G.A. Holdings Limited
G.A.控股有限公司

(incorporated in the Cayman Islands with limited liability and carrying on business in Hong Kong under the trading name of German Automobiles International Limited)

(Stock Code: 8126)

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ANNUAL REPORT 2018

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of G.A. Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

Contents

Corporate Information

DIRECTORS

Mr. Luo Wan Ju *(Chairman)*
Mr. Choy Choong Yew *(Managing Director)*
Ms. Guan Xin*
Mr. Lin Ju Zheng#
Mr. Ma Hang Kon, Louis
Mr. Xue Guo Qiang
Mr. Yin Bin*
Mr. Yuen Kin Pheng*
Mr. Zhang Xi
Mr. Zhou Ming*

* *Independent Non-Executive Directors*
\# *Non-Executive Director*

AUDIT COMMITTEE

Mr. Zhou Ming *(chairman)**
Mr. Yuen Kin Pheng*
Mr. Yin Bin*
Ms. Guan Xin*

REMUNERATION COMMITTEE

Mr. Zhou Ming *(chairman)**
Mr. Yuen Kin Pheng*
Mr. Yin Bin*
Ms. Guan Xin*

NOMINATION COMMITTEE

Mr. Luo Wan Ju *(chairman)*
Mr. Yuen Kin Pheng*
Mr. Yin Bin*
Ms. Guan Xin*

COMPLIANCE OFFICER

Mr. Choy Choong Yew

AUTHORISED REPRESENTATIVES

Mr. Luo Wan Ju
Mr. Ma Hang Kon, Louis

COMPANY SECRETARY

Mr. Ma Hang Kon, Louis

AUDITOR

Grant Thornton Hong Kong Limited
Certified Public Accountants

PRINCIPAL BANKERS

Chiyu Banking Corporation Limited
Bank of China Limited
China Merchants Bank Company Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE

51 Goldhill Plaza #15-05
Singapore 308900

PRINCIPAL PLACE OF BUSINESS

Unit 1203, 12th Floor, Eton Tower
8 Hysan Avenue
Causeway Bay, Hong Kong

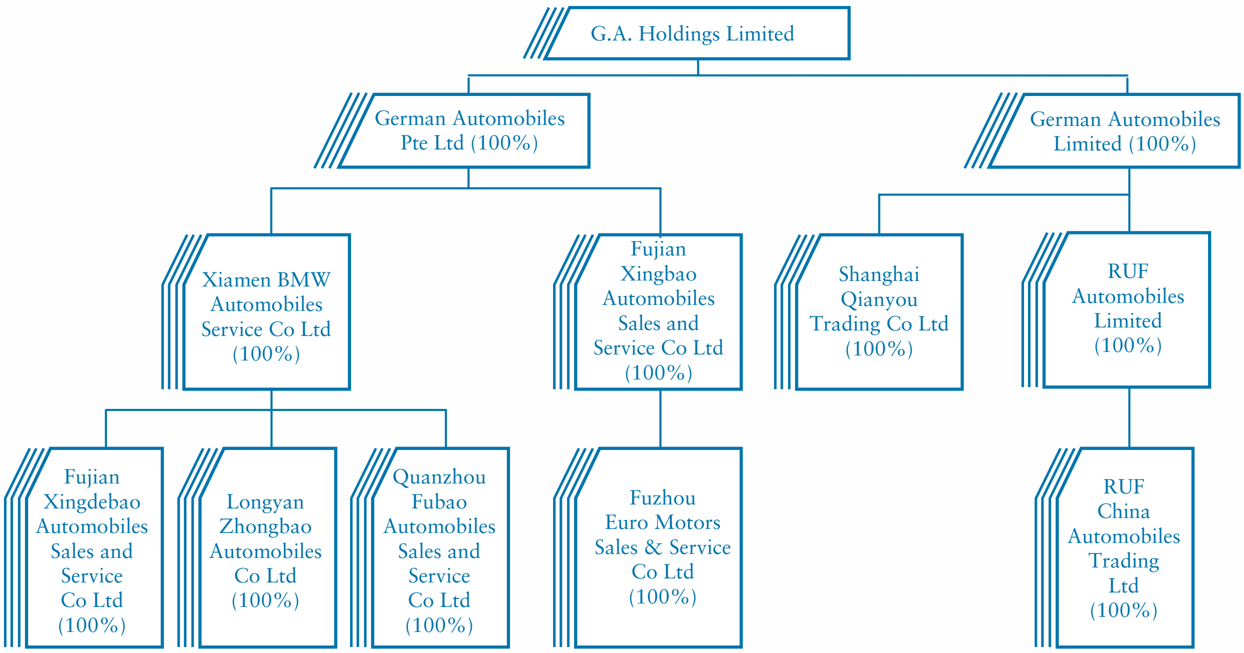
COMPANY WEBSITE

http://www.ga-holdings.com.hk

STOCK CODE

8126

Group Structure



Only principal subsidiaries are presented

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of G.A. Holdings Limited (the "Company" and together with its subsidiaries, the "Group"), I am pleased to present the annual results of the Group for the year ended 31 December 2018.

In 2018, the overall automobiles market in the China was full of challenges. On the one hand, the Tariff Policy Committee of the Chinese State Council reduced the import tariffs of automobiles from 20%-25% to 15% and several spare pars of automobiles from 8%-25% to 6% with effect from 1 July 2018 to stimulate demand. On the other hand, as the U.S. and China clash on many fronts, consumer sentiment appeared to have been hurt. There seems to be a sense of vague anxiety about the future that dampened customer demand. Furthermore, the general inventory level across all segments, from domestically produced to foreign mass-market brand models, to luxury and imported vehicles are relatively high during the year and resulted in slashing prices. The gross profit margins are further squeezed due to intense competition in the market.

With the strong foothold in the market places we serve, the Company was able to continue to improve its revenue with a 9.7% year-on-year growth across its business segments. Our gross operating profit remained stable compared to 2017 with our margin decreased slightly from 16.0% to 14.6%.

In order to retain adequate working capital for the expansion of our dealership business and related corporate development, the Board does not propose any payment of dividend for the year ended 31 December 2018.

Going forward in 2019, the continued macroeconomic downturn and uncertainty of Sino-US trade conflicts will continue to affect the automobile market. To cope with the impact, we will continue to be vigilant and strive to provide comprehensive premium services to customers, improve operation and management efficiency as well as maintaining continuous and steady improvement in order to bring greater value to shareholders.

On behalf of the Board, I would like to express our sincere gratitude to all our customers, business partners, employees and shareholders for their continuous support.

Yours sincerely,
Luo Wan Ju
Chairman

Hong Kong, 21 March 2019

Biographical Information of Directors

EXECUTIVE DIRECTORS

Mr. Luo Wan Ju, *Chairman*

Mr. Luo, aged 65, is the Chairman of the Group, the chairman and a member of the nomination committee of the Board and an authorised representative of the Company under the GEM Listing Rules with effect from 4 July 2016. Mr. Luo joined the Group in November 1993 and was an executive Director from 5 June 2002 to 9 July 2004 when he was responsible for the overall strategic planning of the business of the Group, as well as the establishment and operation of the Group's authorised service centers in the People's Republic of China (the "PRC"). Mr. Luo has over 20 years of experience in distribution and servicing of motor vehicles business in the Asia region.

Mr. Choy Choong Yew, *Managing Director and Compliance Officer*

Mr. Choy, aged 65, is currently the Managing Director and Compliance Officer of the Group, as well as the general manager of Fujian Xingbao Automobiles Sales and Service Co., Ltd., a wholly-owned subsidiary of the Company. He joined the Group in 1987 as the administration and finance manager of the Group and has achieved significant results for the Group in several roles since then. He is an executive Director of the Company since 2012.

Mr. Choy has broad-based expertise in general management, operations and finance. He is known for his ability to drive excellent business outcomes, through insightful strategic planning, participative leadership, and focus on operational efficiency and sound financial management principles. Mr. Choy's educational qualifications include a Professional Diploma for Finance Controllers & Finance Directors of Foreign Investment and Foreign Enterprise in China (Zhongshan University and Hong Kong Management Association), Master of Finance (University of Royal Melbourne Institute of Technology), Diploma in Financial Management (Hong Kong Management Association) and Higher Diploma in Accounting (London Chamber of Commerce and Industry).

Mr. Ma Hang Kon, Louis

Mr. Ma, aged 56, is currently the chief financial officer, the company secretary and an authorised representative of the Company under the GEM Listing Rules since November 2015. He has over 30 years of working experience, mainly in professional services in Hong Kong, petrochemical, electronics and resources industries, both in the United States and in the Asia Pacific region. He also has extensive experience in managing businesses in listed companies both in Hong Kong and in the United States. Mr. Ma is a member of each of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Institute of Chartered Secretaries and Administrators. He graduated from the Kellogg School of Business, Northwestern University in the United States, the Hong Kong University of Science and Technology and the Hong Kong Polytechnic (the predecessor of The Hong Kong Polytechnic University).

Mr. Xue Guo Qiang

Mr. Xue, aged 41, is an executive Director with effect from 4 July 2016. Mr. Xue, graduated from Yan Shan University (燕山大學) with a Bachelor degree in accounting in June 2013 and from Cheung Kong Graduate School of Business with an executive master in business administration in September 2016. Mr. Xue has over 20 years of experience with progressive responsibilities in the automotive sales and services industry in China with a leading chain of dealership for high-end and luxury vehicles and is experienced in the area of accounting, auditing, finance & control, risk management and treasury.

Mr. Zhang Xi

Mr. Zhang, aged 35, is currently the director and deputy general manager of Xiamen BMW Automobiles Service Co, Ltd, a wholly-owned subsidiary of the Company. Prior to joining the Group, Mr. Zhang has worked in international high-end automobiles companies as key management, mainly responsible for overseeing operational efficiency and strategic planning. Mr. Zhang holds a Bachelor degree of Information Management System from Beihang University (北京航空航天大學) and a Master degree in International Relations from the University of International Relations (國際關係學院). He has been appointed as an executive Director of the Company since September 2015.

Biographical Information of Directors

NON-EXECUTIVE DIRECTOR

Mr. Lin Ju Zheng

Mr. Lin, aged 71, holds a bachelor degree in foreign language majoring in English from Fujian No.2 Normal College (福建第二師範學院) (which merged with other colleges to become Fujian Normal University (福建師範大學)). He is a senior economist with extensive experience in banking operations and management. Before joining the Company, Mr. Lin occupied senior positions in one of the major banks in the PRC till December 2007. Mr. Lin was appointed as an Independent Non-Executive Director in June 2010 and was re-designated as an Executive Director of the Company in March 2012. On 23 March 2017, he was re-designated as a Non-Executive Director of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Guan Xin

Ms. Guan, aged 42, is currently the general manager of a company providing management, training and consultancy services in the PRC. She has extensive experience in other major industries including finance, renewable energy, telecommunication and public accounting. Ms. Guan graduated from the Guanghua School of Management of Peking University with a master degree in professional accounting and is a certified public accountant in the PRC. She was appointed as an independent non-executive Director of the Company in July 2016.

Mr. Yin Bin

Mr. Yin, aged 47, obtained a doctoral degree in Economics from the Hunan University. Mr. Yin is the general manager of a trading financial service agent in the PRC and has extensive experience in trade and finance. He has been an independent non-executive Director of the Company since July 2004. Mr. Yin is an independent director of Wuhu Shunrong Sanqi Interactive Entertainment Network Technology Co., Ltd. (蕪湖順榮三七互娛網絡科技股份有限公司, stock code 002555.SZ) a company listed on the Shenzhen Stock Exchange in the PRC.

Mr. Yuen Kin Pheng

Mr. Yuen Kin Pheng, aged 69, currently serves as the Senior Advisor to Singapore Power International Pte. Ltd. Throughout his career, he held various senior executive leadership positions in Fortune 500 companies as well as major listed companies in Singapore, covering businesses in the Asia Pacific region. His executive titles included chief executive officer, president and vice president, spanning across various industries such as aerospace and aviation, HVAC (heating, ventilation and air conditioning), diesel engines, home appliances and building materials. Mr. Yuen has a distinguished career with the Republic of Singapore Air force with a number of diverse positions in operations, planning and administration. He left the service to pursue a second career in business after 18 years with the rank of Lieutenant Colonel. Mr. Yuen holds a bachelor's degree (First-Class Honors) in business administration and a master of business administration from the National University of Singapore and completed the advanced management program from the Wharton School of Business at the University of Pennsylvania, United States of America. He was appointed as an independent non-executive Director of the Company since 23 March 2017.

Mr. Zhou Ming

Mr. Zhou, aged 46, graduated from China University of Political Science and Law (中國政法大學) and holds a master degree in law from Peking University Law School (北京大學法學院). Mr. Zhou joined Global Law Office (Beijing) in 2001 and was admitted as a partner in 2007. He was appointed as an independent non-executive Director of the Company since November 2015.

Management Discussion and Analysis

BUSINESS REVIEW

During the year ended 31 December 2018, the consolidated revenue increased by 9.7% from HK$2,027,453,000 in 2017 to HK$2,225,095,000. The increase in revenue was mainly driven by increase in revenue from servicing of motor vehicles and sales of auto parts in 2018.

The profit from operations in 2018 was HK$77,388,000, representing a 21.2% decrease compared to HK$98,186,000 in 2017. The decrease in the profit from operations was mainly due to (i) decrease in gross operating margin on our car sales and servicing of motor vehicles and sales of auto parts; (ii) increase in operating cost such as employees' benefit expenses and depreciation and amortization expenses and (iii) increase in legal and professional fee due to the proposed transfer of listing of the Company's shares from GEM to the Main Board of the Stock Exchange.

Sales of Motor Vehicles

Sales of motor vehicles increased by 2.5% from HK$1,465,175,000 for the year ended 31 December 2017 to HK$1,502,280,000 for the year ended 31 December 2018. Sales of motor vehicles accounted for 67.5% (2017: 72.3%) of the total revenue of the Group in 2018. The decrease was mainly because the increase in the revenue from servicing of motor vehicles and sales of auto parts in 2018 was at a faster pace than the increase in sales of motor vehicles.

Servicing of Motor Vehicles and Sales of Auto Parts

Revenue generated from servicing of motor vehicles and sales of auto parts increased by 29.6% to HK$684,500,000 compared to 2017. The increase was driven by the increase in number of servicing of motor vehicles orders in the Fuzhou and Xiamen areas and the increase in sales of car accessories.

Technical Fee Income

The Group received technical fee income from Xiamen Zhong Bao Automobiles Co., Ltd. ("Xiamen Zhong Bao") for providing management consulting and technical assistance in relation to the PRC locally assembled BMW motor vehicles sold by Xiamen Zhong Bao.

Technical fee income for the year ended 31 December 2018 was HK$8,929,000, representing an increase of 17.8% compared to the year ended 31 December 2017 as car manufacturers continue to localise their production in the PRC and more PRC locally assembled BMW motor vehicles were sold by Xiamen Zhong Bao in 2018.

Car Rental Business

The income from car rental business in Hong Kong for the year ended 31 December 2018 was HK$29,386,000, representing an increase of 11.5% compared to the year ended 31 December 2017 driven by growth in long term lease business.

Management Discussion and Analysis

FINANCIAL REVIEW

The consolidated revenue for the year ended 31 December 2018 increased by 9.7%, from HK$2,027,453,000 in 2017 to HK$2,225,095,000. The increase in revenue was mainly driven by increase in revenue from servicing of motor vehicles and sales of auto parts in 2018.

Gross Operating Profit and Gross Operating Margin

Gross operating profit is calculated based on revenue for the year minus changes in inventories and auto parts and accessories, and motor vehicles purchased during the year. Gross operating margin is calculated based on the gross operating profit for the year divided by revenue for the year multiplied by 100%.

The gross operating profit for the year 2018 amounted to HK$324,127,000, and was stable compared to the year 2017 which amounted to HK$324,704,000. The gross operating margin for the year ended 31 December 2018 was 14.6% compared to 16.0% for the year ended 31 December 2017. The decrease in gross operating margin was mainly due to keen competition in the premium and ultra-luxury automobile market and also the falling prices in a ultra-luxury automobile brand.

Other Income

Other income for the year ended 31 December 2018 amounted to HK$42,399,000, which was stable compared to HK$43,824,000 for the year ended 31 December 2017.

Employee Benefit Expenses

The Group recorded employee benefit expenses of HK$143,300,000 for the year ended 31 December 2018, representing a 9.9% increase as compared to HK$130,450,000 in 2017. This was driven by the increase in sales incentive to motivate the sales force as well as general increase in staff salary in line with market.

Depreciation and Amortisation

Depreciation and amortisation expenses for the year ended 31 December 2018 amounted to HK$50,838,000, representing an increase of 15.8% compared to HK$43,913,000 for the year ended 31 December 2017 due to increase in the underlying assets.

Operating Lease Charges

The operating lease charges for the year ended 31 December 2018 amounted to HK$16,682,000, and representing a decrease of 2.9% compared to HK$17,186,000 for the year ended 31 December 2017.

Other Expenses

Other expenses during the year ended 31 December 2018 were HK$78,009,000, representing a decrease of 5.7% compared to HK$82,703,000 in 2017. The decrease was the net result of the decrease in advertising and promotion fee and the increase in legal and professional fee.

Finance Costs

Finance costs increased from HK$28,213,000 for the year ended 31 December 2017 to HK$39,492,000 in 2018 primarily due to increased borrowings since the second half of 2017.

Management Discussion and Analysis

Income Tax Expense

Income tax expense during the year ended 31 December 2018 was HK$15,909,000 representing a decrease of HK$6,535,000 as compared with HK$22,444,000 in 2017, mainly due to decrease in profit before income tax for the year.

Financial Resources and Liquidity

As at 31 December 2018, shareholders' fund of the Group amounted to HK$602,212,000 (2017: HK$611,019,000). Current assets of the Group amounted to HK$1,162,834,000 (2017: HK$1,107,724,000) of which HK$212,768,000 (2017: HK$247,442,000) were cash and bank balance and pledged deposits. Current liabilities of the Group amounted to HK$933,389,000 (2017: HK$904,660,000) and mainly represented trade payables, bills payable, borrowings, contract liabilities, accruals and other payables. The Group had non-current liabilities of approximately HK$22,716,000 (2017: HK$21,993,000). The net asset value per share as at 31 December 2018 was HK$1.26 (2017: HK$1.28).

Capital Structure of the Group

During the year ended 31 December 2018, the Group had no debt securities in issue (2017: nil).

The Group obtained funding mainly from bank and other borrowings. They are mainly denominated in Hong Kong dollars and Renminbi ("RMB"). As at 31 December 2018, the Group has available unutilised banking facilities of approximately HK$241,157,000 (2017: HK$395,350,000).

Capital Expenditure and Capital Commitments

In 2018, the Group incurred capital expenditure of approximately HK$45,580,000 (2017: HK$62,899,000) on acquisition of property, plant and equipment.

As at 31 December 2018, there is no commitment contracted but not provided for purchase of property, plant and equipment (2017: HK$4,196,000).

Material Acquisitions and Disposals of Subsidiaries or Affiliated Companies

During the year ended 31 December 2017, the Group acquired additional equity interests of 49% in a non-wholly owned subsidiary, Fuzhou Euro Motors Sales & Services Co., Ltd., at a consideration of RMB20,000,000 (equivalent to approximately HK$23,040,000). Further details were set out in note 32 to the consolidated financial statements and the announcements of the Company dated 15 June 2017 and 29 June 2017.

Save for the above acquisitions the Group had no other material acquisitions and disposals of subsidiaries or affiliated companies during the years ended 31 December 2018 and 2017.

