MEIDONG AUTO

China MeiDong Auto Holdings Limited
中國美東汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1268

ANNUAL REPORT

2018

CONTENTS

GEOGRAPHICAL COVERAGE

Guangdong

Porsche

(1) Shunde Dongbao*
(2) Shantou Dongbao*

BMW

(3) Yangjiang Meibaohang*
(4) Guangzhou Meibaohang
(5) Xintang Meibaohang
(6) Dongguan Meibaohang

Lexus

(7) Dongguan Meidong (49%)
(8) Foshan Meixing (60%)
(9) Zhuhai Meidong*
(10) Qingyuan Meidong*
(11) Yangjiang Meidong*

Toyota

(12) Dongguan Dongbu
(13) Dongguan Dongmei
(14) Dongguan Dongxin
(15) Dongguan Fenggang
(16) Dongguan Wangniudun
(17) Dongguan Meiyue

Hyundai

(18) Dongguan Guanfeng

Beijing & Hebei

BMW

(19) Chengde Meibaohang*
(20) Beijing Huibaohang
(21) Beijing Meibaohang (82%)
(22) Langfang Guanbaohang

Toyota

(23) Beijing Zhongye

Hubei

Porsche

(24) Wuhan Xinbao

BMW

(25) Huanggang Baoxinhang*

Hunan

BMW

(26) Zhuzhou Meibaohang*
(27) Hengyang Meibaohang*
(28) Changde Meibaohang*
(29) Yueyang Meibaohang*
(30) Liuyang Meibaohang*
(31) Yongzhou Meibaohang*

Lexus

(32) Changsha Meidong
(33) Zhuzhou Meidong*

Toyota

(34) Yiyang Dongxin*

Gansu

Lexus

(35) Lanzhou Meidong*

Jiangxi

Porsche

(36) Ganzhou Xinbao*

BMW

(37) Jingdezhen Meibaohang*
(38) Shangrao Meibaohang

Toyota

(39) Xinyu Dongbu*
(40) Jiujiang Dongbu*

Fujian

Lexus

(41) Xiamen Meidong
(42) Longyan Meidong*

Toyota

(43) Quanzhou Meidong

Anhui

BMW

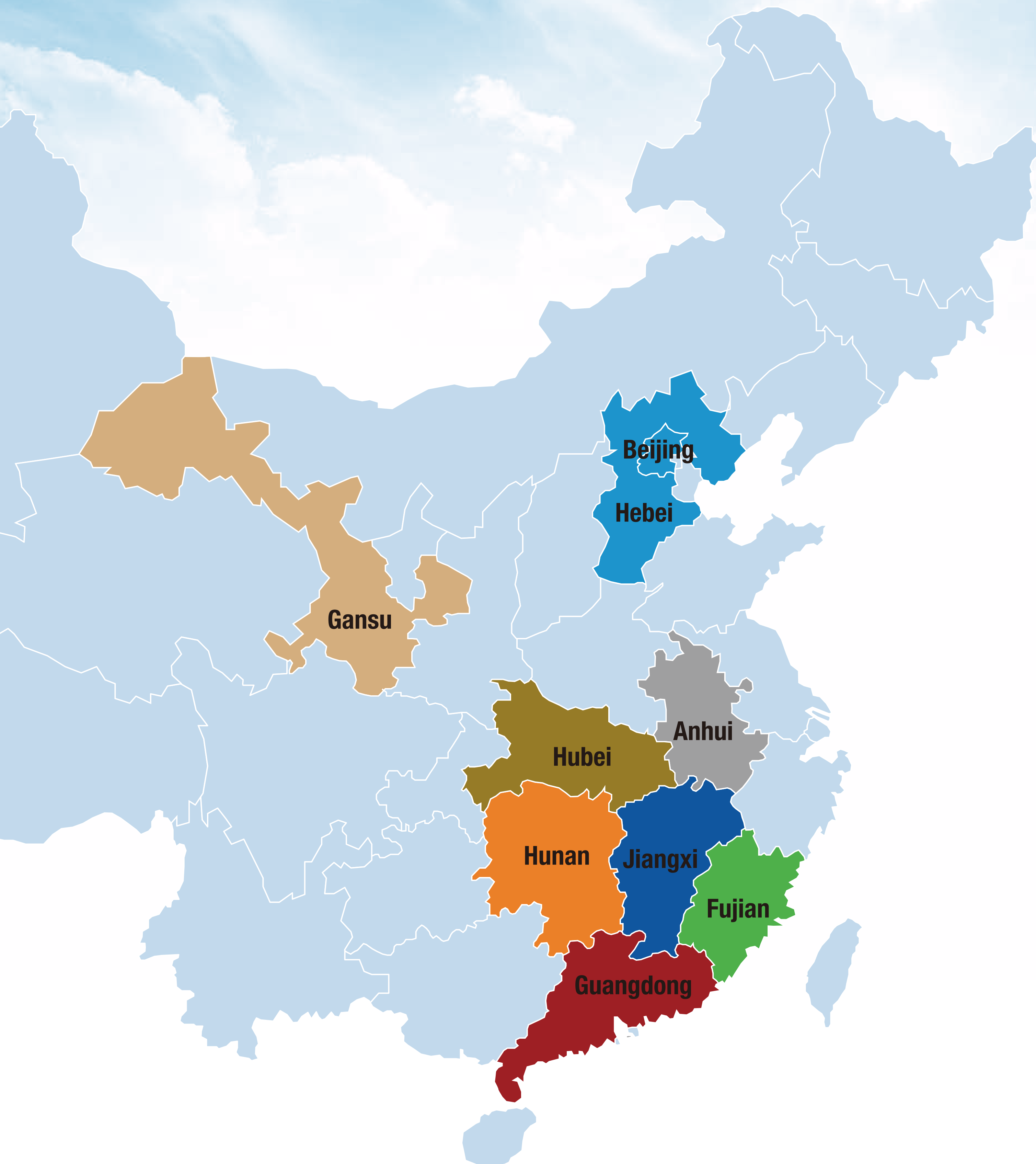
(44) Huaibei Meibaohang*
(45) Suzhou Meibaohang*
(46) Chizhou Meibaohang*
(47) Chuzhou Meibaohang*
(48) Tongling Meibaohang*
(49) Huangshan Meibaohang*

Notes:

(1) Apart from the stores marked by brackets, the others are 100% owned by the Group.

(2) Including a joint venture in which the Group owns 49% equity interest (Dongguan Meidong).

