measures to have been effective in managing liquidity risk.

The following table sets out the repayment dates of our borrowings as at the dates indicated:

	As at 31 December			As at 30 April
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Within one year	708,578	726,603	828,573	[887,117]
Between one and two years	302,828	367,118	510,668	[535,392]
Between two and five years	144,552	289,101	374,174	[392,298]
	1,155,958	1,382,822	1,713,415	[1,814,807]

The weighted average effective interest rates of borrowings as at 31 December 2020, 2021 and 2022 are as follows:

	As at 31 December		
	2020	**2021**	**2022**
Weighted average effective interest rate	8.5%	8.5%	8.6%

Our weighted average effective interest rates of borrowings is calculated by the average effective interest rate of the borrowings, weighted by the corresponding ending balance of each borrowing as at each year end, which remained relatively stable during the Track Record Period.

As at 31 December 2020, 2021 and 2022, and 30 April 2023, our borrowings of RMB1,144.9 million, RMB1,351.0 million, RMB1,632.7 million and RMB[1,761.1] million were secured by personal guarantee and indemnity provided by our Directors, 50% equity interest in Fujian Xidi and certain assets of our Group. As at 30 April 2023, being the latest practicable date for the purpose of indebtedness statement, our borrowings of RMB[999.2] million secured by personal guarantee and indemnity provided by Directors, of which RMB[567.9] million will be released prior to our **[REDACTED]**.

As at 31 December 2020, 2021 and 2022, finance lease receivables amounted to RMB787.3 million, RMB1,227.6 million and RMB1,357.8 million was pledged as collaterals for our borrowings. As at 30 April 2023, being the latest practicable date for the purpose of indebtedness statement, the finance lease receivables available for utilisation in obtaining additional borrowings was RMB[62.7] million.

As at 30 April 2023, being the latest practicable date for the purpose of indebtedness statement, we had aggregate facilities of RMB[4,751.1] million, of which RMB[4,005.8] million was unutilised. Among the aggregate facilities of RMB[4,751.1] million, aggregate facilities of RMB[681.2] million was secured by personal guarantee and indemnity provided by our Directors, of which RMB[439.6] million was unutilised.

Ordinary shares with redemption right

On 28 November 2019, as part of the Reorganisation, XXF HK acquired 55,422,656 ordinary shares of XXF Group from Beijing Chesheng and Zhuhai Wanhe at RMB1.00 per share. On 2 December 2019, our Company issued an aggregate of 55,422,656 ordinary Shares with redemption right at the same consideration. As a result, ordinary shares with redemption right issued by XXF Group were converted into 55,422,656 ordinary shares with redemption right issued by our Company at par value of HK$0.01 per share at no consideration.

On 2 December 2019, our Company issued and allotted 6,821,250 ordinary Shares to Hit Drive Limited, an offshore holding vehicle of Beijing Chesheng, with redemption right at a total consideration of RMB20.0 million. On 10 June 2021, we entered into an agreement with a **[REDACTED]** Investor whereby our Company issued and allotted 6,945,273 ordinary shares with redemption right at RMB2.88 per share totaling RMB20,000,000. The issuance price is approximated to the fair value of the ordinary shares with redemption right.

Our Group has engaged an independent valuer to determine the underlying share value of our Group by discounted cash flow method and adopted equity allocation model to determine the fair value of the ordinary shares with redemption right as of the date of issuance and at the end of each reporting period. As at 31 December 2020, 2021 and 2022, fair value of the ordinary shares with redemption right amounted to RMB177.9 million, RMB196.6 million and RMB163.1 million respectively, resulting in a fair value loss of RMB6.9 million, RMB4.2 million and a fair value gain of RMB47.3 million for the corresponding year and exchange loss arising from translation of RMB11.0 million and RMB5.4 million for the years ended 31 December 2020 and 2021, and exchange gain arising from translation of RMB16.2 million for the year ended 31 December 2022, respectively.

For the year ended 31 December 2022, due to the impact of the regional outbreaks of COVID-19 variants in the PRC and the fluctuation of the capital market environment, we have adopted a more prudent expected long term growth rate which in turn lowered the estimate of the equity value. As such, the value of ordinary shares with redemption right has declined after applying the equity allocation model. Accordingly, the fair value gain of RMB47.3 million was recognised for the year ended 31 December 2022.