Employees

As at 31 December 2018, the total number of employees of the Group was approximately 849 (2017: 896). For the year ended 31 December 2018, the staff costs including directors' remuneration of the Group amounted to HK$143,300,000 (2017: HK$130,450,000), representing 6.4% (2017: 6.4%) of the revenue of the Group. Appropriate staff force is maintained cautiously in accordance with the operational needs and activities of the Group.

It is the Group's policy to review its employee's pay levels and performance bonus system regularly to ensure the remuneration policy is competitive within the industry.

Management Discussion and Analysis

Charges on Group's Assets

As at 31 December 2018, fixed deposits of HK$119,623,000 (2017: HK$94,979,000) were pledged to banks and other financial institutions to secure facilities of the Group while amounts of HK$15,590,000 (2017: HK$16,439,000) were pledged to banks as security in favor of one of our suppliers.

In addition to the fixed deposits, leasehold land with carrying amounts of HK$79,750,000 (2017: HK$86,307,000) and HK$2,743,000 (2017: HK$2,939,000) were pledged to secure banking facilities of the Group and Xiamen Zhong Bao, respectively, as at 31 December 2018.

The net carrying amount of motor vehicles held under finance leases of HK$29,373,000 (2017: HK$19,038,000) was also pledged to secure the respective borrowings as at 31 December 2018.

Gearing Ratio

The Group expresses its gearing ratio as a percentage of total borrowings (including bills payable, short-term and long-term borrowings, as shown in the consolidated statement of financial position), less cash and bank balances, divided by total equity, plus net debt. As at 31 December 2018, the Group had a gearing ratio of 0.53 (2017: 0.48).

Foreign Exchange Exposure

During the year ended 31 December 2018, the Group had an exchange loss of approximately HK$309,000 (2017: exchange gain of approximately HK$3,910,000), mainly resulted from the depreciation/appreciation of Renminbi against Hong Kong dollars during the year.

Contingent Liabilities

As at 31 December 2018, the Group provided guarantees with aggregate principal amounts of approximately HK$158,599,000 in respect of banking facilities to Zhong Bao Group (2017: HK$166,244,000).

DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2018 (2017: nil).

PROSPECT

Looking ahead in 2019, the continued macroeconomic downturn and uncertainty of Sino-US trade conflicts will still continue to affect the automobile market. To cope with the impact, the Company will continue to exercise vigilant cost control to improve productivity and uphold quality service to customers. With long-term good relationships with leading automobile suppliers of premium and ultra-luxury brands, the Group is well confident to further improve its profitability while capitalising on the steady growth of the automotive industry in the PRC and bring value to its stakeholders in the long run.

The Group continues to strive for growths through organic development and acquisitions or joint ventures.

Directors' Report

The Board of Directors (the "Board") is pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in sales of motor vehicles and provision of car-related technical services, servicing of motor vehicles, sales of auto parts and provision of car rental services.

The business of each subsidiary and details of its nature of business, country of incorporation or other establishment, and particulars of the issued share capital and debt securities are set out in note 41 to the consolidated financial statements. An analysis of the Group's revenue, other income and profit before income tax is set out in notes 6, 8 and 9 to the consolidated financial statements.

BUSINESS REVIEW

A business review of the Group for the year ended 31 December 2018 and a discussion on the Group's future business development are provided in the sections "Chairman's Statement" and "Management Discussion and Analysis" of this annual report.

RESULTS, DIVIDENDS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated financial statements on pages 41 to 127 of this annual report.

The Board does not recommend the payment of any dividend for the year ended 31 December 2018. As far as the Company is aware, as at the date of this report, there was no arrangement under which any shareholder has waived or agreed to waive any dividend proposed to be distributed for the year 2018 (2017: nil).

CLOSURE OF REGISTER OF MEMBERS

The Annual General Meeting ("AGM") is scheduled to be convened on Wednesday, 8 May 2019. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 3 May 2019 to Wednesday, 8 May 2019 both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 2 May 2019.

DISTRIBUTABLE RESERVES

The Company is an investment holding company and has not carried out any business. Accordingly, the Company did not have any distributable reserve available for distribution to the shareholders as at 31 December 2018. Further details of the Company's distributable reserve as at 31 December 2018 are set out in note 31 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 30 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements of property, plant and equipment of the Group during the year ended 31 December 2018 are set out in note 13 to the consolidated financial statements.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests or short positions of Directors in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are notified to the Company and the Stock Exchange pursuant to SFO (including interests or short positions which they are taken or deemed to have under the provisions of the SFO), or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to Rule 5.48 of the rules governing that the listing of securities on the GEM of the Stock Exchange (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares

Name	Capacity	Number of ordinary shares held	Approximate percentage of total issued voting shares
Luo Wan Ju	Personal interest	8,000,000	1.68%
Ma Hang Kon, Louis	Personal interest	500,000	0.10%
Xue Guo Qiang	Personal interest	13,292,000	2.79%
Zhang Xi	Personal interest	500,000	0.10%

Save as disclosed above, as at 31 December 2018, none of the Directors or their associates had any interests or short position in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which are notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under the provisions of the SFO), or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

Directors' Report

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

As at 31 December 2018, the persons or corporations (other than Directors or chief executive of the Company) who have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or have otherwise notified to the Company were as follows:

Name	Capacity	Number of shares held	Approximate percentage of total issued voting shares
Loh Nee Peng	Beneficial owner and interest of controlled corporations *(note 1)*	95,260,320	20.00%
Chan Hing Ka Anthony	Interest of a controlled corporation *(note 2)*	31,208,033	6.55%
Tycoons Investment International Limited	Beneficial owner *(note 2)*	31,208,033	6.55%
Loh & Loh Construction Group Ltd	Beneficial owner *(note 1)*	45,284,000	9.51%
Big Reap Investment Limited	Beneficial owner *(note 1)*	32,676,320	6.86%
Galligan Holdings Limited	Beneficial owner *(note 3)*	39,700,000	8.34%
Credit Suisse Trust Limited	Interest of a controlled corporation *(note 3)*	39,700,000	8.34%

Notes:

1. The 95,260,320 Shares are held as to 32,676,320 Shares by Big Reap Investment Limited and as to 45,284,000 Shares by Loh & Loh Construction Group Ltd as well as 17,300,000 shares directly by Mr. Loh Nee Peng. Big Reap Investment Limited is interested as to 100% by Mr. Loh Nee Peng and Loh & Loh Construction Group Ltd. is interested as to 64% by Mr. Loh Nee Peng. By virtue of Part XV of the SFO, Mr. Loh Nee Peng is deemed to be interested in the shares held by Big Reap Investment Limited and Loh & Loh Construction Group Ltd.

2. The 31,208,033 Shares are held by Tycoons Investment International Limited which is interested as to 100% by Mr. Chan Hing Ka Anthony. By virtue of Part XV of the SFO, Mr. Chan Hing Ka Anthony is deemed to be interested in the shares held by Tycoons Investment International Limited.

3. The 39,700,000 shares are held by Galligan Holdings Limited which is interested as to 100% indirectly held by Credit Suisse Trust Limited. By virtue of Part XV of the SFO, Credit Suisse Trust Limited is deemed to be interested in the shares held by Galligan Holdings Limited.

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any other person or corporation who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was expected to be interested in 5% or more of the nominal value of any class of share capital or carrying rights to vote in all circumstances at general meetings of the Company.

Directors' Report

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors during the year ended 31 December 2018 and as at the date of this report were:

Executive Directors

Mr. Luo Wan Ju *(Chairman)*
Mr. Choy Choong Yew *(Managing Director)*
Mr. Ma Hang Kon, Louis
Mr. Xue Guo Qiang
Mr. Zhang Xi

Non-Executive Director

Mr. Lin Ju Zheng

Independent Non-Executive Directors

Ms. Guan Xin
Mr. Yuen Kin Pheng
Mr. Yin Bin
Mr. Zhou Ming

In accordance with Article 84 (1) of the Company's Articles of Association (the "Articles") adopted on 11 May 2012, at each AGM one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director shall be subject to retirement at AGM at least once every three years. Pursuant to Article 83 of the Articles, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM of the Company and shall then be eligible for re-election. At the AGM, it is intended that Mr. Xue Guo Qiang, Mr. Zhang Xi, Mr. Zhou Ming and Ms. Guan Xin, will be retired by rotation and will offer themselves for re-election thereof.

Mr. Luo Wan Ju, Mr. Xue Guo Qiang, Mr. Lin Ju Zheng, Mr. Choy Choong Yew, Mr. Zhang Xi and Mr. Ma Hang Kon, Louis, each entered into a service contract with the Company for an initial term of three years commencing from 4 July 2016, 4 July 2016, 23 March 2017, 16 May 2018, 23 September 2018 and 16 November 2018 respectively subject to early termination by the Company giving not less than three months' notice of termination in writing or payment in lieu at any time during the term.

Mr. Yin Bin, Ms. Guan Xin, Mr. Yuen Kin Pheng and Mr. Zhou Ming each entered into an appointment letter with the Company for a term of three years commencing from 6 May 2016, 26 July 2016, 23 March 2017 and 16 November 2018 respectively, subject to early termination by the Company giving not less than three months' notice of termination in writing or payment in lieu.

Directors' Report

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance (as defined in the GEM Listing Rules) to which the Company or any of its subsidiaries was a party in which a Director or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHT TO SUBSCRIBE FOR EQUITY OR DEBT SECURITIES

None of the Directors and chief executives or their spouse or children under the age of 18 was granted by the Company or any of its subsidiaries any right to subscribe for equity or debt securities of the Company or any body corporate.

GROUP'S EMOLUMENT POLICY

The Group's employees are selected, remunerated and promoted based on their merit, qualifications and competence. The emoluments of the Directors of the Company are determined with regard to the performance of individual, the Company's operating results and market standards.

DIRECTORS' EMOLUMENTS AND THE HIGHEST PAID EMPLOYEES

Details of Directors' emoluments and the highest paid employees are set out in note 12 to the consolidated financial statements.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

The related party transactions of the Company are set out in note 35 to the consolidated financial statements in this annual report. The related party transactions of the Company did not constitute connected transactions or continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent Shareholders' approval requirements under the GEM Listing Rules. For the year ended 31 December 2018, the Group had not entered into any transactions constituting connected transactions (including continuing connected transactions) which are subject to the disclosure requirements under Chapter 20 of the GEM Listing Rules.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out in the financial summary on page 128 of this annual report. This summary does not form part of the audited consolidated financial statements.

MANAGEMENT OF RISKS

Details of risk management are set out in note 37 to the consolidated financial statements.

SEGMENTAL INFORMATION

Details of the segmental information of the Group are set out in note 7 to the consolidated financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of Directors are set out on pages 6 to 7 of this annual report.

Directors' Report

INDEPENDENT NON-EXECUTIVE DIRECTORS

Confirmation of independence has been received from each of the Independent Non-Executive Directors of the Company and the Company considers all existing Independent Non-Executive Directors to be independent in accordance with the independence guidelines as set out in Rule 5.09 of the GEM Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the percentage of sales and purchases attributable to the Group's major customers and suppliers are set out as below:

Sales

– The largest customer	2.1%
– The total of five largest customers	6.5%

Purchases

– The largest supplier	52.9%
– The total of five largest suppliers	92.2%

As far as the Directors are aware, neither the Directors nor their respective close associates nor any shareholders (which to the knowledge of Directors own more than 5% of the Company's issued share capital) had any interest in the five largest customers and suppliers of the Group.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2018 and up to the date of this report, the Company has maintained the prescribed public float as required by the GEM Listing Rules.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles or the laws in Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2018 were audited by Grant Thornton Hong Kong Limited ("Grant Thornton"), who will retire and a resolution to re-appoint Grant Thornton as auditor of the Company will be proposed at the forthcoming AGM.

COMPANY SECRETARY

Mr. Ma Hang Kon, Louis, aged 56, was appointed as the company secretary and authorised representative of the Company with effect from 16 November 2015. He is a member of each of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, and the Institute of Chartered Secretaries and Administrators. Mr. Ma confirmed that he has taken no less than 15 hours of relevant professional training during the year ended 31 December 2018.

Directors' Report

COMPLIANCE OFFICER

Mr. Choy Choong Yew, *Managing Director and Compliance Officer*

Mr. Choy, aged 65, is currently the Managing Director and Compliance Officer of the Group, as well as the general manager of Fujian Xingbao Automobiles Sales and Service Co., Ltd., a wholly-owned subsidiary of the Company. He joined the Group in 1987 as the administration and finance manager of the Group and has achieved significant results for the Group in several roles since then.

Mr. Choy was appointed as an executive director of the Company since May 2012. Mr. Choy's educational qualifications include a Professional Diploma for Finance Controllers & Finance Directors of Foreign Investment and Foreign Enterprise in China (Zhongshan University and Hong Kong Management Association), Master of Finance (University of Royal Melbourne Institute of Technology), Diploma in Financial Management (Hong Kong Management Association) and Higher Diploma in Accounting (London Chamber of Commerce and Industry).

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company had any interest in a business which competes or may compete with the business of the Group.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Share Option Scheme") for the purpose of providing incentives to participants in the Share Option Scheme to contribute to the Group and enabling the Company to recruit high-calibre employees and attract human resources that are valuable to the Group.

Details of the Share Option Scheme are set out in note 39 to the consolidated financial statements of the Group.

No share option has been granted under the Share Option Scheme during the year.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into during the year.

SUBSIDIARIES

Particulars regarding the principal subsidiaries of the Company are set out in note 41 to the consolidated financial statements of the Group.

ADVANCES TO ENTITIES

As defined in the GEM Listing Rule 17.14, "relevant advance to an entity" means the aggregate of amounts due from and all guarantees given on behalf of (i) an entity; (ii) the entity's controlling shareholder; (iii) the entity's subsidiaries; (iv) the entity's affiliated companies; and (v) any other entity with the same controlling shareholders.

Pursuant to the GEM Listing Rule 17.16, a disclosure obligation arises where the increment of the relevant advance amount to an entity from the Group exceeds 3% under the assets ratio as defined under Rule 19.07 (1) of the GEM Listing Rules (the "Assets Ratio").

As at 31 December 2018, the Company's consolidated total assets were approximately HK$1,558,317,000.

	(Audited) As at 31 December 2018 *HK$'000*	**Assets Ratio** *(%)*	(Audited) As at 31 December 2017 *HK$'000*	Increment as compared to Assets Ratio *(%)*
Guarantees to Zhong Bao Group *(note)*	**158,599**	**10.2**	166,244	N/A

Relevant advances in comparison to the previous disclosure are shown below:

	(Audited) As at 31 December 2018 *HK$'000*	**Assets Ratio** *(%)*	(Unaudited) As at 30 September 2018 *HK$'000*	Increment as compared to Assets Ratio *(%)*
Guarantees to Zhong Bao Group *(note)*	**158,599**	**10.2**	157,904	1.4

Note: Such amounts include the principal amount of the facilities granted by the banks to Zhong Bao Group.

The Group entered into a guarantee agreement on 14 November 2017 (the "Guarantee Agreement") with Xiamen Zhong Bao to replace the previous one entered into in April 2016, which expired on 31 December 2017. Pursuant to the Guarantee Agreement, Xiamen BMW Automobiles Service Co, Ltd. and its immediate holding company, German Automobiles Pte Ltd. will during the period from 1 January 2018 to 31 December 2019 guarantee Xiamen Zhong Bao's banking facilities to be incurred in its ordinary course of business in a maximum aggregate amount of RMB160 million. The Guarantee Agreement and the transactions contemplated thereunder have been approved by shareholders at the Company's extraordinary general meeting held on 29 December 2017.

Further details for the Guarantee Agreement were set out in the circular of the Company dated 12 December 2017 and the announcement of the Company dated 14 November 2017.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2018.

PERMITTED INDEMNITY PROVISIONS

During the year and at the time when the Directors' Report was approved, a permitted indemnity provision in line with the requirements specified in section 469(2) of the Hong Kong Companies Ordinance for the benefit of all directors of the Company was in force.

On behalf of the Board
G.A. Holdings Limited
Luo Wan Ju
Chairman

Hong Kong, 21 March 2019

Corporate Governance Report

CORPORATE GOVERNANCE CODE

The Group is committed to promoting good corporate governance, with the following objectives: (i) the maintenance of responsible decision making, (ii) the improvement in transparency and disclosure of information to shareholders, (iii) the continuance of respect for the rights of shareholders and the recognition of the legitimate interests of the shareholders, and (iv) the improvement in management of risk and the enhancement of performance by the Group.

The Group has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 of the GEM Listing Rules (the "Code Provisions") throughout the year ended 31 December 2018.

The Board continues to monitor and review the Group's progress in respect of corporate governance practices to ensure compliance. The Board and senior management are responsible for performing the corporate governance duties set out in Code Provision D.3.1.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

For the year ended 31 December 2018, the Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

The Group has appointed Red Sun Capital Limited as our compliance adviser which will provide advice and guidance to the Group in respect of compliance with the applicable laws and GEM Listing Rules including various requirements relating to directors' duties and internal control. Except for the compliance adviser agreement entered into between the Company and our compliance adviser with effect from 21 May 2018, neither our compliance adviser nor its Directors, employees or close associates had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

BOARD OF DIRECTORS

Board Composition

As at the date of this report, the Board consists of five executive Directors, one non-executive Director and four independent non-executive Directors.

Executive Directors

Mr. Luo Wan Ju *(Chairman)*
Mr. Choy Choong Yew *(Managing Director)*
Mr. Ma Hang Kon, Louis
Mr. Xue Guo Qiang
Mr. Zhang Xi

Non-Executive Director

Mr. Lin Ju Zheng

Independent Non-Executive Directors

Ms. Guan Xin
Mr. Yin Bin
Mr. Yuen Kin Pheng
Mr. Zhou Ming

Corporate Governance Report

Board Meetings

The Board meets regularly over the Company's affairs and operations and held seven board meetings in 2018. The attendance records of each Director are set out below:

Executive Directors' Attendance

Luo Wan Ju	7/7
Choy Choong Yew	7/7
Ma Hang Kon, Louis	7/7
Xue Guo Qiang	7/7
Zhang Xi	7/7

Non Executive Directors' Attendance

Lin Ju Zheng	7/7

Independent Non-Executive Directors

Guan Xin	7/7
Yin Bin	7/7
Yuen Kin Pheng	7/7
Zhou Ming	7/7

Responsibilities, accountabilities and contributions of the board and management

The Board of Directors (the "Board") of the Company is entrusted with the overall responsibility for promoting the success of the Company through its direction and supervision. In practice, the Board takes responsibilities for decision making in all major matters of the Company while the day-to-day management, administration and operation of the Company are delegated to the senior executives. Approval has to be obtained from the Board prior to any significant transactions being entered into.

Details of the backgrounds and qualifications of the Chairman of the Company and other Directors are set out on pages 6 to 7 of this annual report. All Directors have given sufficient time and attention to the affairs of the Group.

Retirement of directors

Under Code Provision A.4.2, every Director should be subject to retirement by rotation at least once every three years. According to the existing Articles of Association of the Company, at each annual general meeting, one-third of the Directors for the time being, or if their number is not a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. In order to comply with the Code Provision A.4.2, Mr. Xue Guo Qiang, Mr. Zhang Xi, Mr. Zhou Ming and Ms. Guan Xin will retire at the forthcoming annual general meeting of the Company, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Continuous Professional Development

Pursuant to Code Provision A.6.5, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

Up to the date of this report, all Directors have participated in continuous professional development by reading relevant materials, attending trainings conducted by accredited service providers and in-house briefing on topics related to corporate governance regulations and Directors' duties. All Directors are also currently members of the Hong Kong Institute of Directors and are continuously improving their Directors' skill and keeping up to date with all issues affecting their ability to fulfill their roles.

All Directors understand the importance of continuous professional development and are committed to participating in any suitable training or reading relevant materials in order to develop and refresh their knowledge and skills.