* Single City Single Store


Beijing
Hebei
Gansu
Anhui
Hubei
Hunan
Jiangxi
Fujian
Guangdong

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

YE Fan *(Chairman)*
YE Tao *(Chief Executive Officer)*
LIU Xuehua

Independent Non-Executive Directors

CHEN Guiyi
WANG, Michael Chou
JIP Ki Chi

AUTHORISED REPRESENTATIVES

YE Tao

COMPANY SECRETARY

WONG Cheung Ki Johnny, FCPA, ACIS, ACS

AUDIT COMMITTEE

JIP Ki Chi *(Chairman)*
WANG, Michael Chou
CHEN Guiyi

REMUNERATION COMMITTEE

WANG, Michael Chou *(Chairman)*
JIP Ki Chi
CHEN Guiyi

NOMINATION COMMITTEE

YE Fan *(Chairman)*
WANG, Michael Chou
JIP Ki Chi

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

13th Floor, Unit A1
Tian An Tech Industry Building
Huangjin Road
Nancheng District, Dongguan
Guangdong, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2404
24th Floor, World-Wide House
19 Des Voeux Road Central
Hong Kong

AUDITOR

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

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

China Construction Bank (Asia) Corporation Limited
Bank of China (Hong Kong) Limited

STOCK CODE

1268

COMPANY'S WEBSITE

www.meidongauto.com

LETTER TO SHAREHOLDERS

Dear shareholders,

We delivered good results in 2018. We grew revenue by 44.1% to RMB11.07 billion and profit by 31.6% to RMB363 million. We generated an operating cash flow of RMB419 million. Our operational efficiency is high with ROE and ROA at 26.0% and 8.7% respectively. We grew store counts 25.6% to 49 stores, adding 6 new stores (2 Porsche, 3 BMW and 1 Toyota) and acquiring 6 BMW stores in 4th and 5th tier cities in Anhui all with internally generated cash.

We achieved all these in possibly the worst and certainly the most confusing economic year in a decade. 2018 started with economic policies geared towards cooling a hot economy. Then a trade war came and policies swung to stimulus. While policies gyrated and the trade war lingered, consumers lost confidence and delayed buying. The auto market dove into negative growth and, while the luxury sector still recorded a respectable growth, those of us operating on the ground felt the headwind in ways we had not for many years.

We won't, however, dwell on the macroeconomics or predict policies in this letter. What we have learned over the years is that our predictions are more or less like trying to read into crystal balls. The inherent randomness in economic events makes predicting economical or policy trends a difficult exercise: akin to reading into crystal balls or anticipating the next move of a drunken man. You as shareholders already have access to thousands of crystal ball readers on Internet and TV, as well as in business journals and conferences. You certainly don't need another one.

What we can do instead as managers is build a company that is more robust and agile than its peers in all potential economic uncertainties. In other words, though we may not be able to outrun the tiger, we may and should outrun others. Over the years we have developed a strategy and a set of operating principles to do just that. And we plan to devote much of this letter to, besides the typical 2018 operational summary, a detailed discussion of strategy and operating principles.

Let us start with our 2018 operational summary.

OPERATIONS IN 2018

We explained in the 2017 letter that we planned to pay close attention to M&A. We turned the attention into action in Q3 of 2018 by acquiring six BMW stores in Anhui province. All six are small sales/services outlets in 4th/5th tier cities and all are single city/single stores. All were originally losing money, which enabled us to acquire them at a reasonable price. All are in promising markets. This acquisition fits well with our M&A strategy — familiar locations, familiar brands, and fast returns enabled by reasonable acquisition prices. We will continue to pay close attention to M&A in 2019 though there will be no deadline by which we will pull the trigger next time. Like almost everything else in business, good targets at reasonable prices are few and far in between.

Our rate of store openings kept up its pace in 2018. We opened 6 stores (2 Porsche, 3 BMW and 1 Toyota) in 2018, which, combined with the acquisition, gave us a store count growth of 25.6%. Given new store openings and the maturation of existing stores, our growth will not subside in the foreseeable future. Furthermore, this past year, our revenue mix continued to get better: luxury brands, single city single stores, and services constituted increasingly high percentages of revenue.

Our revenue grew 44.1% to RMB11.07 billion with passenger vehicles sales revenue and after-sales revenue increasing by 44.2% to RMB9.78 billion and 42.9% to RMB1.3 billion respectively. The net profit attributable to shareholders amounted to RMB363 million, a year-on-year growth of 31.6%. The margin pressure of new BMW car sales did exert pressure on our net margin in 2018, resulting in a decline to 3.3%. We won't predict the new car margin for BMW in 2019 (or any other brands for that matter), but we do consider a net margin of 3.3% to be within a safe and healthy range. (We will discuss more on how to improve our net margins in the next section).

Cash from operating activities increased to RMB419 million. At the end of 2018, our net gearing ratio stayed low at 21.8%. Our inventory level also hit a historic low of 28 days. Both the reasonable gearing ratio and strong cash flow enabled us to declare dividends at 40% of 2018 profit (RMB145.2 million), another year of high dividend payout.

2018 has been a challenging year for us — probably the most challenging ever. We survived the year relatively well because we stayed on course with our strategy and operating principles. As long as we can execute our strategy and principles, we remain confident about our company's future in 2019 and beyond.

OPERATING PRINCIPLES

We went public in December of 2013. In the 5 years since, we grew revenue from RMB3.48 billion to RMB11.07 billion, an almost 3-fold increase at a 26% annual compounding rate. Profit increased from RMB106 million to RMB363 million, a 27.9% compounding annual growth. We paid out 41.9% of all profit, lowered net gearing ratio to 21.8% and grew ROE to 26.0%. And we did all the above with mostly internal cash flow. We attribute this success mostly to our culture, strategy, and operating principles.

Let us dissect the principles in details. And when applicable, we will discuss how these principles will be applied in 2019 operations.

We live or die by inventory turns. Fast-turns make us a cash-printing machine; slow-turns turn us into a cash-sucking black hole. 10% of the cost of buying new cars is covered by our capital, 90% by 30-to-90-day bank notes from banks or manufacturers' captive finance arms. Assuming that, in the worst margin case, we sell cars at 1% gross margin and turn the inventory 12 times a year, we make 10% on our capital each turn and 120% every year. Not a bad return on capital even at a low sales margin. On the other hand, if we don't sell cars quickly and they become aged inventory, we would have to redeem banknotes constantly. 90% of the cost of cars is not a small chunk of change and will turn our parking lot into a cash sucking black hole (do you hear the huge sucking sound?). Hence the dichotomy of auto dealership business: a few fast-turn companies become money-printing machines and the other slow-turn companies bleed cash, suffer low capital returns, and even get into troubles. Inventory-turns was and will continue to be our number one operational priority. Our company's history of high ROE and cash flow is a direct result of the continued emphasis and improvements on inventory-turns.

Let's look at a 2019 hypothetical. Assuming the margin pressures of some brands stay the same as in 2018, what should we do in 2019? The answer is to turn the inventory even faster. Though we only have partial control over the new car sales margins (factors such as macroeconomics, new product life cycles, and supply management are not entirely within our control), we do have full control over how fast we sell. To sell quickly, we sometimes have to offer discounts. But in reality, if we don't sell quickly we will eventually have to discount deeper when inventory mounts and cash tightens. Over time and on average, selling quickly and discount earlier is better than selling slowly and discount later. Even at the same margin, selling quickly holds big advantages in terms of return on capital: doubling the inventory-turns doubles the return on capital. Most of our BMW stores were profitable in 2018 because we turned inventory quickly. The concept of "selling more quickly means more profit" is sometimes counter-intuitive but is always true, just like when golf coaches say, "Want the ball to draw left? Shoot to the right".