The table below sets out the details of changes in our ordinary shares with redemption right for the years indicated and the value as at the dates indicated:

	As at 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of year	181,966	177,886	196,640
Issuance of ordinary shares with redemption right	—	20,000	—
Changes in fair value through profit or loss	6,932	4,153	(47,251)
Change in fair value due to own credit risk	—	—	(2,432)
Exchange difference arising from translation	(11,012)	(5,399)	16,172
At the end of year	177,886	196,640	163,129
Less: non-current portion	(177,886)	—	—
Current portion	—	196,640	163,129

Lease liabilities

We record lease liabilities with respect to all lease agreements in which we were the lessee at the lease commencement date, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

The following table sets out our lease liabilities as at the dates indicated:

	As at 31 December			As at 30 April
	2020	**2021**	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current	6,419	5,781	6,087	[6,003]
Non-current	12,742	8,524	7,769	[7,954]
	19,161	14,305	13,856	[13,957]

Our Group leased various properties and the lease liabilities were measured at the present value of the lease payments that are not yet paid. As at 31 December 2020, 2021 and 2022, we recorded lease liabilities of approximately RMB19.2 million, RMB14.3 million and RMB13.9 million, respectively. The decrease from RMB19.2 million as at 31 December 2020 to RMB14.3 million as at 31 December 2021 and RMB13.9 million as at 31 December 2022, was primarily due to the decrease in our newly entered properties lease agreements for the use as our offices.

Contingent liabilities

As at 30 April 2023, we had no material contingent liabilities.

Apart from intra-group liabilities, as at indebtedness date, being the latest practicable date for the purpose of the indebtedness statement for this document, we did not have any outstanding loan capital issued or agreed to be issued, loans, debt securities, bank overdrafts, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENT

As at the Latest Practicable Date, we had not entered into any off-balance sheet transaction.

TRANSACTIONS WITH RELATED PARTIES

With respect to the related party transactions set out in Note 35 to the Accountant's Report in Appendix I to this document, our Directors confirm that these transactions were conducted on an arm's length basis and carried out in the normal course of business.

KEY FINANCIAL RATIOS

The following table sets out our key financial ratios for the years as at each of the dates indicated:

	For the year ended 31 December		
	2020	**2021**	**2022**
Gross profit margin (%)[(1)]	40.5	30.9	32.8
Net profit margin (%)[(2)]	1.4	2.6	6.8
Return on equity (%)[(3)]	2.5	6.9	15.2
Return on total assets (%)[(4)]	0.5	1.4	3.0

	As at 31 December		
	2020	**2021**	**2022**
Current ratio (times)[(5)]	0.9	0.9	1.0
Quick ratio (times)[(6)]	0.8	0.7	0.9
Gearing ratio (%)[(7)]	74.0	74.8	75.1
Risk assets to equity ratio (times)[(8)]	4.6	4.8	4.8
Non-performing asset ratio (%)[(9)]	0.7	0.7	0.7
Allowance coverage ratio for non-performing assets (%)[(10)]	134.3	126.5	127.5
Ratio of allowance for impairment losses to net finance lease receivables (%)[(11)]	0.9	0.8	0.9
Capital adequacy ratio [(12)]	83.8%	83.1%	84.8%
Liquidity ratio (due in one month) [(13)]	142.3%	118.1%	116.2%

Notes:

(1) Gross profit margin represents gross profit divided by revenue for the respective year and multiplied by 100%. See "Financial Information — Review of Historical Results of Operation" for more details on our gross profit margin.

(2) Net profit margin represents profit for the respective year divided by revenue for the respective year and multiplied by 100%. See "Financial Information — Review of Historical Results of Operation" for more details on our net profit margin.

(3) Return on equity represents profit for the respective year divided by the total equity as at the respective dates and multiplied by 100%.

(4) Return on total assets represents profit for the respective year divided by the total assets as at the respective dates and multiplied by 100%.

(5) Current ratio represents total current assets divided by the total current liabilities as at the respective dates.

(6) Quick ratio represents total current assets less inventories divided by the total current liabilities as at the respective dates.