Directors' Insurance

The Company has also arranged appropriate insurance cover in respect of any legal action against the Directors for the year 2018 and onwards.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the role of chairman and chief executive officer should be separate and should not be performed by the same individual to ensure a balance of power and authority. The roles of chairman and chief executive officer are undertaken by Mr. Luo Wan Ju and Mr. Choy Choong Yew respectively.

The executive Directors, including the chief executive officer, undertake the day-to-day management of the Company's business, whereas the Chairman is responsible for management of the Board and strategic planning for the Group and ensures that all Directors are properly briefed on issues arising at board meetings. The Board believes that the balance of power and authority is adequately ensured under the existing arrangement and the operations of the Board which comprises experienced and high caliber individuals with a substantial number thereof being independent non-executive Directors.

NON-EXECUTIVE DIRECTOR

Code Provision A.4.1 stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas Code Provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

During the year ended 31 December 2018, Mr. Lin Ju Zheng was a non-executive Director. He was appointed for a specific term of three years and is subject to retirement by rotation every three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with Rules 5.05A, 5.05 (1) and (2) of the GEM Listing Rules, the Company has appointed four independent non-executive Directors, i.e. Mr. Zhou Ming, Mr. Yuen Kin Pheng, Mr. Yin Bin and Ms. Guan Xin, representing more than one-third of the Board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise. Confirmation of independence has been received from each of the independent non-executive Directors of the Company and the Company considers all existing independent non-executive Directors to be independent according to the independence guidelines as set out in Rule 5.09 of the GEM Listing Rules.

Corporate Governance Report

Under Code Provision A.4.1, independent non-executive directors should be appointed for a specific term, subject to re-election. All four independent non-executive Directors, Mr. Yuen Kin Pheng, Mr. Yin Bin, Ms. Guan Xin and Mr. Zhou Ming entered into appointment letters with the Company for a term of three years commencing from 23 March 2017, 6 May 2016, 26 July 2016 and 16 November 2018 respectively.

BOARD COMMITTEES

The Board is supported by a number of committees, including the Audit Committee, Nomination Committee and Remuneration Committee. Each Board Committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. Their terms of reference are available on the websites of the Company and the Stock Exchange.

All Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

The Board Committees have all adopted the applicable practices and procedures used in board meetings for all committee meetings.

Nomination Committee

The Nomination Committee of the Company was formed on 29 September 2006. As at 31 December 2018, it comprised one executive Director and three independent non-executive Directors, namely Mr. Luo Wan Ju, Mr. Yuen Kin Pheng, Mr. Yin Bin and Ms. Guan Xin. Mr. Luo Wan Ju is the chairman of the Nomination Committee.

The principal duties of the Nomination Committee include reviewing the Board composition, including its structure, size and diversity, developing and formulating relevant procedures for nomination and appointment of Directors and senior management, making recommendations to the Board on the appointment and succession planning of Directors and senior management, and assessment of the independence of the independent non-executive Directors. The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the balance of, including but not limited to, their expertise, skills, experience, professional knowledge and personal integrity of such individuals, the requirements of the Group and other relevant statutory requirements and regulations. Further details on the terms of reference of the Nomination Committee are available on the website of the Company and the website of the Stock Exchange.

During the year 2018, the Nomination Committee had held meeting once for making recommendation to the Board on annual review on the appointment of Directors, and review on assessment of the independence of the independent non-executive Directors during the year.

Remuneration Committee

The Remuneration Committee was formed on 27 September 2005. As at 31 December 2018, the Remuneration Committee comprised four independent non-executive Directors, namely Mr. Zhou Ming, Mr. Yuen Kin Pheng, Mr. Yin Bin and Ms. Guan Xin. Mr. Zhou Ming is the chairman of the Remuneration Committee.

The Remuneration Committee is principally responsible for making recommendations to the Board on policies and structure for remuneration of Directors and senior management and on the establishment for a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee reviews the remuneration policy and structure and determination of the annual remuneration packages of the executive Directors and the senior management and other related matters as and when appropriate. The Remuneration Committee shall consult the Chairman and/or the Managing Director of the Company about its recommendations on remuneration policy and structure and remuneration packages. Further details on the terms of reference of the Remuneration Committee are available on the website of the Company and the website of the Stock Exchange.

During the year 2018, the Remuneration Committee held three meetings to discuss and review the remuneration policy and structure of the Company and remuneration packages of the independent non-executive Directors and the senior management under review for the year.

Audit Committee

The Audit Committee was formed on 5 June 2002 and is currently composed of four independent non-executive Directors, namely, Mr. Zhou Ming, Mr. Yuen Kin Pheng, Mr. Yin Bin and Ms. Guan Xin. Mr. Zhou Ming is the chairman of the Audit Committee.

The primary duties of the Audit Committee are mainly: (a) to review the Group's annual reports, consolidated financial statements, interim reports and quarterly reports, (b) to review and supervise the financial reporting process, risk management and internal control system of the Group, and (c) to liaise with the external auditor at least twice a year and provide advices and comments thereon to the Board. Further details on the terms of reference of the Audit Committee are available on the website of the Company and the website of the Stock Exchange.

During the year 2018, the Audit Committee held four meetings. The Audit Committee has carefully reviewed the Company's quarterly, half-yearly and annual results and its risk management and internal control system and has made suggestions to improve them. The Audit Committee has also carried out and discharged its duties set out in the relevant Code Provisions. In the course of doing so, the Audit Committee has met the Company's management, risk management and internal audit teams and external auditor during 2018. The audited financial results of the Group for the year ended 31 December 2018 have been reviewed by the Audit Committee.

The attendance records of each committee members in each of the committee meetings are set out below:

	Nomination Committee	Remuneration Committee	Audit Committee
Executive Director			
Luo Wan Ju	1/1	N/A	N/A
Independent Non-executive Directors			
Zhou Ming	N/A	3/3	4/4
Yin Bin	1/1	3/3	4/4
Yuen Kin Pheng	1/1	3/3	4/4
Guan Xin	1/1	3/3	4/4

AUDITOR'S REMUNERATION

For the year 2018, the remuneration paid or payable to the external auditor, Grant Thornton Hong Kong Limited or their affiliated firms is as follows:

	2018 HK$'000
Statutory audit	1,083
Review of interim results	220
Other non-audit services (mainly tax advisory and other reporting review services)	205
	1,508

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year under review.

COMPANY SECRETARY

Mr. Ma Hang Kon, Louis ("Mr. Ma") was appointed as the Company Secretary and the Authorised Representative of the Company with effect from 16 November 2015. Mr. Ma possesses day-to-day knowledge on the Company's affairs and is responsible for advising the Board through the Chairman on all governance matters and facilitates the induction and professional development of all Directors. Mr. Ma has confirmed that he has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2018.

DIVERSITY POLICY

The Company recognises and embraces the benefits of having a diverse Board, and sees diversity at Board level as an essential element in maintaining a competitive advantage. The Company has therefore adopted a board diversity policy which sets out the approach to achieve and maintain diversity on the Board.

Pursuant to the policy, the Nomination Committee seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to the talents, skills, regional and industry experience, background, gender and other qualities of the members of the Board. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All appointments of the members of the Board are made on merit, in the context of the talents, skills and experience the Board as a whole requires to be effective.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for overseeing the Company's risk management and internal control systems and reviewing their effectiveness on an ongoing basis. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Senior management is responsible for administering the Company's risk management and is accountable for ensuring that the Company's business operations are conducted in compliance with relevant laws and regulations, taking into consideration changes in the environment and the Company's risk tolerance.

During the year 2018, the Company has engaged an external professional party to conduct a follow-up review of the Group's internal control system in accordance with the requirements under the relevant Code Provisions. The Group has also set up an internal audit team to perform ongoing internal audit and conduct risk assessment review. Such review included one-on-one interviews with key executives on behalf of the Audit Committee and the Company to understand the Company's risk management process. Relevant risks were identified and rated; with mitigating factors evaluated and documented. The review also made an assessment of the adequacy of internal controls through inquires and discussion with the management, observations and review of documents and performance of the internal control system. The risk assessment and internal control review reports were reviewed and commented in detail by the Company's chief financial officer and the chairman of the Audit Committee; and was distributed and presented to the Audit Committee, including a discussion of the risks relevant to the Company; room for improvement in the internal control system; and resolution of material internal control defects identified, if any. The Audit Committee concluded that the Company had in place effective and adequate risk management and internal control system.

Risk management process

Key process and components of risk management and internal control of the Group are set out below:

Risk identification – a review on the current operation of the Group to identify relevant strategic risk, operating risk, financial risk and information risk. Key risk indicators are taken into consideration including economic data, industry trends, competitors' behavior, the Company's and its subsidiaries' management capabilities and financial information.

Risk estimation – an assessment of the management on the likelihood of occurrence of the risks identified and their qualitative and quantitative significance to the Group.

Risk evaluation – a process to make an overall judgment on the acceptability of each risk identified based on its estimated probability of occurrence and potential impact.

Taking measures – applying different strategies (e.g. risk elimination, risk mitigation or risk retention) and measures to respond to the risks identified, including but not limited to developing appropriate audit plan.

Monitoring – regular reviews by the management on key operating and financial performance of each business segment.

Corporate Governance Report

Significant risks relevant to the Company

The Company's 2018 risk management process identified the most significant risks relevant to the Company as follows:

Political and regulatory risk in the PRC

The majority of the Group's business is conducted in the PRC, where laws and regulations are continuously evolving in response to changing economic and other conditions. The automobile industry is highly regulated and has been undergoing reforms in policies and measures to improve transparency and enable fair competition which greatly affect all stakeholders in the industry. To mitigate the risks associated with recent changes and challenges, the Company's senior management closely monitor the changing laws and regulations, and carry out regular discussion with outside counsel and research into applicable laws to ensure compliance.

Downturn in the PRC economy

The Group's revenue is substantially dependent on the supply of automobiles by the manufactures of relevant premium brands and the purchasing power of the customers. A sustained economic downturn could curtail consumer spending especially on automobiles, auto parts, and after sales services that we are selling. To mitigate this risk, senior management continues to evaluate the impact of the Chinese economy on its operations and to investigate alternatives as the need arises.

Information technology

The Company's internal work processes and communication with automobile manufacturers are highly dependent on the support of its information system. A major deficiency in the Company's information technology infrastructure systems, including hardware, software, networks, people and processes, will make it difficult for the Company to cope with the ever-changing business, resulting in lower operating efficiency and increased operating costs and may even disrupt the business. As the Company is essentially providing services to customers for the selection, purchase and maintenance of automobiles with a service-centric strategy, low efficiency can greatly reduce customer satisfaction which may result in a serious threat to the Company's competitiveness and profitability. In mitigating the risk, the Company ensures the investment of adequate resources and manpower to monitor the systems and closely communicate with the automobile manufacturers.

Inside information

The Directors, with the assistance of outside legal counsels and professionals as and when necessary, assess the likely impact of any unexpected and significant event that may impact the price of the Shares or their trading volume and decide whether the relevant information constitutes inside information which needs to be disclosed as soon as reasonably practicable pursuant to Rules 17.10 and 17.11 of the GEM Listing Rules and the inside information provisions under Part XIVA of the SFO.

Internal control

During the year 2018, the appropriate internal controls including the ones set out below were in place.

1. Defined organisational structure, with specified limits of authority and lines of responsibility, has been established.

2. Appropriate operating policies and procedure have been established.

3. Delegation of authority – The Directors and/or management are delegated with appropriate level of authority relating to certain businesses or operational objectives. Appropriate Board Committees of which their decision-making authority has been delegated by the Board, are established to review, approve and monitor relevant aspects of the affairs of the Group.

4. Budgetary system – (i) Business plans and forecasts are prepared annually and subject to monthly review and approval by the management. With an annual budget and monthly rolling forecasts, the management is able to identify and evaluate the likelihood of the financial impact of significant business risks in the coming year and achieve the business objectives; (ii) A budgetary system in relation to monthly recurrent and major capital expenditure is in place. Any material variances against budgets are investigated, explained and approved by the respective financial controller.

5. Internal Audit Review – The internal auditor has unrestricted access to review all aspects of the Group's activities and internal controls and risk management. Any serious internal control and risk management deficiencies or fraud identified would be reported immediately to the Directors or directly to the Audit Committee.

6. Review by Audit Committee and the Board – The Directors review major business and operational activities and financial performance of the Group.

7. Comprehensive accounting system – A reliable and comprehensive accounting system is in place for the recording of financial information of the Group.

8. Monthly review by the management – Key operating and financial performance of each business segment are reviewed by the management on monthly basis. Regular meetings are held to review the business and financial performance against forecasts and business strategies to be taken.

Based on the findings and recommendations from the external professional party and the Company's internal audit department, and the representations made by the management, the Board is satisfied with the effectiveness and adequacy of the existing internal control and risk management systems of the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES AND PERFORMANCE

Throughout 2018, the Group has complied with "comply or explain" provisions set out in the ESG Reporting Guideline. Information about the Group's ESG policies and performance in 2018 as set out in the Environmental, Social and Governance Report on pages 31 to 35 of this annual report.

INVESTOR RELATIONS

The Board considers that maintaining regular and effective communication with shareholders is the key to establish shareholders' confidence and attract new investors. This includes (i) the publication of quarterly, interim and annual reports; (ii) holding the annual general meeting and other general meetings, thereby providing a forum for shareholders of the Company to raise comments and exchange views with the Board; (iii) making latest updates and key information of the Company available on the website of the Company. In addition, the Company's share registrar in Hong Kong serves the shareholders regarding all share registration matters.

A summary of the principal provision of the Articles of Association is available on the website of the Company and the website of Stock Exchange. There has been no change to the Company's constitutional documents during the year.

COMMUNICATIONS WITH SHAREHOLDERS

The general meetings of the Company provide an opportunity for direct communication between the Board and the shareholders. The Company encourages the participation of the shareholders through annual general meetings and other general meetings where the shareholders meet and exchange views with the Board and exercise their right to vote.

The Company held its annual general meeting on 7 May 2018 where the Chairman of the Board as well as chairman of each of the Audit Committee, the Nomination Committee and the Remuneration Committee were available to answer shareholders' questions on the Group's affairs. The Company also invited representatives of the external auditor of the Company to be present to answer shareholders' questions about the conduct of the audit, the preparation and content of the auditor's report and auditor independence.

The Company maintains a website at www.ga-holdings.com.hk, where updates on the Company's business developments and operations, financial information and news may be found. Shareholders may also contact the Company Secretary to direct their written enquires.

Procedures for shareholders to convene an extraordinary general meeting

The Company has adopted a shareholders' communication policy and procedures with effect from 22 March 2012. The policy and procedures are available on the website of the Company. Apart from proposing a person for election as director of the Company, pursuant to Article 58 of the Article of Association of the Company, an extraordinary general meeting ("EGM") may be convened at the request of the Shareholders under the following conditions:

1. On the written requisition of any one or more members holding not less than one-tenth of the paid-up capital of the Company as at the date of deposit of the requisition;

2. The requisition must:

   (a) Specify the object of the business to be transacted at the meeting; and

   (b) Be signed by the requisitionist(s); and

   (c) State the name(s) of the requisitionist(s); and the contact details and number of ordinary shares of the Company held by the requisitionist(s); and

   (d) Be deposited at the company's place of business at Unit 1203, 12th Floor, Eton Tower, No. 8 Hysan Avenue, Causeway Bay, Hong Kong and for the attention of the Company Secretary.

   The Directors must proceed to convene an EGM within 21 days from the date of deposit of the requisition. If the Directors fail to convene the EGM within 21 days from the date of deposit, the requisitionist(s) himself (themselves) may convene the general meeting in the same manner, provided that the meeting so convened shall not be held after the expiration of two months from the date of deposit of the requisition. Any reasonable expenses incurred by the requisitionist(s) by reason of the failure of the directors duly to convene a meeting shall be reimbursed to the requistionist(s) by the Company.

3. If the Board fails to give Shareholders sufficient notice (i.e. not less than 21 days for the annual general meeting and/or passing special resolution(s) at the EGM, or not less than 14 days for passing an ordinary resolution(s) at the EGM), the meeting is deemed not to have been duly convened.

LOOKING FORWARD

The Board will review its corporate governance standards on a regular and timely basis and endeavors to take necessary actions to ensure compliance with the required practices and standards including the provisions of the Corporate Governance Code introduced by the Stock Exchange.

Environmental, Social and Governance Report

This Environmental, Social and Governance (the "ESG") report focuses on the Group's environmental, social and governance initiatives. When preparing this report, references have been made to Appendix 20 of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited. The Group has complied with the "Comply or Explain" provisions set out in the ESG Reporting Guide for the year ended 31 December 2018.

G.A. Holdings Limited is embracing the challenge of integrating its business objective – to become one of the top service providers and dealers in the PRC's premium automobile industry – with its responsibilities to stakeholders, business partners, staff, and the communities in which it operates. It sees these two goals as being complementary ones, and believes that by fulfilling its social responsibilities it will indeed move more powerfully towards establishing itself at the head of its industry. One way the Group is doing this is by helping to build stronger relationships between the countries and jurisdictions in which it operates: namely the PRC, Hong Kong and Singapore. Through its role as a 'Platinum Sponsor' of SingCham (the Singapore Chamber of Commerce and Industry in China), the Group is actively supporting business, technological and cultural exchange and development between Singapore and China. In August 2018, the Group continued to be a joint sponsor for the 53rd SingCham Singapore National Day Dinner, held in Beijing.

SHAREHOLDERS AND INVESTORS

The Corporate Governance Report in this annual report lays out in detail the structures and the checks and balances that are in place to ensure that shareholders and investors in the Group can be fully confident about its business decisions and its risk management actions. Our risk management procedures are regularly reviewed by the Board of Directors and are supported by monthly management meetings held by the top management of the Group. In addition, the Board reviews the overall effectiveness of the Group's internal control system at least annually.

Our commitment to good management practices extends to full and open communication with our stakeholders. We have had an effective shareholders' communication policy in place since March 2012.

ANTI-CORRUPTION AND FRAUD

The Group maintains a high standard of business integrity throughout its operations. The Group has established a whistleblowing policy and communicated to its employees. At the same time, the Group strictly adheres to the rules and regulations relating to anti-corruption and fraudulent behaviors as set out by the relevant authorities.

LABOR STANDARD

The Group strictly complies with the relevant labor regulations relating to working hours, rest days and holidays to ensure the physical and mental health of all employees. Employees are not forced to work beyond working hours and are entitled to overtime pay in accordance with local regulations. The Group has a "No Child Labor" policy and does not hire persons under the age of 16.

EMPLOYEES

The quality of its employees is a major asset for the Group, especially for the industry in which quality and prestige is what differentiates itself from its competitors. We value our staff and take all possible measures to retain them, in particular by offering them good career advancement opportunities and an attractive, employee-friendly working environment. As at 31 December 2018, the Group employed a total of 849 (2017: 896) staff, made up of 821 in the PRC, 23 in Hong Kong and 5 in Singapore who were aged between 18 and 70. Of them, 532 were providing sales, technical and customer services, with the remaining being involved in management, administration, finance and other supporting roles.

Environmental, Social and Governance Report

The Group employed 532 men and 317 women as at 31 December 2018. Currently the ratio of men to women employed by the Group is around 1.7:1 (2017:1.6:1) which reveals the fact that most qualified mechanics and auto technician professionals in China are still dominated by male. However, we comply with all equal opportunity laws and regulations in the areas where we operate, and are committed to offering equal pay for men and women doing equivalent jobs.