The second important principle is to grow services revenue on par with or faster than overall revenue. Compared with new car sales, services revenue is stickier and of higher margin: the larger the services revenue, the higher and more stable our overall margin. Increasing a single percentage point of services revenue adds roughly 0.4% of pretax margin to our bottom-line (assuming services and sales at roughly 45% and 5% gross margin respectively). In 5 years' time, we have grown services revenue as a percentage of total from 10.5% to 11.7%. This is very good considering that we have many new stores with service revenues that take more time and effort to scale. We know that we should accelerate this growth even more. As we become more mature as a company — smaller percentages of new stores vs total and existing stores maturing naturally — our services revenue as a percentage should increase, as should our overall margin. The effect of maturation on our margin is powerful and accelerating this maturity is a key principle.

In 2019, we want to achieve “absorption coverage”, in which the gross margin from services alone covers the total store costs. Beyond the coverage point, the store would be considered “mature”: its profit is relatively “safe” and does not rely on new car sales profit. How quickly we can mature a store is a key capability and therefore a key focus of our operations. Absorption coverage is especially important for those brands suffering from sales margin pressure.

The third operational metric we track and manage is the return of new store investment (ROI). We build many new stores every year, and, as in any retail business, stores take time to mature and can initially be a drain on cash and profits. Therefore, the key challenge is how to pull forward the breakeven point for profitability and cash flow. Overcoming this challenge requires a careful consideration and management of many factors — brand, location, investment (minimize within reason), rapid construction, and, most importantly, a swift ramp-up of services revenue. Over time, we have managed to get our new store average ROI to approximately 3 years. This has been key to our growth model. Fast-maturing new stores quickly contribute to cash and profitability, which, in turn, fund more new stores.

Our IT system/data is a cost item on our financial statements but, in reality, is as valuable as any asset we have. We served 37,895 new car customers and 186,657 services customers in 2018. A prospective customer on average comes to our stores 3 times before he/she makes a purchasing decision; a services customer on average comes back 2 times and interacts with us in various ways 10 times every year. In total, we have millions of customer interactions per year. Every one of these interactions is a data point and an opportunity for us to learn about our customers, to reflect upon our services, and to improve with the goal of eventually turning every customer into a life-long one. Without data, we would be making decisions in the dark. Data (and analysis of data) has served us well in the past, and in 2019 and beyond, its importance will only grow — accordingly, so will our focus and investment in data.

Let us move onto a discussion of financial discipline. We believe that a healthy cash flow is of ultimate importance, so we always focus on things that generate cash and minimize cash burn: fast returns on new stores, quick inventory turns, high services revenue, low account receivables, and minimal capital expenditures when possible. In addition, we focus on smoothing out cash flow: long term debt with regular and predictable paybacks, low inventory to avoid chunky redeems, and rented (not purchased) land when payment is installed over a period of time. More importantly, we pay much attention to asset and capital efficiencies — ROA and ROE are just as important as absolute profit. We want to maximize not just profit per se but also profit at a given level of assets and invested capital. Over time, financial discipline in these areas resulted in our high efficiencies and rate of cash flow. Our ROE, ROA, and cash flow (which has largely funded our growth and dividends) consistently rank among the best in the industry.

Our operating principles only work well in conjunction with our strategy — focusing on luxury and single city single stores. Going forward we still believe in the validity of this strategy despite short-term economic fluctuations and uncertainties. Luxury cars will be in demand wherever cars are bought: longing for better products is human nature, whether people are living in Beijing or a small Anhui town. All we need to do is find these customers and serve them well. In single city single store locations, we serve them in an environment with less intense competition and fewer distractions.

Let us wrap up this letter with a discussion of our culture — Simple, Direct, and Data Driven. We strive to build a simple business, and to simplify problems and operations — or at least to communicate them clearly. Operationally, this means we focus on a few things at a time and do them really well — far better than anyone else in the industry. This also means that we are cautious in getting into businesses whose logics we don't fully understand or in whose markets we don't have competence or experience — such as auto financing out of our balance sheet, independent service shops, or manufacturing. We communicate in a direct fashion: we say what we know with conviction and, for what we don't know, confess ignorance. We respond to investors' questions directly without beating around the bush, and we admit mistakes readily and correct them quickly. We manage our employees with honesty — promote and reprimand in a clear manner. And finally, we make decisions with data and logic. We stick to decisions that are consistently supported by facts and change quickly when data indicates otherwise. Whenever there is a lack of data or facts or logic, we plan for and communicate the worst-case scenario. These cultural traits are the most treasured aspects of our working lives and we hold them dear to our hearts. We hope that these traits come through during our interactions with you and that you will come to appreciate that what truly sets us apart as a company is our culture.

As always, thank you for your support.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2018, despite of the uncertainties in the PRC's economic environment, GDP grew by 6.6% year-on-year ("**yoy**"). Consumer demand maintained a steady growth with the total retail sales of consumer goods increased by 9.0% while the automobile industry demonstrated weakness. According to the statistics of China Association of Automobile Manufacturers, PRC's overall passenger vehicle sales reached a total of 23.71 million units, down 4.1% yoy. Among the total sales, 11.528 million units were basic passenger cars (sedans), down 2.7% yoy, whereas 9.995 million units were sports utility vehicles ("**SUVs**"), down 2.5% yoy. The luxury car market continued to grow steadily although the overall auto market was under pressure due to policy and macroeconomic uncertainties in 2018. The total sales of luxury cars amounted to 2.815 million units, up 9.4% yoy with an increasing contribution to the overall automobile market, up 1.7 percentage points yoy to 12.5%. The luxury car market significantly outpaced the overall automobile market in 2018.

RESULTS ANALYSIS AND FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018 (the "**Year**"), the Group recorded a revenue of RMB11,067.4 million, up 44.1% yoy (2017: RMB7,682.7 million). The revenue from new passenger vehicles sales increased by 44.2% yoy to RMB9,775.1 million (2017: RMB6,778.2 million), accounting for 88.3% (2017: 88.2%) of the total revenue. The revenue from after-sale services increased by 42.9% yoy and reached RMB1,292.3 million (2017: RMB904.5 million), accounting for 11.7% (2017: 11.8%) of the total revenue.

Cost of Goods Sold

Cost of goods sold increased by 45.6% from RMB6,863.0 million in 2017 to RMB9,994.5 million in 2018. The increase in cost of goods sold was resulted from the strong growth of the two major businesses of the Group, namely new passenger vehicles sales and after-sales services. The cost of sales for new passenger vehicles and after-sales services increased by 45.7% and 45.0% respectively.

Gross Profit

During the Year, driven by the strong growth of revenue, the Group's gross profit increased by 30.9% from RMB819.7 million in 2017 to RMB1,072.9 million in 2018. Gross profit margin declined to 9.7%, mainly due to the margin pressure on new passenger vehicles sales of certain brands. The gross margin of new vehicles sales fell to 4.6%. The gross profit margin of after-sales services remained steady and strong at 48.2%.