(7) Gearing ratio represents net debt divided by total capital. Net debt is calculated as total borrowings (including borrowings, and lease liabilities) less cash and cash equivalents. We do not consider the amount of ordinary shares with redemption right when calculating net debt. Total capital is calculated as 'total equity' as shown in the consolidated statement of financial position plus net debt.

(8) Risk assets to equity ratio represents risk assets divided by total equity as at the respective dates. Risk assets are the total amount of residual assets determined by deducting cash, bank deposit, PRC treasury securities and entrusted leased assets from the total assets.

(9) Non-performing asset ratio represents the percentage of non-performing assets in the total finance lease receivables, net, before deducting allowance for impairment of finance lease receivables.

(10) Allowance coverage ratio for non-performing assets represents allowance for impairment of finance lease receivables divided by the balance of non-performing assets.

(11) Ratio of allowance for impairment losses to net finance lease receivables represents allowance for impairments of finance lease receivables divided by the amount of net finance lease receivables as at the respective dates.

(12) Capital adequacy ratio represents total capital divided by risk assets as at the respective dates. Total capital is calculated as 'total equity' as shown in the consolidated statement of financial position plus net debt. Net debt is calculated as total borrowings (including "borrowings and lease liabilities" as shown in the consolidated statement of financial position) less cash and cash equivalents. Risk assets are the total amount of residual assets determined by deducting cash, bank deposit, PRC treasury securities and entrusted leased assets from the total assets.

(13) Liquidity ratio due in one month represents finance lease receivables due in one month divided by relevant borrowings under the automobile retail and finance segment as at the respective dates.

Return on equity

Our return on equity increased from 2.5% for the year ended 31 December 2020 to 6.9% for the year ended 31 December 2021 and 15.7% for the year ended 31 December 2022, primarily driven by the increase in net profit for the year ended 31 December 2021 and 2022, as compared to the year ended 31 December 2020 and 2021, respectively.

Return on total assets

Our return on total assets increased from 0.5% for the year ended 31 December 2020 to 1.4% and 3.0% for the year ended 31 December 2021 and 2022, primarily driven by the increase in net profit for the year ended 31 December 2021 and 2022, as compared to the year ended 31 December 2020 and 2021, respectively.

Current ratio

Our current ratio remained relatively stable at 0.9 times, 0.9 times and 1.0 times as at 31 December 2020, 2021 and 2022.

Quick ratio

Our quick ratio remained relatively stable at 0.8 times, 0.7 times and 0.9 times as at 31 December 2020, 2021 and 2022, respectively.

Gearing ratio

Our gearing ratio remained relatively stable at 74.0%, 74.8% and 75.1% as at 31 December 2020, 2021 and 2022, respectively.

Risk assets to equity ratio

On 26 May 2020, the CBIRC promulgated 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**") with the immediate effect, which made supplement and further requirements for finance lease enterprises on the basis of Measures for Finance Lease Enterprises. Under the Interim Measures, the total amount of risk assets of finance lease companies shall not exceed eight times of their net assets (total equity).

Our risk assets to equity ratio remained relatively stable at 4.6 times, 4.8 times and 4.8 times as at 31 December 2020, 2021 and 2022.

Non-performing asset ratio

Our non-performing asset ratio remained stable at 0.7%, 0.7% and 0.7% as at 31 December 2020, 2021 and 2022, respectively. According to the CIC Report, the industry average non-performing asset ratios as at 31 December 2021 and 2022 were 1.5% and 1.5%, respectively. As such, our non-performing asset ratios as at 31 December 2021 and 2022 were lower than the industry average. As at the Latest Practicable Date, our non-performing asset ratio was 0.8%. Our non-performing asset is defined as finance lease receivables that is overdue for three months or more.

Allowance coverage ratio for non-performing assets

Our allowance coverage ratio for non-performing assets was 134.3%, 126.5% and 127.5% as at 31 December 2020, 2021 and 2022, respectively, primarily due to the increase in finance lease receivables being overdue for over three months.

Ratio of allowance for impairment losses to finance lease receivables, net

Our ratio of allowance for impairment losses to net finance lease receivables remained relatively stable at 0.9%, 0.8% and 0.9% as at 31 December 2020, 2021 and 2022, respectively.

Capital adequacy ratio

Our capital adequacy ratios remained relatively stable at 83.8%, 83.1% and 84.8% as at 31 December 2020, 2021 and 2022.