The Group, as a conscientious and responsible employer, has a strong sense to nurture the next generation so as to contribute to the society. We, therefore, have developed an internship program aiming at equipping young adults with the skills and knowledge that are required in the commercial enterprises and locating the outstanding and talented interns to join our Group as full-time employees. Selected interns are assigned to work in one or two departments according to their interests and strengths for three to six months. Performance evaluations are conducted by the head of each user department before the internship ends. Outstanding interns graduated with good results and meeting the Group's qualification requirements will be first invited to join our Group on a permanent basis. As at 31 December 2018, 17 (2017: 28) interns are hired within our Group.

Apart from offering employees competitive salary packages, the Group also provides generous annual performance bonuses and on occasions provides operational staff with group tours. The Company has formally adopted a share option scheme, aimed at providing incentives to existing staff and helping the Group attract new high-calibre candidates. The Group is a family-friendly employer, and in general operates according to a basic five-day working week. It also lays on regular gatherings such as sports days, staff birthday parties and an annual dinner etc. for its staff, and offers flexible leave arrangements to enable staff to pursue professional examinations and other career advancement avenues. The benefits of making the Group an excellent working environment for employees can be seen in its very stable staff turnover rates, and the high proportion of long-term employees.

The health and safety of its employees are of a very high priority. To this end, we have looked closely at the safety rules and procedures most appropriate for our industry, and adapted them to the context of our operations. As we operate in more than one jurisdiction (Hong Kong, Singapore and the PRC), we have also looked closely at the different regulations for each area to ensure we abide by all local legal requirements. In respect of the communities where the Group operates, we encourage volunteerism and encourage our employees to serve the communities in their leisure time.

A total of 274 (2017: 299) staff provide either technical services or logistical support for the Group's operations, and these are the areas in which safety issues have most relevance for the purposes of this report. We ensure that the working conditions, tools, equipment and machinery used or operated by these staff are kept in excellent working status and that all staff are well-trained for operational safety. Regular on-the-job training to new staff is provided by our experienced staff and supervisor team, to ensure that a consistent safety philosophy is communicated right across our operations. New technicians in workshops are provided with specific safety training as specified by automobile manufacturers. The safety culture is supported by our use of the latest equipment and machinery as required by automobile manufacturers, who are leading vehicle manufacturers in the world, for all their authorised distributors.

In the year under review, no fatal or serious accidents were recorded, and the Group did not experience any significant disruption to its business operations due to days lost resulting from injury. These excellent health and safety results are a direct result of the Group's efforts to safeguard its employees, by providing appropriate workplace safety training and by ensuring that all areas of the Group's operations are well-equipped and designed with safety in mind.

The Group provides its staff with clear and viable opportunities for self-development and career advancement. It carries out regular performance assessments on a half-yearly or yearly basis, enabling staff to gain an accurate sense of their prospects and of potential future career paths. Salaries are reviewed annually for each grade of staff by the Human Resources Department and top management, to ensure that our remuneration packages remain competitive. This enables the Group to retain high quality staff and provide them with strong incentives for performing well.

As vehicle designs change and their technical specifications become more proprietary and increasingly complex, we utilise the skills of our senior technical staff by commissioning them to provide on-the-job training and guidance for less experienced staff. In addition, visiting BMW representatives provided regular theoretical training. Continuous training on repair and maintenance procedures, monitored by engineers of BMW Germany on site, is given to our technicians. These are regularly assessed to ensure they master the standards of the premium automobile manufacturers whose vehicles we distribute. Customer service and sales personnel are also provided with specialist training in the automobiles and parts that we sell. The result is a win-win situation: we ensure our Group services are leading the field, while at the same time our employees are stimulated and challenged to perform to their best potential.

SUPPLY CHAIN MANAGEMENT AND PRODUCT RESPONSIBILITY

The Group has set up a strict supply chain management system to ensure that high quality products and services are provided to our customers. All our major suppliers are all qualified, reputable and reliable suppliers. The Group operates with the suppliers' specified standardised stock replenishment and management systems which strongly strengthened the sustainability and reliability of the quality of the products and services we provide to our customers.

The Group complies with various PRC regulations and suppliers' international standards relevant to the operation of its business in areas such as health and safety relating to its products and services. With regular trainings and updates delivered by our suppliers as well as in house training, our technicians, customer service representatives and sales personnel are well trained and the quality of our products and services are guaranteed.

We strive to maintain a high level of customer satisfaction. Collecting feedback from our customers is critical for monitoring customer satisfaction. We have conducted customer satisfaction survey, follow up procedures and improvement measures are maintained and implemented. Customers are encouraged to provide us with comments and ideas for improvements. Meanwhile, strict confidential system and guidelines have been established and imposed by the Group to secure these customers information collected.

THE ENVIRONMENT

The Group believes that increased environmental awareness is the key to environmental protection and wellness to the general community. It is the Group's policy to ensure compliance with all applicable laws and regulations relating to the protection of environment and to minimise our environmental footprint through efficient use of resources. The Group endeavours to promote environmental conscientiousness not just to employees but to its car tenants as well. Given the nature of the Group's business, the Company believes that its operations have minimal adverse impact on the environment. Our dealer shops are all located in specific areas designated for the use of the automobile industry as authorised by the PRC government. These areas are equipped with high technological facilities that could facilitate the efficient use of natural resources and protection of local environment. The Company is not aware of any material non-compliance with the relevant laws and regulations in relation to emissions of excessive greenhouse gas, discharge of hazardous gas or wastage during the year.

Gasoline

The automobile industry as a whole, by its underlying nature, is implicated in global emissions. However, the Group, as a car-dealer, distributes highend and high quality mass market vehicles manufactured by the very best European manufacturers, most of which are at the cutting edge of advances in reducing emissions and developing clean engine technology. By distributing these types of vehicles and providing excellent and efficient services, and genuine replacement parts to keep its cars running at optimum efficiency, the Group is in a small way contributing to improving the environment in China, which has long been plagued by inefficient and highly polluting vehicles. The Group is proud that the high-end vehicles it distributes are some of the most efficient and technically advanced in terms of minimizing environmental impact in the world.

Meanwhile, the Group's car selling and servicing businesses are carried out to very high levels of cleanliness and attention to the environment. For instance, waste products such as used car parts and used motor oil are disposed of according to all relevant local regulations, and with scrupulous attention to avoiding pollution and minimising any impact on the environment. Very high standards are also maintained in areas such as the drainage of waste water from car cleaning operations, and the use of organic solvents in car painting activities.

The Group currently owns approximately 305 motor vehicles and most of them are run by unleaded petrol while only few are unavoidably run by diesel oil. During the year, a total of approximately 241,937 litres of unleaded petrol and approximately 61,737 litres of diesel oil were consumed. Total emissions from these motor vehicles are set out below:

Nitrogen oxides (NOx): 563,758.8 g
Carbon dioxide (CO_2): 732,350.2 kg
Sulphur oxides (SOx): 4,550.4 g
Particulate matter (PM): 46,964.2 g
Methane (CH_4): 65.7 kg
Nitrous oxide (N_2O): 274.3 kg

Electricity

The Group endeavors to conserve energy by utilising energy efficient equipment and light fixtures. All our dealer shops and offices are required to keep in-door temperature at 25 Degree Celsius to ensure efficient use of air conditioning while employees are encouraged to save energy by turning off lights and equipment when not in use.

Electricity consumed by the Group for normal business operations was mainly supplied by CLP Power Hong Kong Limited, The Hongkong Electric Co. Ltd and other governmental electricity suppliers in Fujian Province. Total electricity consumption during the year was approximately 5,158,000 kWh (2017: 4,997,000 kWh), producing CO_2 equivalent emissions of approximately 2,834,000 kg (2017: 2,740,000 kg) and an energy consumption intensity of approximately 114 kWh (2017: 111 kWh) per square meter during the year.

Water

The Group's business operations do not require any significant water usage and water consumption by the Group for the year involved mainly bottled drinking water uses and servicing of motor vehicles at its dealer shops and office premises. The Group used approximately 32,925 m^3 (2017: 41,517 m^3) of water with a water consumption intensity of approximately 38.8 m^3 (2017: 46.3 m^3) per employee for domestic consumption during the year.

Paper

The Group encourages employees to go paperless as much as possible by limiting printouts and communicating through e-mail or other telecommunication systems. While the Group has not developed any dedicated recycling program for paper use, employees are encouraged to re-use papers for internal record and documentation. During the year, the Group used a total of approximately 9,240 kg (2017: 11,482 kg) of paper in the course of normal business operations and the total CO_2 equivalent emissions for the paper used was approximately 45,358.5 kg (2017: 55,111.7 kg). Since 2015, the Group has been using FSC-certified papers in bulk-printing its annual report to further support environmental protection.

Independent Auditor's Report

GrantThornton
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To the members of G.A. Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of G.A. Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 41 to 127, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Independent Auditor's Report

Recoverability of the amounts due from Zhong Bao Group

Refer to significant accounting policies in note 4.9, critical accounting estimates and judgments in note 5 and the disclosure of the amounts due from Zhong Bao Group in notes 20 and 21 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
The Group has net balance due from Zhong Bao Group of HK$560,157,000 as at 31 December 2018. The management assesses the recoverability of the amounts due on a regular basis. Management has concluded that there is no loss allowance in respect of the amounts due from Zhong Bao Group for the year ended 31 December 2018. We identified the recoverability of the amounts due from Zhong Bao Group as a key audit matter because of its significance to the consolidated financial statements and because critical judgments are required in assessing the ultimate realisation of the receivables, including the creditworthiness and the past collection history of Zhong Bao Group.	Our procedures in relation to the management's recoverability assessment included: – reviewing the historical settlement record of Zhong Bao Group; and – obtaining the pledge agreement signed between the Group and Zhong Bao Group and assessing the sufficiency of the collateral in place.

Recognition of vendor rebates

Refer to significant accounting policies in note 4.19, critical accounting estimates and judgments in note 5 and the disclosure of the rebate receivables in note 21 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
The Group receives vendor rebates under various and different arrangements from automobile manufacturers. Rebate arrangements, which can vary in different fiscal years and between automobile manufacturers, include volume based purchase rebates, sales rebates for certain specific car models and other specific rebates. The Group recognises vendor rebates according to the entitlement conditions set by the automobile manufacturers. As at 31 December 2018, the rebate receivables recognised in the consolidated statement of financial position amounted to HK$66,608,000. We identified recognition of vendor rebates as a key audit matter because of its significance to the consolidated financial statements and because there are many different kinds of rebate arrangements in place and critical judgments are required in calculating the rebate receivables according to the entitlement conditions.	Our procedures included: – obtaining an understanding of the design and implementation of management's key internal controls in relation to the recognition of vendor rebates; – assessing the rebate policies in respect of the recognition of vendor rebates by inspecting the terms and conditions set out in each type of rebate arrangement communicated by the respective automobile manufacturers with reference to the prevailing accounting standards; and – checking the calculation of the rebate receivables based on the rebate policies.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the 2018 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors assisted by the Audit Committee are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Independent Auditor's Report

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Independent Auditor's Report

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

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

21 March 2019

Lin Ching Yee Daniel
Practising Certificate No.: P02771

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	6	2,225,095	2,027,453
Other income	8	42,399	43,824
		2,267,494	2,071,277
Changes in inventories	9.1	88,819	82,185
Auto parts and accessories, and motor vehicles purchased	9.1	(1,989,787)	(1,784,934)
Employee benefit expenses	12	(143,300)	(130,450)
Depreciation and amortisation		(50,838)	(43,913)
Operating lease charges		(16,682)	(17,186)
Exchange differences, net		(309)	3,910
Other expenses		(78,009)	(82,703)
Profit from operations		77,388	98,186
Finance costs	9.2	(39,492)	(28,213)
Profit before income tax	9	37,896	69,973
Income tax expense	10	(15,909)	(22,444)
Profit for the year		21,987	47,529
Other comprehensive (expense)/income			
Items that may be reclassified subsequently to profit or loss:			
Exchange (loss)/gain on translation of financial statements of foreign operations		(30,324)	34,892
Other comprehensive (expense)/income for the year		(30,324)	34,892
Total comprehensive (expense)/income for the year		(8,337)	82,421

Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)

for the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Profit for the year attributable to:			
Owners of the Company		**21,987**	46,149
Non-controlling interests		**–**	1,380
		21,987	47,529
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		**(8,337)**	80,698
Non-controlling interests		**–**	1,723
		(8,337)	82,421
		HK cents	HK cents
Earnings per share			
Basic and diluted	11	**4.62**	9.69

The notes on pages 48 to 127 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**263,886**	295,010
Leasehold land	14	**82,493**	89,246
Intangible asset	15	**18,256**	21,528
Prepaid rental expenses	16	**14,381**	15,550
Goodwill	17	**6,440**	6,750
Deferred tax assets	29	**1,812**	1,864
Financial asset at fair value through other comprehensive income	18	**8,215**	–
		395,483	429,948
Current assets			
Inventories	19	**195,888**	284,707
Trade receivables	20	**128,457**	91,497
Prepayments, deposits and other receivables	21	**621,626**	479,817
Tax recoverable		**4,095**	4,261
Pledged deposits	22	**135,213**	111,418
Cash and bank balances	22	**77,555**	136,024
		1,162,834	1,107,724
Current liabilities			
Trade payables	23	**54,295**	46,779
Contract liabilities	24	**67,971**	–
Accruals and other payables	25	**38,079**	121,080
Bills payable	23	**222,415**	157,355
Borrowings	26	**516,689**	541,127
Amounts due to related companies	27	**280**	294
Advance from a director	28	**1,007**	531
Tax payable		**32,653**	37,494
		933,389	904,660
Net current assets		**229,445**	203,064
Total assets less current liabilities		**624,928**	633,012

Consolidated Statement of Financial Position (Continued)

as at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Borrowings	26	**6,129**	4,150
Deferred tax liabilities	29	**16,587**	17,843
		22,716	21,993
Net assets		**602,212**	611,019
EQUITY			
Equity attributable to owners of the Company			
Share capital	30	**47,630**	47,630
Reserves	31	**554,582**	563,389
		602,212	611,019
Non-controlling interests		**–**	–
Total equity		**602,212**	611,019

Luo Wan Ju
Director

Choy Choong Yew
Director

The notes on pages 48 to 127 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium* HK$'000 (note 31)	Capital reserve* HK$'000 (note 31)	Statutory reserve* HK$'000 (note 31)	Other reserve* HK$'000 (note 31)	Translation reserve* HK$'000 (note 31)	Retained profits* HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017	47,630	29,522	8,623	26,670	–	(30,752)	459,363	541,056	10,582	551,638
Profit for the year	–	–	–	–	–	–	46,149	46,149	1,380	47,529
Other comprehensive income:										
Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–	34,549	–	34,549	343	34,892
Total comprehensive income for the year	–	–	–	–	–	34,549	46,149	80,698	1,723	82,421
Transaction with owners:										
Acquisition of non-controlling interests (note 32)	–	–	–	–	(10,735)	–	–	(10,735)	(12,305)	(23,040)
Appropriation to statutory reserve	–	–	–	6,432	–	–	(6,432)	–	–	–
Total transactions with owners	–	–	–	6,432	(10,735)	–	(6,432)	(10,735)	(12,305)	(23,040)
At 31 December 2017	47,630	29,522	8,623	33,102	(10,735)	3,797	499,080	611,019	–	611,019
At 1 January 2018	47,630	29,522	8,623	33,102	(10,735)	3,797	499,080	611,019	–	611,019
Adjustment from the adoption of HKFRS 9 (note 2.1**)	–	–	–	–	–	–	(470)	(470)	–	(470)
Adjusted balance at 1 January 2018	47,630	29,522	8,623	33,102	(10,735)	3,797	498,610	610,549	–	610,549
Profit for the year	–	–	–	–	–	–	21,987	21,987	–	21,987
Other comprehensive expense:										
Exchange loss on translation of financial statements of foreign operations	–	–	–	–	–	(30,324)	–	(30,324)	–	(30,324)
Total comprehensive (expense)/income for the year	–	–	–	–	–	(30,324)	21,987	(8,337)	–	(8,337)
Transaction with owners:										
Appropriation to statutory reserve	–	–	–	6,397	–	–	(6,397)	–	–	–
Total transactions with owners	–	–	–	6,397	–	–	(6,397)	–	–	–
At 31 December 2018	47,630	29,522	8,623	39,499	(10,735)	(26,527)	514,200	602,212	–	602,212

* These equity accounts comprise the reserves of HK$554,582,000 (2017: HK$563,389,000) in the consolidated statement of financial position as at 31 December 2018.

** The initial application of HKFRS 9 has led to adjustment of retained profits of HK$470,000.

The notes on pages 48 to 127 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Cash flows from operating activities		
Profit before income tax	37,896	69,973
Adjustments for:		
Finance costs	39,492	28,213
Bank interest income	(1,308)	(1,344)
Gain on disposal of property, plant and equipment	(3,130)	(2,400)
Depreciation of property, plant and equipment	45,241	38,703
Amortisation of prepaid rental expenses	471	467
Amortisation of intangible asset	2,367	2,313
Amortisation of leasehold land	2,759	2,430
Reversal of impairment loss on trade receivables	–	(347)
Expected credit loss allowance on trade receivables	39	–
Operating profit before working capital changes	123,827	138,008
Decrease/(Increase) in inventories	78,901	(66,035)
(Increase)/Decrease in trade receivables	(42,497)	147,929
Increase in prepayments, deposits and other receivables	(169,762)	(45,450)
Increase/(Decrease) in trade payables	10,038	(16,683)
Increase/(Decrease) in bills payable	74,976	(17,474)
Decrease in contract liabilities	(12,456)	–
Increase/(Decrease) in accruals and other payables	4,238	(15,571)
Cash generated from operations	67,265	124,724
Interest received	1,308	1,344
Interest paid for borrowings	(38,604)	(27,513)
Interest element of finance lease rental payments paid	(888)	(700)
Income tax paid	(19,849)	(22,917)
Net cash from operating activities	9,232	74,938
Cash flows from investing activities		
Acquisitions of subsidiaries, net of cash acquired	–	(129,646)
Acquisition of financial asset at fair value through other comprehensive income	(8,912)	–
Purchase of property, plant and equipment	(22,432)	(51,608)
Increase in pledged deposits	(29,991)	(9,782)
Proceeds from disposal of property, plant and equipment	23,279	14,430
Net cash used in investing activities	(38,056)	(176,606)

Consolidated Statement of Cash Flows (Continued)

for the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Cash flows from financing activities			
New borrowings raised		**1,469,068**	1,267,274
Repayment of borrowings		**(1,482,582)**	(1,086,061)
Advance from a director		**519**	513
Consideration paid for acquisition of additional interests in a subsidiary	32	**–**	(23,040)
Capital element of finance lease rental payments		**(11,550)**	(12,398)
Net cash (used in)/from financing activities		**(24,545)**	146,288
Net (decrease)/increase in cash and cash equivalents		**(53,369)**	44,620
Translation adjustments		**(5,100)**	4,278
Cash and cash equivalents at the beginning of the year		**136,024**	87,126
Cash and cash equivalents at the end of the year, represented by cash and bank balances		**77,555**	136,024

The notes on pages 48 to 127 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018

1. GENERAL INFORMATION

G.A. Holdings Limited (the "Company") was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on 5 July 2001. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Unit 1203, 12th Floor, Eton Tower, 8 Hysan Avenue, Causeway Bay, Hong Kong. The Company's shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company and its subsidiaries (the "Group") are principally engaged in the sales of motor vehicles and provision of car-related technical services, servicing of motor vehicles, sales of auto parts and provision of car rental services.

The consolidated financial statements for the year ended 31 December 2018 were approved and authorised for issue by the Board of Directors on 21 March 2019.

2. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

2.1 New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018

In the current year, the Group has applied for the first time the following new and amended HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
Amendments to HKFRS 1	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

Other than as noted below, the adoption of the new and amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKFRS 9 "Financial Instruments"

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement". It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an "Expected credit losses ("ECL") model" for the impairment of financial assets.

When adopting HKFRS 9, the Group has applied the standard retrospectively to items that existed at 1 January 2018 in accordance with the transition requirement and also applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of HKFRS 9 in relation to classification, measurement, and impairment are recognised in retained profits.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018

2. ADOPTION OF NEW AND AMENDED HKFRSs (*Continued*)

2.1 New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 *(Continued)*

HKFRS 9 "Financial Instruments" *(Continued)*

There have been no changes to the classification or measurement of financial assets and financial liabilities as a result of the application of HKFRS 9. All financial assets and financial liabilities previously measured at amortised cost under HKAS 39 are continued to be measured at amortised cost under HKFRS 9.

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECL earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the financial assets measured at amortised cost (including trade receivables, deposits and other receivables, pledged deposits and cash and bank balances).

For trade receivables, the Group applies a simplified model of recognising lifetime ECL as these items do not have a significant financing component. For other financial assets, the Group applies a general approach of recognising ECL.

Upon the adoption of HKFRS 9, the Group recognised additional ECL on the Group's trade receivables of HK$470,000, which resulted in a decrease in retained profits of HK$470,000 as at 1 January 2018.

The following table reconciles the provision of impairment determined in accordance with HKAS 39 as at 31 December 2017 with the opening ECL allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	HK$'000
Provision of impairment at 31 December 2017 under HKAS 39	–
Additional ECL recognised at 1 January 2018 on trade receivables	470
ECL allowance at 1 January 2018 under HKFRS 9	470

The details of new significant accounting policies are set out in notes 4.8 and 4.9.

2. ADOPTION OF NEW AND AMENDED HKFRSs (*Continued*)

2.1 New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 *(Continued)*

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 "Revenue from Contracts with Customers" and the related "Clarifications to HKFRS 15 Revenue from Contracts with Customers" (hereinafter referred to as "HKFRS 15") replace HKAS 18 "Revenue", HKAS 11 "Construction Contracts", and several revenue-related Interpretations.

The Group has elected to use the cumulative effect transition method, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained profits at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 18.

In accordance with the transition guidance under HKFRS 15, the Group has only been applied to contracts that are incomplete as at 1 January 2018.

Summary of nature and effect of the changes on previous accounting policies are set out below:

i. *Timing of revenue recognition*

Previously, revenue from sales of motor vehicles and auto parts was recognised upon transfer of the significant risks and rewards of ownership to the customer, whereas revenue arising from servicing of motor vehicles and provision of technical service was recognised when the relevant services were rendered.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

a. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

b. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced; or

c. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018

2. ADOPTION OF NEW AND AMENDED HKFRSs (*Continued*)

2.1 New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 *(Continued)*

HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

i. Timing of revenue recognition (Continued)

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the Group recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from motor vehicle sales and services business and car rental business.

ii. Presentation of contract liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 4.17) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue.

At the date of initial application of HKFRS 15, advances from customers of HK$83,837,000 in respect of motor vehicle sales and servicing contracts previously included in accruals and other payables were reclassified to contract liabilities for HK$83,837,000.

2. ADOPTION OF NEW AND AMENDED HKFRSs (*Continued*)

2.1 New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 *(Continued)*

HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amount under HKAS 18 at 31 December 2017	Reclassification	Carrying amount under HKFRS 15 at 1 January 2018
	HK$'000	HK$'000	HK$'000
Current liabilities			
Accruals and other payables	83,837	(83,837)	–
Contract liabilities	–	83,837	83,837

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018

2. ADOPTION OF NEW AND AMENDED HKFRSs (*Continued*)

2.1 New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 (*Continued*)

HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in accordance with HKFRS 15 (A) HK$'000	Hypothetical amounts under HKAS 18 (B) HK$'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A) – (B) HK$'000
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:			
Current liabilities			
Accruals and other payables	–	(67,971)	67,971
Contract liabilities	(67,971)	–	(67,971)

2. ADOPTION OF NEW AND AMENDED HKFRSs (*Continued*)

2.2 Issued but not yet effective HKFRSs

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contract[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after 1 January 2020

3 Effective for annual periods beginning on or after 1 January 2021

4 Effective for business combinations and asset acquisition for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

5 Effective date not yet determined

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSs are not expected to have a material impact on the Group's consolidated financial statements.

HKFRS 16 "Leases"

HKFRS 16 replaced HKAS 17 "Leases" and three related Interpretations.

As disclosed in note 4.14, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

2. ADOPTION OF NEW AND AMENDED HKFRSs (*Continued*)

2.2 Issued but not yet effective HKFRSs *(Continued)*

HKFRS 16 "Leases" *(Continued)*

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise a lease liability and a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee would recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases of office premises, car parks, furniture and equipment and motor vehicles which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. Accordingly, the Group's lease contracts disclosed in note 34.1 will continue to be accounted for as a lease arrangement.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 on 1 January 2019 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information will not be restated. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets and not to perform a full review of existing leases and apply HKFRS 16 only to new contracts. Furthermore, the Group plans to use the practical expedient to account for leases for which the lease term ends within 12 months from the date of initial application as short-term lease. As disclosed in note 34.1, as at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to HK$159,087,000 for office premises, car parks, furniture and equipment and motor vehicles, the majority of which are payable between 1 to 15 years after the reporting date.

2. ADOPTION OF NEW AND AMENDED HKFRSs (*Continued*)

2.2 Issued but not yet effective HKFRSs *(Continued)*

HKFRS 16 "Leases" *(Continued)*

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's consolidated financial statements from 2019 onwards.

Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments clarify the definition of material and state that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". Materiality depends on nature or magnitude of information or both.

The amendments also:

– introduce the concept of obscuring information when considering materiality and provide some examples of circumstances that may result in material information being obscured;

– clarify that materiality assessment will need to take into account how primary users could reasonably be expected to be influenced in making economic decisions by replacing the threshold "could influence" with "could reasonably be expected to influence" in the definition of material; and

– clarify that materiality assessment will need to take into account of information provided to primary users of general purpose financial statements (i.e. existing and potential investors, lenders and other creditors that rely on general purpose financial statements for much of the financial information they need).

Amendments to HKAS 1 and HKAS 8 are effective for annual reporting period beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted. The directors expect that the amendments have no material impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018

3. BASIS OF PREPARATION

These annual consolidated financial statements have been prepared in accordance with HKFRSs which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA and the accounting principles generally accepted in Hong Kong.

The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange (the "GEM Listing Rules").

The consolidated financial statements have been prepared under the historical cost basis except for financial asset at fair value through other comprehensive income ("FVOCI") which is stated at fair value.

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new and amended HKFRSs and the impacts on the consolidated financial statements, if any, are disclosed in note 2.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries made up to 31 December each year.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

4.1 Basis of consolidation *(Continued)*

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss. Cost also includes direct attributable costs of investment.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

4.2 Business combination

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity in the acquiree (if any) over the net of the acquisition–date amounts of the identifiable assets acquired and liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value on the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as bargain purchase gain.

4.3 Foreign currency translation

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e. only translated using the exchange rates at the transaction date).

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the reporting date. Income and expenses have been converted into the HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation have been treated as assets and liabilities of the foreign operation and translated into HK$ at the closing rates.

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

4.4 Leasehold land

Upfront payments made to acquire land held under an operating lease are stated at costs less accumulated amortisation and any accumulated impairment losses. The determination of an arrangement is or contains a lease and the lease is an operating lease is detailed in note 4.14. Amortisation is calculated on a straight line basis over the term of the lease/right of use except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

4.5 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is calculated using the straight-line method to allocate the costs over the estimated useful lives, at the following rates per annum:

Buildings	1.5% to 5%
Leasehold improvements	4.5% to 50% or over the lease term, whichever is shorter
Plant and machinery	5% to 33.3%
Motor vehicles	20% to 33.3%
Furniture and equipment	10% to 33.3%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, over the term of relevant leases, whichever is shorter.

The assets' residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance, are charged to profit or loss during the financial period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

4.6 Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units ("CGU") and is tested annually for impairment (see note 4.20).

4.7 Intangible assets (other than goodwill)

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses (see note 4.20).

Amortisation for intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Amortisation commences when the intangible assets are available for use. Car dealership is amortised from the date of acquisition over its estimated useful lives of 10 years.

4.8 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets

Policy applicable from 1 January 2018

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with HKFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss ("FVTPL"), plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of profit or loss and other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Financial instruments *(Continued)*

Financial assets *(Continued)*

Policy applicable from 1 January 2018 (Continued)

Classification and initial measurement of financial assets *(Continued)*

Financial assets are classified into the following categories:

– amortised cost;
– FVTPL; or
– FVOCI.

The classification is determined by both:

– the entity's business model for managing the financial asset; and
– the contractual cash flow characteristics of the financial asset.

For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs or other income, except for ECL of trade receivables which is presented within other expenses.

Subsequent measurement of financial assets

Debt investments

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

– they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and

– the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in other income in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's trade receivables, deposits and other receivables, pledged deposits and cash and bank balances fall into this category of financial instruments.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Financial instruments *(Continued)*

Financial assets *(Continued)*

Policy applicable from 1 January 2018 (Continued)

Subsequent measurement of financial assets *(Continued)*

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment, the Group elects to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income and accumulated in "Fair value reserve – non-recycling" in equity. Such elections are made on an instrument-by-instrument basis, but only be made if the investment meets the definition of equity from the issuer's perspective.

The equity instruments at FVOCI are not subject to impairment assessment. The cumulative gain or loss in "Fair value reserve – non-recycling" will not be reclassified to profit or loss upon disposal of the equity investments, and will be transferred to retained profits/will continue to be held in the "Fair value reserve – non-recycling".

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Dividends are included in the "other income" line item in profit or loss.

Policy applicable before 1 January 2018

Financial assets are classified as loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

4.8 Financial instruments *(Continued)*

Financial liabilities

Classification and measurement of financial liabilities

The Group's financial liabilities include trade and bills payables, accruals and other payables, borrowings, amounts due to related companies and advance from a director.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or other income.

Borrowings (excluding finance lease liabilities)

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Trade and bills payables, accruals and other payables, amounts due to related companies and advance from a director

These are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

4.9 Impairment of financial assets

Policy applicable from 1 January 2018

HKFRS 9's new impairment requirements use more forward-looking information to recognise ECL – the "ECL model". Instruments within the scope included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables and contract assets recognised and measured under HKFRS 15 and some financial guarantee contracts (for the issuer) that are not measured at FVTPL.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

– financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1") and

– financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month ECL" are recognised for the Stage 1 category while "lifetime ECL" are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade receivables

For trade receivables, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables, the Group allows 0.1% for amounts that are neither past due nor impaired, 1% for amounts that are 1 to 90 days past due, 2% for amounts that are between 91 and 180 days past due and 4% for amounts that are more than 180 days past due.

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

4.9 Impairment of financial assets *(Continued)*

Policy applicable from 1 January 2018 *(Continued)*

Other financial assets measured at amortised cost

The Group measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial assets at the reporting date with the risk of default occurring on the financial assets at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

– an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

– significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

– existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

– an actual or expected significant deterioration in the operating results of the debtor; and

– an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.9 Impairment of financial assets *(Continued)*

Policy applicable from 1 January 2018 *(Continued)*

Other financial assets measured at amortised cost (Continued)

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Detailed analysis of the ECL assessment of trade receivables and other financial assets measured at amortised cost are set out in note 37.

Financial guarantee contracts

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the ECL is the present value of the expected payments to the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

Policy applicable before 1 January 2018

At each reporting date, financial assets other than at FVTPL are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– Significant financial difficulty of the debtor;

– A breach of contract, such as a default or delinquency in interest or principal payments;

– It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– The disappearance of an active market for that financial asset because of financial difficulties.

If any such evidence exists, the impairment loss is measured and recognised as follows:

Financial assets carried at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

4.9 Impairment of financial assets *(Continued)*

Policy applicable before 1 January 2018 *(Continued)*

Financial assets carried at amortised cost (Continued)

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the financial asset at the date of impairment is reversed, does not exceed what the amortised cost would have been had the impairment not been recognised.

4.10 Inventories

Inventories are carried at the lower of cost and net realisable value. Inventories comprise fully-assembled motor vehicles and auto parts. Cost includes purchase and other costs incurred in bringing the inventories to their present location and condition using weighted-average method and specific basis as appropriate.

Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

4.11 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

4.12 Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 4.17) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 4.9 and are reclassified to receivables when the right to the consideration has become unconditional (see note 4.8).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 4.17). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 4.8).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

4.13 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within other payables. The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instruments and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assessing the obligations. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

Subsequently, financial guarantees are measured at the higher of the amount determined in accordance with ECL under HKFRS 9 as set out in note 4.9 (applicable from 1 January 2018)/HKAS 37 (before application of HKFRS 9 on 1 January 2018) and the amount initially recognised less, where appropriate, the cumulative amount of income recognised over the guarantee period.

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

4.14 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the right to use the assets under finance leases, the amounts representing the fair values of the leased asset, or, if lower, the present values of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as finance lease liabilities.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liabilities are reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(iii) Operating lease charges as the lessee

Where the Group has the right to use the assets held under operating leases, payments made under the leases are charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

4.14 Leases *(Continued)*

(iv) Assets leased out under operating leases as the lessor

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the time pattern of benefits to be derived from the use of the leased asset.

4.15 Provisions and contingent liabilities

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

All provision are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

4.16 Share capital

Ordinary shares are classified as equity. Share capital is recognised at the amount of consideration of shares issued, after deducting any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

4.17 Revenue recognition

Policy applicable from 1 January 2018

Revenue arises mainly from the sales of motor vehicles, servicing of motor vehicles and sales of auto parts and provision of car-related technical services and car rental services.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer.

2. Identifying the performance obligations.

3. Determining the transaction price.

4. Allocating the transaction price to the performance obligations.

5. Recognising revenue when/as performance obligation(s) are satisfied.

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

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

Sales of motor vehicles

Revenue from the sale of motor vehicles for a fixed fee is recognised when or as the Group transfers control of the assets to the customer. Invoices for goods are due upon receipt by the customer.

For stand-alone sales of motor vehicles that are neither customised by the Group nor subject to significant integration services, control transfers at the point in time the customer takes undisputed delivery of the goods.

The Group does not provide any sales-related warranties. There is no right of return by customers under the Group's standard contract terms.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.17 Revenue recognition *(Continued)*

Policy applicable from 1 January 2018 *(Continued)*

Servicing of motor vehicles and sales of auto parts

The Group offers servicing of motor vehicles, including maintenance, repairing and other support services. Revenue from servicing of motor vehicles is recognised when the relevant services have been provided and the Group received the payment or the right to receive payment has been established.

Technical fee income

The Group received technical fee income from Xiamen Zhong Bao Automobiles Co., Ltd. ("Xiamen Zhong Bao") for providing management consulting and technical assistance in relation to the PRC locally assembled BMW motor vehicles sold by Xiamen Zhong Bao. Revenue is recognised when the relevant services have been provided.

Car rental income

Car rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease according to accounting policy as set out in note 4.14.

Commission income and consultant service income

Commission income and consultant service income are recognised as the relevant services have been rendered.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

Policy applicable before 1 January 2018

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and rendering of services, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Services fees are recognised when the relevant services are rendered.

Rental income is recognised on a time proportion basis over the lease terms.

Interest income is recognised on a time proportion basis using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

4.18 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate.

Government grants relating to income is presented in gross under other income in the consolidated statement of profit or loss and other comprehensive income.

4.19 Vendor rebates

Volume-related vendor rebates are recognised as a deduction from cost of sales on an accrual basis according to the expected entitlement earned up to the reporting date for each relevant supplier contract.

Rebates relating to items purchased but still held at the reporting date are deducted from carrying value of these items so that the cost of inventories is recorded net of applicable rebates.

4.20 Impairment of non-financial assets

The following assets are subject to impairment testing:

- Goodwill arising on acquisition of a subsidiary;
- Other intangible assets;
- Property, plant and equipment;
- Leasehold land;
- Prepaid rental expenses; and
- The Company's interests in subsidiaries.

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

Notes to the Consolidated Financial Statements

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4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

4.20 Impairment of non-financial assets *(Continued)*

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e., a CGU). As a result, some assets are tested individually for impairment and some are tested at CGU level. Goodwill in particular is allocated to those CGU that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose and not be larger than an operating segment.

Impairment losses recognised for CGU, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the CGU, except that the carrying value of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

4.21 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefits plan (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

4.21 Employee benefits *(Continued)*

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

4.22 Borrowing costs

Borrowing costs are expensed when incurred.

4.23 Accounting for income taxes

Income tax comprises current and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.23 Accounting for income taxes *(Continued)*

Changes in deferred tax assets or liabilities are recognised in the profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average tax rates that are expected to apply to the taxable income of the periods in which the temporary differences are expected to reverse.

The determination of the average tax rates requires an estimation of (1) when the existing temporary differences will reverse and (2) the amount of future taxable profit in those years. The estimate of future taxable profit includes:

– income or loss excluding reversals of temporary differences; and

– reversals of existing temporary differences.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

  (i) the same taxable entity; or

  (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

4.24 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined based on the Group's major product and service lines.

The Group has identified the following reportable segments:

– Motor vehicle sales and services business – primarily consists of the operations of (i) motor vehicle distribution and dealership business, which includes sales of motor vehicles and provision of after-sales services; and (ii) other motor vehicle related business, which includes operations of motor vehicle service shops, sales of auto parts, provision of car-related technical services and other value-added motor vehicle services; and

– Car rental business

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its consolidated financial statements prepared under HKFRSs, except for the income tax and corporate income and expenses including certain finance costs which are not directly attributable to the business activities of any operating segment are not included in arriving at the operating results of the operating segment.

Segment assets exclude corporate assets that are not directly attributable to business activities of any operating segment, which primarily applies to the Group's headquarters.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment.

No asymmetrical allocations have been applied to reportable segments.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

4.25 Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or a parent of the Group.

(b) the party is an entity and if any of the following conditions applies:

(i) the entity and the Group are members of the same group.

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) the entity and the Group are joint ventures of the same third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimation uncertainties

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below:

Estimation of impairment of trade receivables and other financial assets within the scope of ECL upon application of HKFRS 9

Since the initial adoption of HKFRS 9, the Group makes allowances on items subjects to ECL (including trade receivables and other financial assets measured at amortised cost) based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period as set out in note 4.9. As at 31 December 2018, the aggregate carrying amounts of trade receivables and other financial assets measured at amortised cost amounted to HK$128,457,000 (net of ECL allowance of HK$509,000) and HK$802,029,000 respectively.

Before the adoption of HKFRS 9, the Group assesses at the end of each reporting period whether there is any objective evidence that trade receivables and other financial assets are impaired. In determining whether there is objective evidence of impairment, the Group takes into consideration the ageing status and the likelihood of collection by reference to the background and repayment history of the debtors and the occurrence of any default or disputes. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on factors such as repayment plans committed by debtors and subsequent collections. An impairment loss is made for trade receivables and other financial assets of which the present values of future cash flows are less than their carrying amount. As at 31 December 2017, the aggregate carrying amount of trade receivables and other financial assets amounted to HK$91,497,000 (net of loss allowance of nil) and HK$687,441,000 respectively.