Distribution Costs and Administrative Expenses

Distribution costs and Administrative expenses during the Year grew at a slower pace than Revenue despite of the challenging market environment, demonstrating the effective cost control measures of the Group. Distribution cost amounted to RMB390.5 million, representing an increase of 43.4% as compared to RMB272.4 million for last year, accounting for 3.5% of total revenue (2017: 3.5%). Administrative expenses amounted to RMB312.8 million, representing an increase of approximately 35.8% as compared to RMB230.3 million for last year. It dropped substantially to only 2.8% as a percentage of Revenue. (2017: 3.0%).

Finance Costs

During the Year, attributable to its fast inventory turnover and cash cycle, the Company was able to control its finance costs effectively, with the total amount increased only by 3.1% from RMB61.3 million to RMB63.2 million while as a percentage of revenue decreasing substantially by 0.2 percentage points from 0.8% to 0.6%.

Profit attributable to shareholders for the year

Leveraging on its unique business strategy and superior management capabilities enabled by its data analysis capabilities, the Group was able to maintain a high operational efficiency admist challenging market environment. Coupled with effective cost control initiatives, the Group's profit attributable to shareholders for the Year increased by 31.6% to RMB362.9 million (2017: RMB275.8 million). Net profit margin decreased by 0.3 percentage points to 3.3% (2017: 3.6%) due to the margin pressure on new passenger vehicles sales of certain brands.

Dividend

The interim dividend for 2018 was RMB0.041 per ordinary share. The Board recommended a final dividend of RMB0.0849 per ordinary share for the Year.

An Associate and a Joint Venture

For the Year, share of profit of a joint venture amounted to RMB30.9 million, representing an increase of approximately 34.3% as compared to the sum of share of profit of an associate of RMB0.3 million and share of profit of a joint venture of RMB22.7 million of last year.

In January 2018, the Group disposed the interests of an associate to a third party.

Taxation

For the Year, the Group's income tax expenses amounted to RMB127.8 million, representing an increase of approximately 29.1% as compared to RMB99.0 million of last year. The increase was mainly due to the increase in profit before tax in 2018 as compared to last year.

Financial Resources and Position

As at 31 December 2018, the Group's loans and borrowings and corporate bonds amounted to RMB1,172.4 million, representing an increase of 43.5% as compared to RMB816.9 million of last year, mainly due to the growth of the business. Short-term loans and borrowings amounted to approximately RMB1,028.9 million, and long-term loans and borrowings amounted to RMB143.6 million.

As at 31 December 2018, cash and cash equivalents and pledged bank deposits amounted to RMB1,284.2 million. Most of the cash and cash equivalents and pledged bank deposits were denominated in Renminbi and Hong Kong Dollars. As the Group's businesses are conducted in the PRC, the Group does not expect to be exposed to any material foreign exchange risks.

The operating and capital expenditure of the Group is funded by cash flow from operations, internal cash and financing agreements with banks and financing companies of automobile manufacturers. The Group has adequate financial resources to meet all contractual obligations and operating requirements.

Contingent Liabilities

As at 31 December 2018, one subsidiary of the Group issued financial guarantee to a financial institution in respect of financial facilities granted to Dongguan Meidong Automotive Service Co., Ltd. ("**Dongguan Meidong**") amounting to RMB80,000,000 (2017: RMB80,000,000) and the financial facilities utilised by Dongguan Meidong amounted to RMB9,154,000 (2017: RMB8,218,000) as at 31 December 2018.

As at 31 December 2018, no financial guarantees were issued to Dongguan Anxin Toyota Auto Sales and Service Co., Ltd. ("**Dongguan Anxin**"). As at 31 December 2017, one subsidiary of the Group issued financial guarantee to a financial institution in respect of financial facilities granted to Dongguan Anxin amounting to RMB78,000,000 and the financial facilities utilised by Dongguan Anxin amounted to RMB24,540,000.

As at 31 December 2018, the Directors do not consider it probable that a claim will be made under the above guarantees taking into account the financial performance of the related parties.

New Passenger Vehicles Sales

During the Year, the Group was able to sustain its high growth through new store expansion and same store growth. Leveraging on the proven strategy of "Single City Single Store", sales of new passenger vehicles in 2018 recorded a satisfactory growth, with revenue of new passenger vehicle sales amounted to RMB9,775.1 million (2017: RMB6,778.2 million), indicating an increase of 44.2% as compared to last year. The luxury brands continued to be the major revenue source, accounting for 76.1% of the passenger vehicle sales. In terms of brands, BMW, Porsche and Lexus recorded a sales of new passenger vehicles of RMB3,584.8 million, RMB1,672.5 million and RMB2,179.4 million respectively, accounting for 36.7%, 17.1% and 22.3% of new passenger vehicles sales respectively. In terms of sales volume, the Group sold 37,895 new passenger vehicles in total, representing an increase of 32.0% yoy. In particular, luxury brands remained as the major driver, with BMW, Porsche and Lexus contributing 11,316 units, 2,072 units and 6,365 units respectively.

After-Sales Services

Revenue for after-sales services was RMB1,292.3 million, representing an increase of 42.9% (2017: RMB904.5 million) compared to last year. The total number of vehicles served was 359,213, representing a yoy increase of 16.2%. The gross profit margin of the after-sales services remained high and stable at 48.2%. The increase of after-sales revenue as a percentage of sales drives the revenue mix optimization and overall profitability of the Group.

Current Network

The Group continued to implement its well-established strategy of "Single City Single Store" for its luxury brands while expanding its distribution network. In 2018, the number of stores increased by 10 through a combination of greenfield projects and acquisitions. As of 31 December 2018, the Group had 49 self-operated stores in Guangdong, Hunan, Hubei, Fujian, Jiangxi, Anhui, Beijing, Hebei and Gansu, including a joint venture that was operated by the Group.

As at 31 December 2018, the number of stores operated by the Group is as follows:

No. of stores under operation	2017	**2018**	Change
Porsche	2	**4**	2
BMW	14	**23**	9
Lexus	10	**10**	–
Toyota	11	**11**	–
Hyundai	2	**1**	-1
Total	39	**49**	10

2019 Prospects

Looking forward to 2019, although macroeconomic fluctuations and uncertainties in the PRC automobile market still exist, the automobile market is still full of opportunities driven by the continued rapid growth of the luxury brands market in PRC and demand for consumption upgrades. The Group will continue to implement its two major development strategies of luxury brand as core and “Single City Single Store” strategy. It will not only seize the opportunities brought by the low penetration rate and relatively moderate competition in luxury brands in the second to fourth-tier cities but also the upgrade in the consumption demand for the huge consumption group so as to promote rapid growth in the new passenger vehicles sales. On the other hand, with the characteristics that it has no competitors of the same brands in the same city and short operation time of the stores, this will accelerate the growth of the revenue of after-sales services and thereby will continuously optimize the income structure. Meanwhile, a sufficient cashflow will be generated to support the long-term sustainable development of the Group.