Liquidity ratio due in one month

Our liquidity ratio due in one month decreased from 142.3% as at 31 December 2020 to 118.1% as at 31 December 2021, mainly due to the increased borrowings under the automobile retail and finance segment which was due in one month as at the respective dates. Our liquidity ratio due in one month remained relatively stable at 116.2% as compared to that as at 31 December 2021.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to a variety of financial risk including market risk (including currency risk and cash flow and fair value interest risk), credit risk and liquidity risk. Details of the risks to which we are exposed are set out in note 3 to the Accountant's Report in Appendix I to this document.

DIVIDENDS AND DIVIDEND POLICY

We did not declare any dividend during the years ended 31 December 2020, 2021 and 2022. The foregoing should not be viewed as basis to determine the level of dividends that may be declared in the future. After the completion of the **[REDACTED]**, our Shareholders will be entitled to receive dividends only when declared by our Board.

Our Directors may recommend a payment of dividends in the future after taking into account, among others, our operation and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Act. Our Shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Our future declarations of dividends may or may not reflect our historical declaration of dividends and will be at the absolute discretion of the Board. Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extend profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

There will be no assurance that we will be able to declare or distribute any dividend after completion of the **[REDACTED]**, and as at the Latest Practicable Date, we did not have any specific dividend policy nor pre-determined dividend payout ratio.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands and has not carried out any business since the date of its incorporation, save for investment holding and the transactions related to the Reorganisation. Accordingly, our Company had no reserve available for distribution to the Shareholders as at the Latest Practicable Date.

[REDACTED] EXPENSES

Our **[REDACTED]** expenses mainly comprise professional fees paid and payable to the professional parties for their services rendered in relation to the **[REDACTED]** and the **[REDACTED]**. **[REDACTED]** expenses in connection with the **[REDACTED]** consist primarily of **[REDACTED]** and professional fees. We estimate that total expenses in relation to the **[REDACTED]** (assuming an **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]** and no exercise of the **[REDACTED]**) will be RMB**[REDACTED]** million, comprising (a) **[REDACTED]** of approximately RMB**[REDACTED]** million; (b) sponsor fees of RMB**[REDACTED]** million; and (c) non-**[REDACTED]** related expenses of approximately RMB**[REDACTED]** million, including (1) fees and expenses of legal advisers and the Reporting Accountant of approximately RMB**[REDACTED]** million; and (2) other fees and expenses of approximately RMB**[REDACTED]** million, representing approximately **[REDACTED]**% of the gross **[REDACTED]** of the **[REDACTED]** (assuming an **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]** and no exercise of the **[REDACTED]**). Up to 31 December 2022, we incurred **[REDACTED]** expenses of RMB**[REDACTED]** million, of which (a) RMB**[REDACTED]** million was charged to our administrative expenses during the Track Record Period; (b) RMB**[REDACTED]** million was charged to our administrative expenses prior to the Track Record Period; and (c) RMB**[REDACTED]** million will be deducted from equity upon **[REDACTED]**. We expect to incur additional **[REDACTED]** expenses of RMB**[REDACTED]** million, of which RMB**[REDACTED]** million expected to be recognised as administrative expenses and RMB**[REDACTED]** million (together with the previously incurred **[REDACTED]** expenses recorded as prepayment) expected to be recognised as a deduction in equity for the year ending 31 December 2022. The **[REDACTED]** expenses directly attributable to the issue of our shares will be deducted from equity upon **[REDACTED]**.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Please refer to section headed "Unaudited pro forma financial information" in Appendix II to this document for details.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

For the recent development, subsequent to the Track Record Period and up to the date of this document, see "Summary — Recent Development and No Material Adverse Change".

Our Directors confirm that after performing all the due diligence work which our Directors consider appropriate, save as disclosed in "Summary — Recent Development and No Material Adverse Change", there had been no material adverse change in our financial or trading position or prospects since 31 December 2022 and up to the date of this document, and that there has been no event since 31 December 2022 which would materially affect the information shown in the Accountant's Report, the text of which as set out in Appendix I to this document. Our Directors also confirm that there has not been any material change in our indebtedness and contingent liabilities since 31 December 2022.