When the actual future cash flows are different from expected, such difference will impact the carrying amount of trade receivables and other items within the scope of ECL upon application of HKFRS 9/other financial instruments before application of HKFRS 9 and credit losses in the periods in which such estimate has been changed.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (*Continued*)

Estimation uncertainties *(Continued)*

Depreciation, amortisation and impairment assessment of property, plant and equipment and intangible asset

Property, plant and equipment and intangible asset with finite useful lives are depreciated or amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value, if any. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

Property, plant and equipment and intangible asset with finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of the assets have been determined based on the higher of fair value less costs of disposal and value-in-use calculations. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. No impairment is required for the years ended 31 December 2018 and 2017. As at 31 December 2018, the carrying amounts of property, plant and equipment and intangible asset were HK$263,886,000 and HK$18,256,000 respectively (2017: HK$295,010,000 and HK$21,528,000 respectively).

Provision for inventories

The management of the Group reviews the condition and an ageing analysis of inventories at the end of the reporting period and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in providing repairing and maintenance service or sale. The management estimates the net realisable value for motor vehicles, auto parts and accessories based primarily on the latest selling and purchase prices and on current market conditions. The Group carries out an inventory review on an item-by-item basis at the end of the reporting period and makes allowance for slow-moving inventories. If the market condition was to deteriorate, resulting in a lower net realisable value for such inventories, additional allowances may be required. As at 31 December 2018, the carrying amount of inventories was HK$195,888,000 (2017: HK$284,707,000).

Estimated rebate receivables

The Group receives incentive rebates from suppliers from time to time depending on the policies of the manufacturers. The amount of incentive rebates given by a manufacturer for a given period is generally determined with reference to the Group's purchase volume, sales volume, customer satisfaction and other performance indicators set by the manufacturer with respect to that period. The Group accrues incentive rebates based on management's best estimates and judgments as of the relevant reporting date while the actual amount of the incentive rebates is determined by the manufacturers after the end of the reporting period. These estimates and judgments involve, among other factors, the estimated results of assessment by the manufacturers for the Group's performance in various aspects during the reporting period. When the actual rebates received by the Group differ from the estimated amount, adjustment will be made and recognised in the period in which such event takes place. As at 31 December 2018, the carrying amount of rebate receivables was HK$66,608,000 (2017: HK$60,316,000).

Income taxes

The Group is subject to income taxes in Hong Kong, the PRC and Singapore. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (*Continued*)

Estimation uncertainties *(Continued)*

Income taxes *(Continued)*

Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered. As at 31 December 2018, the carrying amount of the Group's deferred tax assets was HK$1,812,000 (2017: HK$1,864,000).

Impairment of goodwill

Determine whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the directors to estimate, the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. As at 31 December 2018, the carrying amount of goodwill was HK$6,440,000 (2017: HK$6,750,000).

6. REVENUE

The amount of each significant category of revenue recognised during the year is as follows:

	2018 **HK$'000**	2017 HK$'000
Sales of motor vehicles	**1,502,280**	1,465,175
Servicing of motor vehicles and sales of auto parts	**684,500**	528,335
Technical fee income	**8,929**	7,577
Revenue from contracts with customers	**2,195,709**	2,001,087
Car rental income	**29,386**	26,366
Total revenue	**2,225,095**	2,027,453

6. REVENUE (*Continued*)

For the year ended 31 December 2018

Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical market:

	For the year ended 31 December 2018 Motor vehicle sales and services business HK$'000
Types of goods and services	
Sales of motor vehicles	1,502,280
Servicing of motor vehicles and sales of auto parts	684,500
Technical service	8,929
Total	**2,195,709**
Timing of revenue recognition	
– At a point in time	2,195,709
Geographical markets	
– PRC	2,195,709
Type of customers	
– Corporate	231,559
– Individuals	1,964,150
Total	**2,195,709**

7. SEGMENT INFORMATION

The executive directors of the Company, being the chief operating decision makers, have identified two operating segments as further described in note 4.24.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

(a) Segment revenue, segment results and other segment information

	2018		
	Motor vehicle sales and services business HK$'000	**Car rental business HK$'000**	**Total HK$'000**
Reportable segment revenue	**2,195,709**	**29,386**	**2,225,095**
Reportable segment profit	**51,695**	**5,576**	**57,271**
Other information			
Depreciation and amortisation of non-current assets	**(36,055)**	**(14,783)**	**(50,838)**
Gain on disposal of property, plant and equipment	**528**	**2,602**	**3,130**
ECL allowance on trade receivables	**(39)**	**–**	**(39)**
Additions to non-current assets (other than deferred tax assets and financial instruments) during the year	**22,010**	**23,570**	**45,580**

	2017		
	Motor vehicle sales and services business HK$'000	Car rental business HK$'000	Total HK$'000
Reportable segment revenue	2,001,087	26,366	2,027,453
Reportable segment profit	72,761	3,595	76,356
Other information			
Depreciation and amortisation of non-current assets	(31,388)	(12,525)	(43,913)
Gain on disposal of property, plant and equipment	970	1,430	2,400
Reversal of impairment loss on trade receivables	347	–	347
Additions to non-current assets (other than deferred tax assets and financial instruments) during the year	45,374	17,525	62,899

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for the year ended 31 December 2018

7. SEGMENT INFORMATION *(Continued)*

(b) Segment assets and liabilities

	2018		
	Motor vehicle sales and services business HK$'000	**Car rental business HK$'000**	**Total HK$'000**
Reportable segment assets	**1,278,619**	**48,582**	**1,327,201**
Reportable segment liabilities	**818,140**	**24,952**	**843,092**

	2017		
	Motor vehicle sales and services business HK$'000	Car rental business HK$'000	Total HK$'000
Reportable segment assets	1,218,761	42,929	1,261,690
Reportable segment liabilities	788,076	14,670	802,746

7. SEGMENT INFORMATION *(Continued)*

(c) Reconciliation of segment information to the Group's key financial figures as presented in the consolidated financial statements:

	2018 HK$'000	2017 HK$'000
Reportable segment revenue	2,225,095	2,027,453
Reportable segment profit	57,271	76,356
Unallocated corporate income	7,902	10,397
Unallocated corporate expenses		
Employee benefit expenses	(1,313)	(1,361)
Others	(23,025)	(14,201)
Unallocated finance costs	(2,939)	(1,218)
Profit before income tax	37,896	69,973
Reportable segment assets	1,327,201	1,261,690
Non-current corporate assets (note (i))	10,521	2,362
Current corporate assets (note (ii))	220,595	273,620
Consolidated total assets	1,558,317	1,537,672
Reportable segment liabilities	843,092	802,746
Non-current corporate liabilities (note (iii))	17,701	18,006
Current corporate liabilities (note (iv))	95,312	105,901
Consolidated total liabilities	956,105	926,653

Notes:

(i) Non-current corporate assets mainly include certain property, plant and equipment, deferred tax assets and financial asset at FVOCI that are not directly attributable to the business activities of the operating segments.

(ii) Current corporate assets mainly include certain prepayments, deposits and other receivables, tax recoverable, cash and bank balances and pledged deposits that are not directly attributable to the business activities of the operating segments or that are managed on group basis.

(iii) Non-current corporate liabilities include deferred tax liabilities and certain finance lease liabilities (included in borrowings) that are not directly attributable to the business activities of the operating segments.

(iv) Current corporate liabilities include certain accruals and other payables, certain borrowings, amounts due to related companies, advance from a director and tax payable that are not directly attributable to the business activities of the operating segments or that are managed on group basis.

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for the year ended 31 December 2018

7. SEGMENT INFORMATION *(Continued)*

(d) Geographical segments

The Group's revenue from external customers and non-current assets are divided into the following geographical areas:

	Revenue from external customers		Non-current assets (other than deferred tax assets and financial instruments)	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Singapore	**–**	–	**5,895**	4,927
PRC	**2,195,709**	2,001,087	**344,244**	385,643
Hong Kong	**29,386**	26,366	**43,532**	37,514
	2,225,095	2,027,453	**393,671**	428,084

The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the non-current assets is based on the physical location of the assets or the location of operations.

For the years ended 31 December 2018 and 2017, no revenue from a single customer accounted for 10% or more of the Group's revenue.

8. OTHER INCOME

	2018	2017
	HK$'000	HK$'000
Bank interest income	**1,308**	1,344
Financial guarantee income	**451**	2,575
Commission income	**14,067**	18,447
Consultant service income	**18,442**	14,980
Gain on disposal of property, plant and equipment	**3,130**	2,400
Government grants*	**689**	516
Reversal of impairment loss on trade receivables (note 20)	**–**	347
Sundry income	**4,312**	3,215
	42,399	43,824

* Government grants mainly related to cash subsidies granted by the government in respect of operating activities which are either unconditional grants or grants with conditions having been satisfied.

9. PROFIT BEFORE INCOME TAX

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

9.1 Cost of inventories

	2018 HK$'000	2017 HK$'000
Changes in inventories		
Motor vehicles	(72,969)	(84,394)
Auto parts and accessories	(15,850)	2,209
	(88,819)	(82,185)
Auto parts and accessories, and motor vehicles purchased		
Motor vehicles	1,579,792	1,515,248
Auto parts and accessories	409,995	269,686
	1,989,787	1,784,934
	1,900,968	1,702,749

9.2 Finance costs

	2018 HK$'000	2017 HK$'000
Interest charges on bank and other borrowings	38,604	27,513
Interest element of finance lease payments	888	700
	39,492	28,213

Notes to the Consolidated Financial Statements

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9. PROFIT BEFORE INCOME TAX *(Continued)*

9.3 Other items

	2018 HK$'000	2017 HK$'000
Auditor's remuneration	**1,083**	1,030
Depreciation of property, plant and equipment*	**45,241**	38,703
Amortisation of intangible asset (note 15)	**2,367**	2,313
Gain on disposal of property, plant and equipment	**(3,130)**	(2,400)
Amortisation of leasehold land (note 14)	**2,759**	2,430
Amortisation of prepaid rental expenses (note 16)	**471**	467
Financial guarantee expenses	**–**	1,850
Reversal of impairment loss on trade receivables	**–**	(347)
ECL allowance on trade receivables	**39**	–

* Amount included depreciation charge of HK$5,404,000 (2017: HK$4,633,000) for the Group's assets held under finance leases.

10. INCOME TAX EXPENSE

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at 16.5%. For the year ended 31 December 2018, Hong Kong profits tax of the Company is calculated in accordance with the two-tiered profits tax rates regime.

Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rate of tax prevailing in the countries in which the Group operates.

The income tax provision in respect of operations in the PRC is calculated at the applicable rates on the estimated assessable profits for the year based on the unification of the income tax rates for domestic-invested and foreign-invested enterprises at 25% (2017: 25%).

Dividend distribution out of the retained profits of foreign-invested enterprises in the PRC earned after 1 January 2008 is subject to withholding income tax at a tax rate of 10% unless reduced by treaty. Under the tax treaty between Singapore and the Mainland China, the withholding income tax rate applicable to the Group is 5%.

10. INCOME TAX EXPENSE *(Continued)*

Income tax in respect of operations in Singapore has not been provided for the years ended 31 December 2018 and 2017 as the Company's Singapore subsidiary has no assessable profits for the years.

	2018 HK$'000	2017 HK$'000
Current tax – Hong Kong		
Charge for the year	48	–
Over-provision in prior years	–	(20)
Current tax – Overseas		
Charge for the year	22,316	24,460
Over-provision in prior years	(5,738)	–
Current tax – total	16,626	24,440
Deferred tax (note 29)	(717)	(1,996)
Total income tax expense	15,909	22,444

Reconciliation between tax expense and accounting profit at applicable tax rates:

	2018 HK$'000	2017 HK$'000
Profit before income tax	37,896	69,973
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	10,626	18,867
Tax effect of non-deductible expenses	4,286	3,818
Tax effect of non-taxable revenue	(658)	(997)
Tax effect of withholding income tax on undistributed profit of subsidiaries in the PRC	–	(32)
Tax effect of tax losses not recognised	8,867	3,627
Effect of two tiered profits tax rates regime	(48)	–
Utilisation of tax losses previously not recognised	(1,648)	(3,622)
Withholding tax for dividend paid	–	810
Over-provision in prior years	(5,738)	(20)
Others	222	(7)
Income tax expense	15,909	22,444

Notes to the Consolidated Financial Statements

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11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on profit attributable to the owners of the Company for the year of approximately HK$21,987,000 (2017: HK$46,149,000) and on the weighted average number of 476,300,000 (2017: 476,300,000) ordinary shares in issue during the year.

Diluted earnings per share for the years ended 31 December 2018 and 2017 are the same as the basic earnings per share as there was no dilutive potential ordinary share for the years ended 31 December 2018 and 2017.

12. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2018 HK$'000	2017 HK$'000
Salaries and wages	124,458	114,493
Other benefits	6,961	8,984
Pension costs – defined contribution plans	11,881	6,973
	143,300	130,450

12.1 Directors' emoluments

Directors' and chief executive's emoluments, disclosed pursuant to the Listing Rules, section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Fees HK$'000	Salaries and other benefits HK$'000	Discretionary bonus HK$'000 (note)	Contribution to defined contribution plan HK$'000	Total HK$'000
2018					
Executive Directors					
Mr. Luo Wan Ju	–	557	–	38	595
Mr. Choy Choong Yew#	–	1,734	–	–	1,734
Mr. Ma Hang Kon, Louis	–	1,800	300	18	2,118
Mr. Zhang Xi	–	289	–	–	289
Mr. Xue Guo Qiang	–	227	–	–	227
Non-Executive Director					
Mr. Lin Ju Zheng	213	–	–	–	213
Independent Non-Executive Directors					
Mr. Yin Bin	213	–	–	–	213
Mr. Zhou Ming	204	–	–	–	204
Ms. Guan Xin	142	–	–	–	142
Mr. Yuen Kin Pheng	313	–	–	–	313
	1,085	4,607	300	56	6,048

12. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

12.1 Directors' emoluments *(Continued)*

	Fees HK$'000	Salaries and other benefits HK$'000	Discretionary bonus HK$'000 (note)	Contribution to defined contribution plan HK$'000	Total HK$'000
2017					
Executive Directors					
Mr. Luo Wan Ju	–	544	–	37	581
Mr. Choy Choong Yew#	–	2,027	–	–	2,027
Mr. Ma Hang Kon, Louis	–	1,800	800	18	2,618
Mr. Zhang Xi	–	283	–	–	283
Mr. Xue Guo Qiang	–	219	–	–	219
Non-Executive Director					
Mr. Lin Ju Zheng	205	–	–	–	205
Independent Non-Executive Directors					
Mr. Yin Bin	205	–	–	–	205
Mr. Zhou Ming	204	–	–	–	204
Ms. Guan Xin	137	–	–	–	137
Mr. Yuen Kin Pheng	235	–	–	–	235
	986	4,873	800	55	6,714

\# As a managing director taking Chief Executive Officer's role

Note:

Discretionary bonus for the year was determined by the remuneration committee having regard to the performance and duties of directors.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for the year.

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12. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

12.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2017: two) directors whose emoluments are included in the analysis presented above. The emoluments payable to the remaining three (2017: three) individuals during the year are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	3,976	3,382
Contributions to defined contribution plan	107	36
	4,083	3,418

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
Emolument bands		
Nil to HK$1,000,000	1	1
HK$1,000,001 to HK$1,500,000	1	2
HK$2,000,001 to HK$2,500,000	1	-

12.3 Key management personnel compensation

	2018 HK$'000	2017 HK$'000
Short term employee benefits	9,969	10,041
Post-employment benefits	162	91
	10,131	10,132

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Motor vehicles	Furniture and equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017						
Cost	147,175	66,784	36,357	106,319	27,419	384,054
Accumulated depreciation and impairment	(2,552)	(22,053)	(23,394)	(50,523)	(18,088)	(116,610)
Net carrying amount	144,623	44,731	12,963	55,796	9,331	267,444
Year ended 31 December 2017						
Opening net carrying amount	144,623	44,731	12,963	55,796	9,331	267,444
Exchange differences	9,772	2,976	811	1,315	526	15,400
Additions	706	551	1,545	56,575	3,522	62,899
Disposals	–	–	(48)	(11,967)	(15)	(12,030)
Depreciation	(8,356)	(4,261)	(2,745)	(19,783)	(3,558)	(38,703)
Closing net carrying amount	146,745	43,997	12,526	81,936	9,806	295,010
At 31 December 2017						
Cost	156,068	66,356	37,372	139,891	28,698	428,385
Accumulated depreciation and impairment	(9,323)	(22,359)	(24,846)	(57,955)	(18,892)	(133,375)
Net carrying amount	146,745	43,997	12,526	81,936	9,806	295,010
Year ended 31 December 2018						
Opening net carrying amount	146,745	43,997	12,526	81,936	9,806	295,010
Exchange differences	(6,482)	(2,180)	(539)	(1,742)	(371)	(11,314)
Additions	453	1,592	2,225	39,223	2,087	45,580
Disposals	–	(4)	(88)	(20,049)	(8)	(20,149)
Depreciation	(8,752)	(4,516)	(2,669)	(25,821)	(3,483)	(45,241)
Closing net carrying amount	131,964	38,889	11,455	73,547	8,031	263,886
At 31 December 2018						
Cost	154,059	64,532	38,622	129,688	30,726	417,627
Accumulated depreciation and impairment	(22,093)	(25,643)	(27,167)	(56,143)	(22,695)	(153,741)
Net carrying amount	131,966	38,889	11,455	73,545	8,031	263,886

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13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The net carrying amount of the motor vehicles of the Group includes an amount of approximately HK$29,373,000 (2017: HK$19,038,000) in respect of assets held under finance leases.

As at 31 December 2018, building with net carrying amount of approximately HK$30,415,000 (2017: HK$34,447,000) was pledged as collateral for the bank borrowings of the Group (note 26.1).

As at 31 December 2017, the Group is in the process of obtaining the building ownership certificate in respect of a building located in the PRC with carrying value of approximately HK$21,009,000. The Group has obtained the building ownership certificate in January 2018.

14. LEASEHOLD LAND

The Group's interests in leasehold lands represent prepaid operating lease payments and their net carrying amounts are analysed as follows:

	2018 **HK$'000**	2017 HK$'000
Opening net carrying amount at 1 January	**89,246**	85,767
Amortisation (note 9.3)	**(2,759)**	(2,430)
Exchange differences	**(3,994)**	5,909
Closing net carrying amount at 31 December	**82,493**	89,246

As at 31 December 2018, leasehold land with net carrying amounts of approximately HK$79,750,000 (2017: HK$86,307,000) and HK$2,743,000 (2017: HK$2,939,000) were pledged as collateral for the bank borrowings of the Group (note 26.1) and Xiamen Zhong Bao respectively.

15. INTANGIBLE ASSET

	Car dealership HK$'000
Year ended 31 December 2017	
Opening net carrying amount	22,360
Amortisation (note 9.3)	(2,313)
Exchange differences	1,481
Closing net carrying amount	21,528
At 31 December 2017	
Cost	23,920
Accumulated amortisation	(2,392)
Net carrying amount	21,528
Year ended 31 December 2018	
Opening net carrying amount	**21,528**
Amortisation (note 9.3)	**(2,367)**
Exchange differences	**(905)**
Closing net carrying amount	**18,256**
At 31 December 2018	
Cost	**22,820**
Accumulated amortisation	**(4,564)**
Net carrying amount	**18,256**

The Group's identifiable intangible asset represents car dealership in the PRC, arising from the relationship with the automobile manufacturer, with an estimated useful lives of 10 years.

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16. PREPAID RENTAL EXPENSES

	2018 HK$'000	2017 HK$'000
Opening net carrying amount at 1 January	16,030	15,428
Amortisation (note 9.3)	(471)	(467)
Exchange differences	(708)	1,069
Closing net carrying amount at 31 December	14,851	16,030
Less: Current portion included in prepayments, deposits and other receivables (note 21)	(470)	(480)
Non-current portion	14,381	15,550

The balance represents rental prepaid for using certain motor vehicle showroom, service centres and related facilities located at Beijing for a period of 50 years. Such prepaid rental is amortised over the lease term of 50 years.