The Group is also actively expanding its luxury brand product portfolios and increase their competitiveness. Based on the current portfolios of Porsche, BMW and Lexus, the Group introduced the brands, Audi and BMW Mini during the year. Audi is one of the top three luxury car brands in PRC and occupies a huge proportion of the PRC market while BMW Mini focuses on the younger market. The addition of the above two brands will help the Group to cover a wider consumer base and broaden the scale of the after-sales services market.

The Group has been monitoring closely the appropriate M&A opportunities. In evaluating the prospect, the following three criteria are usually adopted: (1) familiar brands, (2) geographical location excellence, and (3) affordable purchase prices to ensure rapid returns. During the year, the Group evaluated the above conditions and successfully acquired six BMW selling and service store as assets. In 2019 and beyond, the Group will continue to closely monitor projects that are in line with the acquisition strategy, and actively and cautiously expand the network layout through a new-construction based, M&A-assisted model to inject new momentum into the long-term steady growth of the Group.

The Group keeps optimizing its internal data management system and implement the Group’s business objectives of “simple, direct and digitalization”. In addition, it will maintain its philosophy of maintaining healthy financial levels, optimizing inventory management and improving return rate, and creating maximum benefits for all shareholders and employees. The challenge in the future operating environment will be even more severe but the Group will adhere to a prudent and solid management policy to ensure the sustainable, rapid growing long-term development with high returns of the Group.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. YE Fan *(Chairman)*
Mr. YE Fan, aged 47, is the founder of the Group. He is the younger brother of Mr. YE Tao, and is the Chairman and an executive Director of the Company. He is primarily responsible for supervising the operations of the Group, planning its business and marketing strategies and overseeing the external relationship with banks, government and other business partners. Mr. YE Fan was awarded a Bachelor degree in Inorganic Non-metallic Materials (無機非金屬材料) from South China University of Technology (華南理工大學) in July 1993. He is a non-permanent Hong Kong resident.

As the founder of the Group, Mr. YE Fan started his career in the automobile sector by joining an automobile distributor in Dongguan, the PRC as general manager from 1995 to 1998. In 1999, he set up 東莞市聚成汽車技術服務有限公司 (Dongguan Jucheng Auto Technical Services Co., Ltd.*) (a private company based in Dongguan, Guangdong which was principally engaged in the automobile distribution business) with a partner. In April 2003, Mr. YE Fan set up 東莞市冠豐汽車有限公司 (Dongguan Guanfeng Auto Co., Ltd.*) ("**Dongguan Guanfeng**"), which is the first member of the Group. This 4S dealership store was opened in May 2004 and held 4S distributorship for 北京現代汽車有限公司 (Beijing Hyundai Motor Company*) vehicles. Before the establishment of 廣東大東汽車集團有限公司 (Guangdong Dadong Auto Group Co., Ltd*) ("**Dadong Group**") in 2007, he made investments in a few enterprises (including members of the Group) which were principally engaged in automobile distribution of various brands. Following the establishment of Dadong Group in 2007, which has been solely owned by Mr. YE Fan, Dadong Group has been making investments in 4S dealership stores of various brands.

Since 2003, Mr. YE Fan has been acting as a director of Dongguan Guanfeng and various PRC members of the Group and has been responsible for supervising their daily operations and planning their business strategies. Mr. YE Fan is currently a director of each of the subsidiaries of the Company.

* denotes the English translation of the Chinese name for identification purpose only.

Mr. YE Tao *(Chief Executive Officer)*
Mr. YE Tao, aged 52, is the elder brother of Mr. YE Fan. He is an executive Director and the Chief Executive Officer of the Company. He is primarily responsible for overseeing the daily operations and management of the Group, planning its business and marketing strategies, supervising investor relationship and serving on the Remuneration Committee and the nomination committee of the Company (the "**Nomination Committee**"). Mr. YE Tao was awarded a Bachelor degree in Mechanics (力學) from Peking University (北京大學) in July 1989. He also obtained a Master of Science degree in Mechanical Engineering and a Master of Science degree in Management, both from Massachusetts Institute of Technology, in June 1996.

Before he joined the Group, Mr. YE Tao worked for Objectiva Software Solutions (Beijing) Inc. (奧博傑天(北京)軟件公司) as the chief executive and legal representative overseeing the overall operations of such company, and in Document Sciences Corporation as the general manager of Asian Operations overseeing the management and operations in the Asia.

In 2008, Mr. YE Tao was invited by Mr. YE Fan to work in the Group as the Chief Executive Officer. Since then, he has been working together with Mr. YE Fan closely in the expansion of the Group's business.

Ms. LIU Xuehua
Ms. LIU Xuehua, aged 55, is an executive Director and the Chief Financial Officer of the Company. Ms. Liu is the spouse of Mr. YU Bin, one of the senior management of the Company. She is primarily responsible for general administration of the Group, focusing principally on accounting, treasury, administrative and human resources management of the Group. She is the key person-in-charge of the formulation, implementation and enhancement of the internal control polices of the Group. Ms. Liu obtained a Bachelor degree in Administration Management from Peking University (北京大學), through long distance learning in July 2002. By profession, she is an accountant, and her qualification was conferred by the Ministry of Finance of the PRC in 1994.

Ms. Liu joined the Group in February 2008 as the Chief Financial Officer and was then in charge of financial and treasury management matters of the Group.

Ms. Liu has over 13 years of working experience in accounting and finance. Between October 2001 and February 2008, before she joined the Group, Ms. Liu worked in Objectiva Software Solutions (Beijing) Inc. (奧博傑天(北京)軟件公司) as financial controller, and was in charge of financial management of such company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. JIP Ki Chi

Mr. JIP Ki Chi, aged 49, was appointed as an independent non-executive Director with effect from 15 November 2013. Mr. Jip is currently the chief financial officer and company secretary of Sage International Group Limited (Stock code: 8082.HK). Mr. Jip was awarded a Bachelor degree of Business in Accountancy from Queensland University of Technology, Australia in 1994, and a Master degree in Business Administration from the University of Adelaide, Australia in 2008. Mr. Jip is a Certified Practising Accountant of CPA Australia (CPA (Aust.)). He obtained his qualification as a fellow member of Hong Kong Institute of Certified Public Accountants in 2007 (FCPA). Mr. Jip has a wealth of experience in accounting, finance, management and company secretarial field, and has worked as the chief financial officer and company secretary of Inventronics Holdings Limited and Zhong Da Mining Limited, the financial controller and company secretary of Hao Tian Resources Group Limited (Stock code 474.HK) (currently known as Hao Tian Development Group Limited) and the financial controller of Wah Shing Group.

Mr. WANG, Michael Chou

Mr. WANG Chou, aged 49, was appointed as an independent non-executive Director with effect from 22 June 2015. Mr. Wang was awarded a Master of Business Administration by the Wharton School of Business at the University of Pennsylvania in 1997 and a Bachelor of Arts from Southwestern University in 1992. He is currently the managing partner and president of Abax Global Capital. Mr. Wang is responsible for the overall business management and investment activities at Abax and also focuses on the management of portfolio companies. Mr. Wang is a member of the fund's investment committee and is the Chairman of such firm's operating committee.

Mr. Wang has 20 years of professional advisory experience in the PRC. Prior to joining Abax, Mr. Wang was a Senior Partner in McKinsey & Company's Shanghai office, where he was a leader in its China energy, and industrial practices. As head of the McKinsey Shanghai office, which is now amongst McKinsey's top 10 largest offices globally, he oversaw its growth from 100 to 300 professionals. Mr. Wang is a known expert for performance turnaround at Chinese companies, both state owned and private. He has assisted numerous Chinese clients to improve their performance via growth strategy, operational enhancement and organizational restructuring. Mr. Wang has published numerous articles in International and Chinese media on the performance improvement topic and has been a frequent speaker and guest lecturer at government (including those for State-Owned Assets Supervision and Administration Commission of the State Council and National Development and Reform Commission in the PRC) and industry forums in the PRC and abroad.

Mr. CHEN Guiyi

Mr. CHEN Guiyi, aged 40, was appointed as an independent non-executive Director with effect from 1 April 2017. From September 1997 to July 2001, Mr. Chen studied at the China Youth University of Political Science where he obtained a bachelor's degree in legal studies. From September 2003 to July 2004, he studied at the University of Groningen of the Netherlands where he obtained a master's degree in laws. From July 2001 to September 2005, he has been an associate director at the newspaper office of Beijing Times of People's Daily. From October 2005 to March 2016, he was one of the partners of the law firm, Jingtian & Gongcheng in Beijing, the PRC. Since March 2016, he has been one of the partners of W&G Investment Management Co., Ltd.. Mr. Chen has ample experience in the capital market, specializing in both the domestic and overseas capital market, and has provided legal services in respect of the domestic and overseas issuance of stocks and bonds for dozens of companies. He was nominated as the Dealmaker of the Year 2014 of Mainland China by the provider of print and online legal news and information, Asian Legal Business under the Thomson Reuters group.

SENIOR MANAGEMENT

Mr. YU Bin

Mr. YU Bin, aged 56, is our vice president of after-sales operations unit. Mr. Yu is the spouse of Ms. Liu Xuehua, one of our executive Directors. Currently, he is primarily responsible for the overall management of the after-sales services of the Group. Mr. Yu holds a Bachelor degree in Engineering of Vehicle Transportation. Mr. Yu joined the Group as the chief officer in after-sales operations in August 2011 and was then in charge of the management of the after-sales services of the Group. Mr. Yu has over 30 years of working experience in vehicle repair and technical training. Before Mr. Yu joined our Group, he worked as the vehicle repair officer, training and education officer, technical training supervisor, vehicle repair and production technology supervisor for Beijing Public Transport Holding (Group) Co., Ltd. Repair Branch.

Ms. YUAN Ying

Ms. YUAN Ying, aged 38, is our Financial Controller and is responsible for the overall financial planning and management of the Group. Ms. Yuan joined the Group in May 2010 as Finance Manager and was in charge of the Finance Department. She was then responsible for the Group's asset management, internal audit, cost control and formulating of financial statements, etc. Ms. Yuan is an accountant and obtained the qualification of accountant by the Ministry of Finance of the PRC in May 2007. Prior to joining the company, she worked for Yong Feng Footwear (Bao An) Company Limited as finance supervisor in charge of audit of the Finance Department.

Ms. WANG Feixue

Ms. WANG Feixue, aged 38, is our vice president of sales and marketing unit. Currently, she is primarily responsible for the overall management of the sales and marketing functions of the Group. Ms. Wang completed a two-year professional study programme in Chinese language and literature in Henan Broadcast Television University. Ms. Wang joined the Group as a sales consultant in July 2004 and was then in charge of sales of new vehicles. Ms. Wang left the Group in July 2006, then rejoined the Group as a corporate planning manager in July 2007. Before Ms. Wang rejoined the Group in July 2007, she worked for Dongguan Zhicheng Trading Company Limited as the sales manager, and was in charge of managing the sales department.

Ms. LUO Liuyu

Ms. LUO Liuyu, aged 35, is our vice president of human resources and administration unit. Currently, she is primarily responsible for the overall human resources management and planning of the Group, including recruitment, job allocation, training, formulating remuneration and fringe benefit policies, etc. Ms. Luo completed a three-year professional study programme in Finance in Dongguan University of Technology. Ms. Luo joined the Group as a finance supervisor in September 2007 and was then in charge of the management of the finance department, including fund and assets management, internal auditing, costs control management and financial statements preparation. Before Ms. Luo joined the Group, she worked for Dongguan Zhicheng Trading Company Limited as accounting supervisor, taking charge of the daily operations of finance department and other accounting functions.

Ms. CHEN Saijin

Ms. CHEN Saijin, aged 38, is our vice president of purchasing and projects unit. Currently, she is primarily responsible for the overall procurement of the Group and supervising internal control matters. Ms. Chen was granted a technical certificate in computer software profession by the Guangdong Labour and Social Security Bureau. Ms. Chen also completed a three-year professional study programme in Accounting in Renmin University of China (中國人民大學) through Internet learning. Ms. Chen joined the Group as an accounting officer in October 2004 and was then in charge of the accounting function of the finance department. Before Ms. Chen joined the Group, she worked for Dongguan Hongyan Vehicle Trading Company Limited as the deputy manager of finance department, taking charge of the auditing of costs and other finance matters.

REPORT OF THE DIRECTORS

The Board has pleasure in presenting the Report of the Directors 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 automobile dealership business authorized by the respective automobile manufacturers of particular brands in the PRC including the sale of new passenger cars, spare parts, service and survey. Particulars of the subsidiaries are set out in note 14 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group during the year ended 31 December 2018 and a discussion on the Group's future business development are provided in the section "Letter to Shareholders" and "Management Discussion and Analysis" of this Annual Report. Description of possible risks and uncertainties that the Group may be facing can be found in the section "Letter to Shareholders". The financial risk management objectives and policies of the Group can be found in note 29 to the consolidated financial statements.

Particulars of important events affecting the Group that have occurred since the end of the financial year ended 31 December 2018 are provided in page 34 of this section and note 34 to the consolidated financial statements of this Annual Report. An analysis of the Group's performance during the year using financial key performance indicators is provided in the "Five-Year Financial Summary" on page 156 of this Annual Report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group recognises the importance of environmental protection and has adopted stringent measures for environmental protection in order to ensure our compliance to the prevailing environmental protection laws and regulations.

The Group has developed environmental protection measures and policies to prevent and control pollution levels and harm caused to the environment in the form of waste gas, waste water, solid waste, dust etc. in the course of production or other activities in accordance with the applicable environmental laws and regulations.

The Group understands that a better future depends on everyone's participation and contribution. It has encouraged all employees to participate in environmental activities which benefit the community.

COMPLIANCE WITH LAWS AND REGULATIONS

As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

RESULTS AND FINAL DIVIDEND

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on page 57 to page 156 of this Annual Report.

The Directors have recommended the payment of a final cash dividend out of the share premium account under reserves of the Company of RMB0.0849 per share (2017: RMB0.0883 per share) to the Shareholders whose names are on the register of members of the Company on 28 June 2019. Subject to approval by the Shareholders at the AGM and compliance with the Companies Law of the Cayman Islands, the final dividend will be paid on or about 8 August 2019 and the register of members of the Company will be closed from 24 June 2019 to 28 June 2019, both days inclusive, for determination of entitlement of the final dividend, during which period no transfer of shares will be registered.