17. GOODWILL

	2018 HK$'000	2017 HK$'000
Opening net carrying amount	6,750	6,310
Exchange adjustment	(310)	440
Closing net carrying amount	6,440	6,750

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the respective CGU to which goodwill has been allocated. The recoverable amount of the CGU is determined based on the value in use calculation which requires the directors to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value.

The recoverable amount of the CGU to which goodwill is allocated, being the car dealership business conducted by a subsidiary, Quanzhou Fubao Automobiles Sales and Service Co., Ltd. ("QZ Fubao"), which was acquired in 2016. The recoverable amount of the CGU to which the goodwill have been determined based on cash flow projections from formally approved budgets covering a three-year (2017: three-year) period. Cash flow beyond the three-year (2017: three-year) period are extrapolated using a growth rate of 2.0% (2017: 2.5%), which does not exceed the long-term growth rate for the automobile industry in the PRC. Discount rate is 11.90% (2017: 15.60%) which is pre-tax and reflect specific risks relating to the relevant CGU. Gross profit margin is 7.10% (2017: 9.30%) which has been determined with reference to actual performance during the period and the expected market development. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed the aggregate recoverable amount.

18. FINANCIAL ASSET AT FVOCI

	2018	2017
	HK$'000	HK$'000
Financial assets at FVOCI (non-recycling)		
Unlisted equity investment	**8,215**	–

The Group designated its investment in the unlisted equity investment as financial asset measured at FVOCI (non-recycling), as this investment is held for the strategic purpose.

The fair value of the Group's investment in unlisted equity security has been measured as described in note 37.

19. INVENTORIES

	2018	2017
	HK$'000	HK$'000
Motor vehicles	**170,269**	243,238
Auto parts and accessories	**25,619**	41,469
	195,888	284,707

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20. TRADE RECEIVABLES

At the end of the reporting period, the ageing analysis of trade receivables, based on invoice date, was as follows:

	2018 HK$'000	2017 HK$'000
0 – 90 days	**82,192**	70,658
91 – 180 days	**33,926**	9,109
181 – 365 days	**9,339**	5,798
Over 1 year	**3,509**	5,932
	128,966	91,497
Less: ECL allowance/Loss allowance	**(509)**	–
	128,457	91,497

In addition to the advances to Zhong Bao Group as disclosed in note 21, the Group's trade receivables included trade debts of HK$59,665,000 (2017: HK$35,618,000) due from Zhong Bao Group as at 31 December 2018.

The Group requires individual customers to pay cash for any service rendered and goods sold while it generally allows a credit period of 3 to 9 months to its major customers with long business relationship.

The movement in the ECL allowance (2017: loss allowance) of trade receivables is as follows:

	2018 HK$'000	2017 HK$'000
Balance at the beginning of the year	**–**	335
Adoption of HKFRS 9 (note 2.1)	**470**	–
Adjusted balance at the beginning of the year	**470**	335
ECL allowance/Loss allowance recognised during the year	**39**	–
Reversal of impairment loss during the year	**–**	(347)
Exchange differences	**–**	12
Balance at the end of the year	**509**	–

Details of the credit risk and provision of ECL allowance/loss allowance are set out in note 37.

Except for the collateral as stated in note 21, none of the Group's trade receivables are secured by collateral or other credit enhancements.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Advances to Zhong Bao Group (note)	**500,492**	354,909
Current portion of prepaid rental expenses (note 16)	**470**	480
Rebate receivables	**66,608**	60,316
Other receivables, prepayments and deposits paid		
– Prepayments for acquisition of motor vehicles	**33,139**	44,853
– Others	**20,917**	19,259
	621,626	479,817

No ECL allowance (2017: loss allowance) has been provided for deposit and other receivables during the year (2017: nil).

Note:

The Group has maintained long term business relationship with Xiamen Zhong Bao and its related companies (collectively, "Zhong Bao Group"). Pursuant to the technical and management service agreements entered into between the Group and Zhong Bao Group, the Group would provide technical expertise, management service and financial assistance to Zhong Bao Group including making advances for the operations of the distribution of locally manufactured BMW motor vehicles in the PRC by Zhong Bao Group. The technical fee charged by the Group is based on agreed terms with reference to the monthly actual sales quantity of specified car model of Zhong Bao Group.

Other than the above, the Group sells motor vehicles, auto parts and provides motor vehicles services to the customers of Zhong Bao Group. Total receivables arising from the above transactions including advances made to Zhong Bao Group and trade receivables from Zhong Bao Group outstanding as at 31 December 2018 amounted to HK$560,157,000 (2017: HK$390,527,000), which was reduced to HK$560,157,000 (2017: HK$383,950,000) after netting off the trade and other payables balances due by the Group to Zhong Bao Group. The amount is interest-free and repayable on demand.

On 19 March 2019, the Group entered into an agreement with Xiamen Zhong Bao, pursuant to which Xiamen Zhong Bao agreed to pledge their motor vehicles inventories to the Group until full settlement of all the outstanding amount due by Zhong Bao Group. As at 31 December 2018, the market value of the pledged assets amounted to approximately HK$596,435,000 (2017: HK$390,555,000) which provide safeguard for the balances due by Zhong Bao Group. The collateral remains effective as long as there are outstanding balances due by Zhong Bao Group.

In view of the satisfactory settlement record in the past and the collateral in place as mentioned above, the directors are of the opinion that the credit risk of advances and the trade receivables due from Zhong Bao Group are low and thus ECL allowance/loss allowance is considered immaterial.

22. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	2018 HK$'000	2017 HK$'000
Cash and bank balances	**77,555**	136,024
Pledged deposits:		
Guarantee money in respect of security of suppliers	**15,590**	16,439
For bills facilities granted to the Group	**63,564**	44,862
For borrowings facilities granted to the Group (note 26.1)	**56,059**	50,117
	135,213	111,418
	212,768	247,442

Cash at banks earns interest at floating rates based on daily bank deposit rates. Pledged deposits are made for various periods of one month to one year.

At the reporting date, the cash and bank balances and pledged deposits of the Group denominated in Renminbi ("RMB") amounted to approximately HK$201,228,000 (2017: HK$224,764,000). RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

23. TRADE AND BILLS PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables	**54,295**	46,779
Bills payable	**222,415**	157,355
	276,710	204,134

The credit period of the Group is usually from 3 to 6 months. The ageing analysis of trade and bills payables, based on invoice date, is as follows:

	2018 HK$'000	2017 HK$'000
0 – 30 days	**35,859**	82,971
31 – 180 days	**215,100**	109,195
181 – 365 days	**24,075**	7,816
1 – 2 years	**619**	2,788
Over 2 years	**1,057**	1,364
	276,710	204,134

The carrying amounts of trade and bills payables as at 31 December 2018 and 2017 were considered to be a reasonable approximation of their fair values.

24. CONTRACT LIABILITIES

	2018 HK$'000	2017 HK$'000
Contract liabilities arising from sales of motor vehicles	**54,165**	–
Contract liabilities arising from servicing of motor vehicles and sales of auto parts	**13,806**	–
	67,971	–

The Group has initially applied HKFRS 9 and HKFRS 15 using the cumulative effect transition method and adjusted the opening balances as at 1 January 2018.

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24. CONTRACT LIABILITIES *(Continued)*

Upon the adoption of HKFRS 15, amounts previously included as "deposits received" under "accruals and other payables" were reclassified to contract liabilities.

The contract liabilities represented part of the transaction price allocated to the performance obligations that are unsatisfied as of the end of the reporting period. The Group expects the transaction price allocated to the unsatisfied performance obligations will be recognised as revenue when the Group transfers good or service to the customers. For all contracts with an original expected duration of one year or less or are billed based on time incurred, as a practical expedient as permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Movement in contract liabilities is as follows:

	2018 HK$'000
Balance at 1 January	83,837
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(83,837)
Increase in contract liabilities as a result of receiving deposits of selling and servicing activities as at 31 December 2018	71,381
Exchange difference	(3,410)
Balance at 31 December	**67,971**

25. ACCRUALS AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Accruals	13,434	13,310
Deposit received	8,244	90,745
Other payables	15,197	15,267
Financial guarantee liabilities	1,139	1,650
Pension and other employee obligations	65	108
	38,079	121,080

26. BORROWINGS

	Secured HK$'000	Unsecured HK$'000	Total secured and unsecured HK$'000	Guaranteed HK$'000	Unguaranteed HK$'000	Total guaranteed and unguaranteed HK$'000
2018						
Non-current						
Finance lease liabilities	6,129	–	6,129	5,015	1,114	6,129
Current						
Bank borrowings	244,187	127,222	371,409	307,296	64,113	371,409
Other borrowings	127,133	–	127,133	127,133	–	127,133
Finance lease liabilities	18,147	–	18,147	13,123	5,024	18,147
	389,467	127,222	516,689	447,552	69,137	516,689
Total	395,596	127,222	522,818	452,567	70,251	522,818
2017						
Non-current						
Finance lease liabilities	4,150	–	4,150	2,675	1,475	4,150
Current						
Bank borrowings	255,370	132,696	388,066	327,470	60,596	388,066
Other borrowings	144,264	–	144,264	144,264	–	144,264
Finance lease liabilities	8,797	–	8,797	6,390	2,407	8,797
	408,431	132,696	541,127	478,124	63,003	541,127
Total	412,581	132,696	545,277	480,799	64,478	545,277

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26. BORROWINGS *(Continued)*

26.1 Bank and other borrowings

	2018 HK$'000	2017 HK$'000
Analysed into:		
Bank and other borrowings		
Within one year or on demand	**498,542**	532,330

Certain of the Group's bank and other borrowings are secured/guaranteed by:

(i) the Group's bank deposits amounting to HK$56,059,000 (2017: HK$50,117,000) (note 22);

(ii) certain of the Group's leasehold land with carrying value of approximately HK$79,750,000 (2017: HK$86,307,000) (note 14);

(iii) certain of the Group's buildings with carrying value of approximately HK$30,415,000 (2017: HK$34,447,000) (note 13);

(iv) certain assets of Zhong Bao Group (2017: nil);

(v) properties owned by a related company of a substantial shareholder of the Company;

(vi) guarantee provided by certain group companies of Zhong Bao Group; and

(vii) personal guarantee provided by Loh Nee Peng, a substantial shareholder of the Company (note 35(d)).

All the Group's bank borrowings as at 31 December 2018 and 2017 containing a repayment on demand clause have been classified as current liabilities and analysed into bank and other borrowings within one year or on demand.

The amounts payable based on the maturity terms of the bank and other borrowings are analysed as follows:

	2018 HK$'000	2017 HK$'000
Bank and other borrowings:		
Within one year	**490,709**	519,823
In the second year	**7,833**	4,690
In the third year	**–**	7,817
	498,542	532,330

26. BORROWINGS *(Continued)*

26.2 Finance lease liabilities

The analysis of the obligations under finance leases is as follows:

	2018 **HK$'000**	2017 HK$'000
Due within one year	**18,664**	9,022
Due over one year but less than two years	**5,413**	4,194
Due over two years but less than five years	**883**	–
	24,960	13,216
Future finance charges on finance leases	**(684)**	(270)
Exchange difference	**–**	1
Present value of finance lease liabilities	**24,276**	12,947

The present value of finance lease liabilities is as follows:

	2018 **HK$'000**	2017 HK$'000
Due within one year	**18,147**	8,797
Due over one year but less than two years	**5,300**	4,150
Due over two years but less than five years	**829**	–
	24,276	12,947
Less: Portion due within one year included under current liabilities	**(18,147)**	(8,797)
Non-current portion included under non-current liabilities	**6,129**	4,150

Certain motor vehicles of the Group in relation to the car rental business and own use are held under finance leases. Finance lease liabilities are effectively secured as the rights to the leased assets will revert to the lessor in the event of default.

As at 31 December 2018, the Group's finance lease liabilities of approximately HK$18,139,000 (2017: HK$9,065,000) were guaranteed by the Company.

26. BORROWINGS *(Continued)*

26.3 Other information about the borrowings

	Original currency	Effective interest rate (%) per annum 2018 Fixed	2018 Floating	2017 Fixed	2017 Floating
Bank borrowings	RMB	4.03%-7.20%	5.00%-6.20%	4.35%-7.20%	5.00%-6.70%
Bank borrowings	USD	–	4.28%-5.50%	–	3.75%-4.50%
Other borrowings	RMB	8.5%	–	3.99%-8.13%	–
Finance lease liabilities	HK$	2.90%-4.37%	–	2.90%-4.24%	–
Finance lease liabilities	RMB	2.61%-10.87%	–	10.87%	–
Finance lease liabilities	SGD	4.70%	–	3.72%	–

27. AMOUNTS DUE TO RELATED COMPANIES

Amounts due to related companies of which the Group's directors have equity interests are unsecured, interest-free and repayable on demand.

28. ADVANCE FROM A DIRECTOR

As at 31 December 2018 and 2017, the advance from a director is unsecured, interest-free and repayable on demand.

29. DEFERRED TAX

The following are the major deferred tax balances recognised and movements thereon during the current and prior years:

Deferred tax assets

The movement on the deferred tax assets is as follows:

	Tax losses HK$'000
At 1 January 2017	–
Credit to profit or loss	1,802
Exchange difference	62
At 31 December 2017 and 1 January 2018	1,864
Credit to profit or loss	–
Exchange difference	(52)
At 31 December 2018	**1,812**

29. DEFERRED TAX *(Continued)*

Deferred tax liabilities

The movement on the deferred tax liabilities is as follows:

	Fair value adjustments on business combination HK$'000	Accelerated tax depreciation HK$'000	Withholding tax on undistributed profits of PRC subsidiaries HK$'000	Total HK$'000
At 1 January 2017	11,811	4,083	1,260	17,154
(Credit)/Charge to profit or loss	(800)	638	(32)	(194)
Exchange difference	797	–	86	883
At 31 December 2017 and 1 January 2018	11,808	4,721	1,314	17,843
(Credit)/Charge to profit or loss	(819)	102	-	(717)
Exchange difference	(514)	-	(25)	(539)
At 31 December 2018	**10,475**	**4,823**	**1,289**	**16,587**

Deferred tax liabilities of HK$15,585,000 (2017: HK$14,430,000) have not been established for the withholding tax that would be payable on the certain of the unremitted earnings the Group's subsidiaries established in the PRC. In the opinion of the directors, the Company controls the dividend policy of these subsidiaries and it is not probable that the temporary difference will be reversed in the foreseeable future. Such unremitted earnings for interests in subsidiaries totalled HK$311,695,000 (2017: HK$288,599,000).

At 31 December 2018, the Group had unused tax losses of approximately HK$101,389,000 (2017: HK$71,356,000) available to offset against future profits of which approximately HK$59,383,000 (2017: HK$20,204,000) will expire at various dates up to 2023 (2017: 2022). No deferred tax assets had been recognised in respect of such tax losses due to unpredictability of future profit streams.

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30. SHARE CAPITAL

	2018 Number of shares '000	2018 HK$'000	2017 Number of shares '000	2017 HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	**2,000,000**	**200,000**	2,000,000	200,000
Issued and fully paid:				
Ordinary shares of HK$0.1 each at beginning and end of year	**476,300**	**47,630**	476,300	47,630

31. RESERVES

(a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(b) The amounts of the Company's reserves and the movements therein for the current and prior years are presented as follows:

	Company			
	Share premium HK$'000	**Capital reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2017	29,522	2,854	(19,241)	13,135
Loss for the year	–	–	(9,584)	(9,584)
At 31 December 2017 and 1 January 2018	29,522	2,854	(28,825)	3,551
Loss for the year	–	–	(14,326)	(14,326)
At 31 December 2018	**29,522**	**2,854**	**(43,151)**	**(10,775)**

Share premium

The share premium account of the Group and the Company represents the premium arising from the issue of shares, net of placing expenses.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

31. RESERVES *(Continued)*

Capital reserve

The capital reserve of the Company represents the difference between the then combined net asset value of the subsidiaries acquired pursuant to the group reorganisation over the nominal value of the shares of the Company issued in exchange therefore.

The capital reserve of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation over the nominal value of the shares of the Company issued in exchange therefore.

Translation reserve

The translation reserve has been set up and is dealt with in accordance with the accounting policy for foreign currencies as stated in note 4.3.

Statutory reserve

According to the relevant PRC laws, the subsidiaries are required to transfer at least 10% of its net profit after tax, as determined under the PRC accounting regulation, to a statutory reserve until the reserve balance reaches 50% of the subsidiaries' registered capital. The transfer of this reserve must be made before the distribution of dividend to the subsidiaries' equity owners. The statutory reserve is non-distributable other than upon the liquidation of the subsidiaries.

Other reserve

The other reserve represents the difference between the consideration paid for the acquisition of the additional interests from non-controlling interests of a subsidiary of the Group and the amount of non-controlling interests acquired.

32. ACQUISITION OF NON-CONTROLLING INTERESTS

During the year ended 31 December 2017, the Group acquired additional equity interests of 49% in a non-wholly owned subsidiary, Fuzhou Euro Motors Sales & Services Co., Ltd. ("Fuzhou Euro") for a consideration of RMB20,000,000 (equivalent to approximately HK$23,040,000) (the "Consideration"). As a result of the acquisition, the difference of HK$10,735,000 between the Consideration and the amount of non-controlling interests acquired of HK$12,305,000 was directly recognised in the other reserve.

33. TRANSACTIONS WITH ZHONG BAO GROUP

Save for those disclosed as set out in notes 14, 20, 21, 26, 32 and 36, the Group generated income from sales of motor vehicles, car servicing and sale of auto parts of HK$179,505,000 (2017: HK$71,562,000) and earned technical fee income of HK$8,929,000 (2017: HK$7,577,000) from Zhong Bao Group during the year ended 31 December 2018.

The Group purchased motor vehicles and auto parts and car servicing of HK$137,548,000 (2017: HK$85,057,000) from Zhong Bao Group and was charged rental of HK$6,390,000 (2017: HK$6,245,000) by Zhong Bao Group during the year ended 31 December 2018.

In the opinion of the directors of the Company, all of the above transactions were entered into in the ordinary course of the Group's business.

34. COMMITMENTS

34.1 Operating lease commitments

As lessor

The Group leases its motor vehicles under operating leases arrangements. The terms of the leases are mutually agreed between the Group and the respective tenants.

At the reporting date, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**17,339**	14,436
After one year but within five years	**20,333**	14,834
	37,672	29,270

As lessee

The Group leases certain of its office premises, car parks, furniture and equipment and motor vehicles under operating leases. The leases run for an initial period of 1 to 15 years (2017: 1 to 10 years). None of the leases include contingent rentals.

At the reporting date, the total future minimum lease payments payable by the Group under non-cancellable operating leases are as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**19,760**	8,845
After one year but within five years	**44,606**	17,902
After five years	**94,721**	7,306
	159,087	34,053

34.2 Capital commitments

As at 31 December 2018, there is no commitment contracted but not provided for purchase of property, plant and equipment (2017: HK$4,196,000).

35. RELATED PARTY TRANSACTIONS

(a) The terms and conditions of advance from a director are disclosed in note 28.

(b) The terms and conditions of amounts due to related companies are disclosed in note 27.

(c) The compensations of key management personnel for the year are set out in note 12.3.

(d) As stated in note 26.1, as at 31 December 2018, certain borrowings of approximately HK$350,496,000 (2017: HK$302,329,000) were guaranteed by Loh Nee Peng, a substantial shareholder of the Company.

36. CONTINGENT LIABILITIES

At the end of the reporting period, the Group has given guarantees as follows:

	2018 **HK$'000**	2017 HK$'000
Guarantees for banking facilities provided to Zhong Bao Group	**158,599**	166,244

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks through its use of financial instruments and specifically to credit risk, liquidity risk, foreign exchange risk and interest rate risk, which result from both its operating and investing activities. The Group's risk management is coordinated at its headquarters, in close co-operation with the board of directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets.

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at 31 December 2018 and 2017 may be categorised as follows. See note 4.8 for explanations about how the category of financial instruments affects their subsequent measurement.

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets at amortised cost:		
Trade receivables	**128,457**	–
Other current assets	**589,261**	–
Pledged deposits	**135,213**	–
Cash and bank balances	**77,555**	–
Financial asset at FVOCI (non-recycling):		
Unlisted equity investment	**8,215**	–
Loans and receivables:		
Trade receivables	–	91,497
Other current assets	–	439,999
Pledged deposits	–	111,418
Cash and bank balances	–	136,024
	938,701	778,938

	2018 HK$'000	2017 HK$'000
Financial liabilities		
Financial liabilities at amortised cost:		
Current liabilities		
Trade payables	**54,295**	46,779
Accruals and other payables	**28,696**	28,685
Bills payable	**222,415**	157,355
Short-term borrowings	**516,689**	541,127
Amounts due to related companies	**280**	294
Advance from a director	**1,007**	531
	823,382	774,771
Non-current liabilities		
Long-term borrowings	**6,129**	4,150
	829,511	778,921

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

Credit risk refers to the risk the debtors will default on their obligations to repay the amounts due to the Group, resulting in a loss to the Group. The Group has adopted procedures in granting credit terms to customers and in monitoring its credit risk. The Group's credit risk exposures also extend to financial guarantees provided to Zhong Bao Group as disclosed in note 36.

As disclosed in note 21, the Group made advances to a key business partner, Zhong Bao Group. To reduce credit risk exposure arising from Zhong Bao Group, the Group has been actively monitoring the financial position of Zhong Bao Group and the status of its repayments. In addition, collaterals have been requested from Zhong Bao Group.

The Group has adopted a no-business policy with customers lacking an appropriate credit history where credit records are unavailable.

Effective on 1 January 2018

(i) *Trade receivables*

As set out in note 4.9, the Group assesses ECL under HKFRS 9 on trade receivables based on provision matrix, the expected loss rates are based on the payment profile for sales in the past 5 years as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

Trade receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery. Failure to make payments within credit terms and failure to engage with the Group on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 97% (2017: 96%) of the total receivables as at 31 December 2018.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

Effective on 1 January 2018 *(Continued)*

(i) Trade receivables (Continued)

On the above basis, the ECL for trade receivables as at 31 December 2018 and 1 January 2018 was determined as follows:

	Current HK'000	1-90 days past due HK'000	91-180 days past due HK'000	Over 180 days past due HK'000	Total HK'000
31 December 2018					
ECL rate	0.1%	1.0%	2.0%	4.0%	
Gross carrying amount – trade receivables	100,725	22,654	2,078	3,509	128,966
Lifetime ECL	101	226	42	140	509
1 January 2018					
ECL rate	0.1%	1.0%	2.0%	4.0%	
Gross carrying amount – trade receivables	72,339	10,340	2,907	5,911	91,497
Lifetime ECL	72	103	58	237	470

(ii) Other financial assets at amortised cost

Other financial assets at amortised cost include deposits and other receivables, pledged deposits and cash and bank balances. In order to minimise the credit risk of deposits and other receivables, the management would make periodic collective and individual assessment on the recoverability of deposits and other receivables based on historical settlement records and past experience as well as collateral and current external information. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In these regards, the credit risk of deposits and other receivables are considered to be low and thus ECL allowance is considered immaterial.

Besides, the management is of opinion that there is no significant increase in credit risk on these deposits and other receivables since initial recognition as the risk of default is low after considering the factors as set out in note 4.9 and, thus, ECL recognised is based on 12-month ECL and the impact of ECL is insignificant.

The credit risks on pledged deposits and cash and bank balances are considered to be insignificant because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

Liquidity risk refers to the risk in which the Group is unable to meet its short-term obligations. The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for short-term and long-term financial liabilities as well as cash-outflows due in day-to-day operation, and maintaining adequate reserves and banking facilities.

Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs are monitored by forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group's operations are financed mainly through internal resources, bank and other borrowings and finance leases.

	Carrying amount HK$'000	Total contractual undiscounted cash flows HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000
At 31 December 2018					
Trade payables	54,295	54,295	54,295	–	–
Accruals and other payables	28,696	28,696	28,696	–	–
Bills payable	222,415	222,415	222,415	–	–
Short-term borrowings (note)	516,689	520,985	520,985	–	–
Amounts due to related companies	280	280	280	–	–
Advance from a director	1,007	1,007	1,007	–	–
Long-term borrowings	6,129	6,296	–	5,413	883
Total	829,511	833,974	827,678	5,413	883
Financial guaranteed issued:					
Maximum amount guaranteed	1,139	158,599	158,599	–	–
At 31 December 2017					
Trade payables	46,779	46,779	46,779	–	–
Accruals and other payables	28,685	28,685	28,685	–	–
Bills payable	157,355	157,355	157,355	–	–
Short-term borrowings (note)	541,127	557,217	557,217	–	–
Amounts due to related companies	294	294	294	–	–
Advance from a director	531	531	531	–	–
Long-term borrowings	4,150	4,194	–	4,194	–
Total	778,921	795,055	790,861	4,194	–
Financial guaranteed issued:					
Maximum amount guaranteed	1,650	166,244	166,244	–	–

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

Note:

Bank loans with a repayment on demand clause are included in the "Within 1 year or on demand" time band in the above maturity analysis. As at 31 December 2018, the aggregate undiscounted principal amounts of these bank loans amounted to HK$7,833,000 (2017: HK$12,507,000). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid two years (2017: three years) after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$8,264,000 (2017: HK$13,070,000).

Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars ("US$"), Euro ("EUR") and RMB. Foreign exchange risk arises from commercial transactions and recognised assets and liabilities. As HK$ is pegged to US$, the foreign exchange exposure of US$ is considered minimal. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. This currency exposure is managed primarily through sourcing raw materials denominated in the same currency.

The sales transactions of the Group are mainly denominated in RMB and HK$ and there are expenses and acquisition of plant and machinery that are required to be settled in US$, RMB and HK$. Certain trade receivables and trade payables of the Group are denominated in foreign currencies, mainly US$, RMB and HK$. Thus, when RMB strengthens in value against HK$, the Group's operating margins are impacted unless recovered from our customers in the form of price increases. The Group currently does not have a foreign currency hedging policy.

The following table illustrates the sensitivity of the net results for the year in regards to the Group's financial assets and financial liabilities at the reporting date and the reasonable possible changes in the foreign exchange rates in the next 12 months to which the Group has significant exposure at the reporting date, based on the assumption that other variables are held constant.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign exchange risk *(Continued)*

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities as at 31 December 2018 and 2017 are as follows:

	Denominated in USD HK$'000	Denominated in EUR HK$'000
2018		
Monetary assets		
Deposits and other receivables	11,192	6,102
Cash and bank balances	5,890	116
Total monetary assets	17,082	6,218
Monetary liabilities		
Accruals and other payables	(686)	–
Borrowings	(23,760)	–
Total monetary liabilities	(24,446)	–
Net monetary (liabilities)/assets	(7,364)	6,218
Foreign currency strengthen/(weaken) by:	10%/(10%)	10%/(10%)
Increase/(Decrease) in profit after tax and retained profits	(736)/736	622/(622)

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign exchange risk *(Continued)*

	Denominated in USD HK$'000	Denominated in EUR HK$'000
2017		
Monetary assets		
Deposits and other receivables	11,169	6,622
Cash and bank balances	18,171	141
Total monetary assets	29,340	6,763
Monetary liabilities		
Accruals and other payables	(978)	–
Total monetary liabilities	(978)	–
Net monetary assets	28,362	6,763
Foreign currency strengthen/(weaken) by:	10%/(10%)	10%/(10%)
Increase/(Decrease) in profit after tax and retained profits	2,836/(2,836)	676/(676)

Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's certain bank borrowings. The interest rates and terms of repayment of the Group's borrowings are disclosed in note 26 to the consolidated financial statements. The Group's policy is to obtain the most favourable interest rates available for its borrowings. Management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The exposure to interest rate risk for the Group's short term bank deposits is considered immaterial.

As at 31 December 2018, if interest rates had been 100 basis point higher/lower and all other variables were held constant, the Group's profit after tax and retained profits for the year would decrease/increase by HK$1,701,000 (2017: HK$1,566,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Fair values measurement

The directors consider that the carrying amount of each class of the financial assets and financial liabilities approximate to their fair values.

Financial assets and liabilities measured at fair value in the consolidated statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurements, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at 31 December 2018				
Assets				
Financial asset at FVOCI	–	–	8,215	8,215
As at 31 December 2017				
Assets				
Financial asset at FVOCI	–	–	–	–

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for Group's unlisted equity investment.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Fair values measurement *(Continued)*

Details of the particulars of the financial asset at FVOCI are as follows:

Name of financial asset	Place of establishment and operation	Particulars of registered capital	Percentage of equity interest directly held by the Group	Principal activities
廈門歐利行汽車銷售服務有限公司 (Xiamen EURO Automobiles Sales and Service Co., Ltd.)	PRC	RMB80,000,000	9%	Sales of high-end motor vehicles and provision of repair and maintenance services of high-end automobiles

The fair value of financial asset at FVOCI is determined using adjusted net assets method.

Fair value measurement using significant unobservable inputs (Level 3)

The reconciliation of the carrying amount of the Group's financial instrument classified within Level 3 of the fair value hierarchy is as follows:

	Unlisted equity security (Level 3) HK$'000
At 1 January 2017 and 31 December 2017	–
Acquisition	8,912
Translation adjustment	(697)
At 31 December 2018	**8,215**

Valuation processes

In determining the fair value, specific valuation techniques are used with reference to inputs such as leasehold land's market value and expected cash inflows from receivables and other specific input relevant to the particular financial asset included in the unlisted equity investment. The main input used by the Group in measuring the fair value of the unlisted equity investment is derived and evaluated as follows:

– Market value of leasehold land: this is valued at 31 December 2018 by independent and professional qualified valuer based on direct comparison approach.

There have been no transfers into or out of Level 3 during the year ended 31 December 2018 (2017: nil).

38. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide an adequate return to shareholders.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the current and previous years.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including bills payable, short-term borrowings and long-term borrowings, as shown in the consolidated statement of financial position) less cash and bank balances. Total capital is calculated as equity as shown in the consolidated statement of financial position, plus net debt.

The gearing ratios at 31 December 2018 and 2017 were as follows:

	2018 HK$'000	2017 HK$'000
Total borrowings	**745,233**	702,632
Less: Cash and bank balances	**(77,555)**	(136,024)
Net debt	**667,678**	566,608
Total equity	**602,212**	611,019
Total capital	**1,269,890**	1,177,627
Gearing ratio	**53%**	48%

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39. SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 10 October 2014, the Company adopted a share option scheme (the "Share Option Scheme") to provide incentives to participants for their contribution to the Group and to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group.

The Share Option Scheme shall be valid and effective for a period of 10 years commencing from the adoption date, after which period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects.

Subject to the terms of the Share Option Scheme and the GEM Listing Rules, the board shall be entitled at any time and from time to time within the period of 10 years after the adoption date to offer to grant to any participant as the board may in its absolute discretion select, and subject to such conditions as the board may think fit, an option to subscribe for such number of shares as the board may determine at the subscription price.

An offer shall be made to a participant by letter in such form as the board may from time to time determine requiring the participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme and shall remain open for acceptance by the participant concerned for a period of 28 days from the date on which the option was offered, provided that no such offer shall be open for acceptance after the expiry of the option period or termination of the Share Option Scheme or after the participant for whom the offer is made has ceased to be a participant.

An option shall be deemed to have been granted and accepted when the duplicate letter comprising acceptance of the option duly signed by the grantee with the number of shares in respect of which the offer is accepted clearly stated therein, together with a remittance in favour of the Company of HK$1 by way of consideration for the grant thereof is received by the Company.

The subscription price in respect of any particular option shall be such price as determined by the board in its absolute discretion at the time of the grant of the relevant option but in any case the subscription price shall not be less than the higher of (i) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant which must be a business day; (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; or (iii) the nominal value of a share.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme where applicable and any other share option scheme of the Company may not exceed 10% of issued share capital of the Company, or may not exceed a maximum of 30%, should the shareholders renew the 10% limit, from time to time which have been duly allotted and issued. The maximum number of shares issuable under share options to each eligible participant in the Share Option Scheme and where applicable within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

No option has been granted, exercised, lapsed or cancelled under the Share Option Scheme during the current year or in prior year.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 HK$'000	2017 HK$'000
ASSETS AND LIABILITIES		
Non-current asset		
Interests in subsidiaries	**80,978**	80,878
Current assets		
Other receivables	**505**	883
Amounts due from subsidiaries	**28,471**	21,850
Cash and bank balances	**5,801**	18,271
	34,777	41,004
Current liabilities		
Accruals and other payables	**916**	476
Amount due to subsidiaries	**18,453**	7,689
Bank borrowings	**59,531**	62,536
	78,900	70,701
Net current liabilities	**(44,123)**	(29,697)
Net assets	**36,855**	51,181
EQUITY		
Share capital	**47,630**	47,630
Reserves (note 31(b))	**(10,775)**	3,551
Total equity	**36,855**	51,181

Luo Wan Ju
Director

Choy Choong Yew
Director

41. PARTICULARS OF SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Particulars of registered/issued and paid-in capital	Percentage of issued capital held by the Company		Principal activities
			Directly	Indirectly	
German Automobiles Pte Ltd.[3]	Singapore	7,876,996 shares of Singapore dollars 8,921,601	100%	–	Investment holding (2017: Trading of motor vehicles and investment holding)
German Automobiles Limited ("GAL")[3]	Hong Kong	20,000 ordinary shares of HK$20,000	100%	–	Trading of motor vehicles, provision of car rental services and investment holding
Xiamen BMW Automobiles Service Co., Ltd.[1]	PRC	Registered capital of US$11,200,000	–	100%	Provision of repair and maintenance services of high-end automobiles
Fujian Xingbao Automobiles Sales and Service Co., Ltd.[1]	PRC	Registered capital of US$5,100,000	–	100%	Provision of repair and maintenance services of high-end automobiles
RUF Automobiles Ltd.[3]	Hong Kong	20,000 ordinary shares of HK$20,000	–	100%	Investment holding
RUF China Automobiles Trading Ltd.[1]	PRC	Registered capital of US$7,600,000	–	100%	Inactive
Fuzhou Euro[2] (note 32)	PRC	Registered capital of RMB70,000,000 (2017: RMB50,000,000)	–	100%	Automobile dealership, exhibitions of high-end motor vehicles, provision of auto parts and after-sales services
QZ Fubao[2]	PRC	Registered capital of RMB50,000,000	–	100%	Automobile dealership, exhibitions of high-end motor vehicles, provision of auto parts and after-sales services
Longyan Zhongbao Automobiles Co., Ltd.[2]	PRC	Registered capital of RMB30,000,000	–	100%	Automobile dealership, exhibitions of high-end motor vehicles, provision of auto parts and after-sales services
Fujian Xingdebao Automobiles Sales and Service Co., Ltd.[2]	PRC	Registered capital of RMB40,000,000	–	100%	Automobile dealership, exhibitions of high-end motor vehicles, provision of auto parts and after-sales services
Shanghai Qianyou Trading Co., Ltd. ("Qianyou")[2 & 4]	PRC	Registered capital of US$1,000,000	–	100%	Trading of auto parts

41. PARTICULARS OF SUBSIDIARIES *(Continued)*

[1] registered as a wholly foreign-owned enterprise under the PRC law

[2] registered as a limited liability company under the PRC law

[3] incorporated as a limited liability company under local jurisdiction

[4] As at 31 December 2018 and 2017, GAL subscribed for US$1,000,000 registered capital of Qianyou, representing 100% of its total registered capital.

In accordance with PRC corporation laws, the subscriber has to pay in respective amounts of subscribed capital in prescribed schedule or when those amounts fall due. The subscriber is liable to any liabilities of the underlying entity up to the respective amounts subscribed. As at 31 December 2018 and 2017, the registered capital of Qianyou has not been paid up in full.

The English name of certain companies referred herein represent management's best effort at translating the Chinese names of these companies as no English name has been registered.

The above table lists the subsidiaries of the Company which in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the above subsidiaries had any debt securities in issue at the end of the reporting period.

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42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

42.1 Major non-cash transactions

In addition to the transactions/information disclosed elsewhere in these consolidated financial statements, during the year ended 31 December 2018, the Group entered into finance lease arrangements in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the leases of HK$23,148,000 (2017: HK$11,291,000).

42.2 Reconciliation of liabilities arising from financing activities

The table below set out the reconciliation of liabilities arising from financing activities for the year ended 31 December 2018.

	Amounts due to related companies HK$'000	Advance from a director HK$'000	Bank and other borrowings HK$'000	Finance lease liabilities HK$'000	Total HK$'000
At 1 January 2017	274	–	324,696	13,827	338,797
Cash flows					
– Inflow from financing activities	–	513	1,267,274	–	1,267,787
– Outflow from financing activities	–	–	(1,086,061)	(12,398)	(1,098,459)
Non-cash transactions					
– Acquisition of property, plant and equipment	–	–	–	11,291	11,291
Exchange differences	20	18	26,421	227	26,686
At 31 December 2017 and 1 January 2018	294	531	532,330	12,947	546,102
Cash flows					
– Inflow from financing activities	–	519	1,469,068	–	1,469,587
– Outflow from financing activities	–	–	(1,482,582)	(11,550)	(1,494,132)
Non-cash transactions					
– Acquisition of property, plant and equipment	–	–	–	23,148	23,148
Exchange differences	(14)	(43)	(20,274)	(269)	(20,600)
At 31 December 2018	280	1,007	498,542	24,276	524,105

Financial Summary

RESULTS

	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Revenue	2,225,095	2,027,453	563,086	522,601	447,653
Other income	42,399	43,824	28,527	76,286	29,147
Cost of inventories	(1,900,968)	(1,702,749)	(328,922)	(289,220)	(232,315)
Employee benefits expenses	(143,300)	(130,450)	(64,307)	(59,306)	(59,716)
Depreciation and amortisation	(50,838)	(43,913)	(23,651)	(25,040)	(20,301)
Operating lease charges	(16,682)	(17,186)	(15,921)	(19,710)	(19,745)
Exchange differences, net	(309)	3,910	(5,085)	(7,913)	(3,489)
Impairment loss on goodwill	–	–	–	(3,750)	–
Other expenses	(78,009)	(82,703)	(78,282)	(74,821)	(65,371)
Profit from operations	77,388	98,186	75,445	119,127	75,863
Finance costs	(39,492)	(28,213)	(5,593)	(8,162)	(9,266)
Profit before income tax	37,896	69,973	69,852	110,965	66,597
Income tax expense	(15,909)	(22,444)	(22,990)	(25,953)	(16,160)
Profit for the year	21,987	47,529	46,862	85,012	50,437
	HK cents	HK cents	HK cents	HK cents	HK cents
Earnings per share					
Basic and diluted	4.62	9.69	10.06	20.16	11.80

ASSETS AND LIABILITIES

	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Total assets	1,558,317	1,537,672	1,420,897	775,466	760,562
Total liabilities	(956,105)	(926,653)	(869,259)	(239,841)	(267,972)
	602,212	611,019	551,638	535,625	492,590
Non-controlling interests	–	–	(10,582)	(12,362)	(26,362)
Equity attributable to owners of the Company	602,212	611,019	541,056	523,263	466,228