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity set out on page 60 of this Annual Report.

The Company's reserves available for distribution to the Shareholders as at 31 December 2018 amounted to RMB128,879,000 (2017: RMB110,835,000), subject to the applicable statutory requirements under the laws of the Cayman Islands.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for each of the five financial years ended 31 December 2018 is set out on page 156 of this Annual Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

For the purpose of disclosing the environmental, social and governance ("**ESG**") information in accordance with the ESG Reporting Guide in Appendix 27 to the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the Company has engaged an external consultant to identify material ESG issues of the Group and assist in the reporting of the Group's performance based on its ESG management approach, strategy, priorities and objective. The ESG report will be dispatched to the shareholder of the Company and will be published on the website of the Company and the Stock Exchange in due course. For details of the Company's environmental policies and performance and its compliance with the relevant laws and regulations in the environmental and social aspects, please refer to the ESG report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant, equipment of the Group during the year ended 31 December 2018 are set out in note 11 to the consolidated financial statements.

TAX RELIEF

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

Under current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by the Company.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year ended 31 December 2018 are set out in note 27(c) to the consolidated financial statements.

DIRECTORS

The Directors during the year ended 31 December 2018 and up to the date of this Annual Report were as follows:

Executive Directors

Mr. YE Fan *(Chairman)*
Mr. YE Tao *(Chief Executive Officer)*
Ms. LIU Xuehua

Independent Non-Executive Directors

Mr. CHEN Guiyi
Mr. JIP Ki Chi
Mr. WANG, Michael Chou

The biographical details of the Directors and senior management of the Company are set out on page 15 to 19 of this Annual Report.

In accordance with Article 105 of the articles of association of the Company (the "**Articles of Association**"), Mr. YE Fan and Mr. JIP Ki Chi shall retire from office by rotation at the AGM and, all of them being eligible, would offer themselves for re-election.

The Company has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors to be independent.

Directors' Service Contracts

Each of the executive Directors has entered into a new letter of appointment with the Company commencing with effect from 15 November 2016. Each of the executive Directors was not appointed for any specific length or proposed length of services and his term of service shall continue unless and until terminated by either party giving not less than three months' notice in writing to the other party.

The independent non-executive Director, Mr. CHEN Guiyi has entered into a letter of appointment with the Company on 1 April 2017. Mr. CHEN Guiyi was not appointed for any specific length or proposed length of services and his term of service shall continue unless and until terminated by either party by not less than three months' notice in writing. The independent non-executive Director, Mr. JIP Ki Chi has entered into a new letter of appointment with the Company on 15 November 2016. Mr. JIP Ki Chi was not appointed for any specific length or proposed length of services and his term of service shall continue unless and until terminated by either party by not less than three months' notice in writing. The independent non-executive Director, Mr. WANG, Michael Chou has entered into a letter of appointment with the Company on 20 June 2018. Mr. WANG, Michael Chou was not appointed for any specific length or proposed length of services and his term of service shall continue unless and until terminated by either party giving not less than three months' notice in writing to the other party. Each of the independent non-executive Directors is subject to the provisions for retirement by rotation and re-election at the AGM in accordance with the Articles of Association. Save as disclosed above, no Director will be proposed for re-election at the AGM in accordance with the Articles of Association.

Save as disclosed above, no Director proposed for re-election at the AGM has service agreement with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Remuneration

Details of emoluments of the Directors are set out in note 8 to the consolidated financial statements.

Mr. JIP Ki Chi is entitled to a director's fee of HK$166,560 per annum. Each of Mr. CHEN Guiyi and Mr. WANG, Michael Chou is entitled to a director's fee of HK$100,000 per annum. Save for Director's fees, none of our independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

The Directors' fees are subject to the Shareholders' approval at the AGM. Other emoluments are determined by the Board with reference to the recommendations from the Remuneration Committee taking into account the directors' duties, responsibilities and performance and the results of the Group.

Interests In Contracts

Other than as disclosed in note 32 to the consolidated financial statements, there is no contract of significance to which the Company, its holding company, or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Competing Business

Save as disclosed in this Annual Report, none of the Directors or their respective associates (as defined in the Listing Rules) had any interests in any business (apart from the Group's business), which competes or is likely to compete, either directly or indirectly, with the businesses of the Group during the year and up to the date of this Annual Report.

Directors' Interests or Short Positions in Shares and Underlying Shares

As at 31 December 2018, the interests and short positions of the Directors and chief executive in the Shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were required pursuant to: (a) divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") to be notified to the Company and the Stock Exchange, were as follows:

Long Positions or short Positions in shares and underlying shares

		Interest in shares				
Name of director	Capacity	Personal interest shares	Family interest	Total interest in shares	Interest in underlying Shares pursuant to share options	Approximate percentage of shareholding as at 31 December 2018
Mr. YE Fan [1]	Settlor of trust	–	754,400,000	754,400,000	–	65.40%
Mr. YE Tao	Beneficial Owner	–	–	–	4,000,000	0.35%
Ms. LIU Xuehua (retired with effect from 25 March 2019)	Beneficial Owner	1,000,000	–	1,000,000	3,300,000	0.37%

Notes:

(1) Mr. YE Fan is the settlor of the Ye Family Trust, a revocable discretionary family trust. The entire capital of Apex Holdings Enterprises Limited ("**Apex Holdings**") is an asset of such family trust, and Apex Holdings in turn holds the entire issued share capital of Apex Sail Limited ("**Apex Sail**"). Apex Sail directly hold 754.4 million Shares and by virtue of the SFO, Mr. YE Fan is deemed to be interested in the Shares of Apex Sail.

Details of Directors' interests in share options granted by the Company are set out under the heading "Directors' Rights to Acquire Shares" below.

Directors' Rights to Acquire Shares

Pursuant to the Company's share option scheme adopted by the Shareholders on 13 November 2013 (the "**SOS**"), the Company has granted to certain Directors options to subscribe Shares, details of which as at 31 December 2018 were as follows:

Name of Director	Date of grant	Exercisable period	Exercisable price HK$	Number of Shares subject to the outstanding options as at 01.01.2018	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Number of shares subject to the outstanding option as at 31.12.2018	Approximate percentage of shareholding
Mr. YE Tao	20.01.2014	01.01.2015–12.11.2023	1.80	500,000	–	–	–	500,000	0.04%
	20.01.2014	01.01.2016–12.11.2023	1.80	500,000	–	–	–	500,000	0.04%
	20.01.2014	01.01.2017–12.11.2023	1.80	500,000	–	–	–	500,000	0.04%
	20.01.2014	01.01.2018–12.11.2023	1.80	500,000	–	–	–	500,000	0.04%
	04.01.2018	04.01.2018–03.01.2028	2.58	–	500,000	–	–	500,000	0.04%
	04.01.2018	04.01.2019–03.01.2028	2.58	–	500,000	–	–	500,000	0.04%
	04.01.2018	04.01.2020–03.01.2028	2.58	–	500,000	–	–	500,000	0.04%
	04.01.2018	04.01.2021–03.01.2028	2.58	–	500,000	–	–	500,000	0.04%
Ms. LIU Xuehua	20.01.2014	01.01.2015–12.11.2023	1.80	537,500	–	(537,500)	–	–	–
	20.01.2014	01.01.2016–12.11.2023	1.80	537,500	–	(462,500)	–	75,000	0.01%
	20.01.2014	01.01.2017–12.11.2023	1.80	537,500	–	–	–	537,500	0.05%
	20.01.2014	01.01.2018–12.11.2023	1.80	537,500	–	–	–	537,500	0.05%
	04.01.2018	04.01.2018–03.01.2028	2.58	–	537,500	–	–	537,500	0.05%
	04.01.2018	04.01.2019–03.01.2028	2.58	–	537,500	–	–	537,500	0.05%
	04.01.2018	04.01.2020–03.01.2028	2.58	–	537,500	–	–	537,500	0.05%
	04.01.2018	04.01.2021–03.01.2028	2.58	–	537,500	–	–	537,500	0.05%

On 20 January 2014, share options to subscribe for 4,150,000 Shares were granted under the SOS to two Directors at an exercise price of HK$1.80 per share, details of which are as follows:

Mr. YE Tao	2,000,000
Ms. LIU Xuehua	2,150,000

On 4 January 2018, share options to subscribe for 4,150,000 Shares were granted under the SOS to two Directors at an exercise price of HK$2.58 per share, details of which are as follows:

Mr. YE Tao	2,000,000
Ms. LIU Xuehua	2,150,000

Notes:

(1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

(2) The weighted average closing price of the Company's Shares immediately before the date(s) of exercise(s) of the option by Ms. LIU Xuehua during the year was HK$3.51 per share.

(3) Ms. LIU Xuehua had exercised share options to purchase 670,000 shares on 14 May 2018 and 330,000 shares on 11 May 2018, both at the exercise price of HK$1.80 per share. Except for the disclosed above, no options of the Company held by the Directors had lapsed, cancelled or exercised during the financial year, and no option of the Company was granted to any Director and/or their associate(s) during the financial year.

(4) These options represent personal interests held by the Directors as beneficial owners.

Save as disclosed above, as at 31 December 2018, none of the Directors had any interests or short positions in the Shares or underlying shares of the Company or any of its associated corporations (within the meaning of part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Arrangements to Purchase Shares or Debentures

Other than the SOS, at no time during the year ended 31 December 2018 was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or any of their spouses or children under the age of 18, was granted any right to subscribe for equity or debt securities of the Company, nor had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the register of substantial Shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of the Directors, the following Shareholders (other than the Directors or chief executives of the Company as disclosed above) had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Name of Shareholder	Capacity	Number of shares held	Approximate percentage of shareholding
Apex Sail [(1)]	Beneficial owner	754,400,000	65.40%
Apex Holdings [(1)]	Interest in a controlled corporation	754,400,000	65.40%
Fiducia Suisse SA [(1)]	Interest in a controlled corporation	754,400,000	65.40%
Mr. David Henry Christopher Hill [(1)]	Interest of a controlled corporation	754,400,000	65.40%
Mrs. Rebecca Ann Hill [(1)]	Interest of spouse	754,400,000	65.40%
Ms. HU Huanran [(2)]	Interest of spouse	754,400,000	65.40%
Pandanus Partners, L.P.[(3)]	Interest in a controlled corporation	100,354,000	8.70%
Pandanus Associates Inc.[(3)]	Interest in a controlled corporation	100,354,000	8.70%
FIL Limited[(3)]	Interest in a controlled corporation	100,354,000	8.70%
FIL Investments Management (Hong Kong) Limited[(3)]	Beneficial owner	100,354,000	8.70%

Notes:

(1) Apex Sail is wholly owned by Apex Holdings. The entire issued share capital of Apex Holdings is wholly owned by Fiducia Suisse SA as the trustee of the Ye Family Trust. Fiducia Suisse SA is wholly owned by Mr. David Henry Christopher Hill and Ms. Rebecca Ann Hill is the wife of Mr. David Henry Hill. The Ye Family Trust is a revocable discretionary family trust founded by Mr. YE Fan as the settlor. The Ye Brothers and certain of their family members are the discretionary objects of the Ye Family Trust.

(2) Mr. YE Fan is the settlor of the Ye Family Trust. By virtue of the SFO, Mr. YE Fan is deemed to be interested in the Shares of Apex Sail. Mr. YE Fan's spouse, Ms. HU Huanran, is deemed to be interested in such 754,400,000 Shares by virtue of the SFO.

(3) FIL Investments Management (Hong Kong) Limited is wholly-owned by FIL Limited, which is in turn owned as to 37.51% by Pandanus Partners, L.P. which is wholly owned by Pandanus Associates Inc.. By virtue of the SFO, each of FIL Limited, Pandanus Associates and Pandanus Partners L.P. is deemed to be interested in the 100,354,000 Shares of FIL Investments Management (Hong Kong) Limited.

Save for the Shareholders as disclosed herein, the Directors are not aware of any person (other than the Directors and chief executives of the Company) who had an interest or a short position in the Shares or underlying shares of the Company as recorded as at 31 December 2018 in the register to be kept by the Company under Section 336 of the SFO.

Short positions in Shares and underlying Shares in the Company

As at 31 December 2018, the Company had not been notified of any short positions being held by any substantial Shareholder in the Shares or underlying Shares of the Company.

Other Persons

As at 31 December 2018, the Company had not been notified of any interests or short positions being held by any person (other than the Directors and chief executives and the substantial Shareholders as disclosed above) in the share capital of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the Listing Rules.

SHARE OPTION SCHEME

Pursuant to the SOS, the Company may, at their discretion, invite full-time or part-time employees of the Group, including Directors and subsidiaries of the Company, and any suppliers, customers, consultants, agents and advisors, whether on a contractual or honorary basis and whether paid or unpaid, who have contributed or will contribute to the Group to take up options to subscribe for Shares. The exercise price of the share option will be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

The SOS will remain in force for a period of 10 years commencing on 13 November 2013.

The share options under the SOS are exercisable at any time for a period to be determined by the Directors, which shall not be more than 10 years after the date of grant.

The total number of Shares in respect of which options may be granted under the SOS is not permitted to exceed 10% of the Shares in issue on the date of the listing of the Company on 5 December 2013 (the "**Listing Date**") without prior approval from the Shareholders. No option may be granted in any 12-month period to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 1% of the number of Shares issued and issuable under all the options which may be granted under the SOS or any other share option schemes at the time it is proposed to grant the relevant options to that employee.

Options granted under the SOS must be taken up within 21 days of the date of grant, upon payment of HK$1.00 per grant.

As at 31 December 2018, the Company had 18,660,000 share option outstanding under the SOS, representing approximately 1.62% of the issued share capital of the Company as at the date of this report. Details of the share options outstanding as at the date of this report are as follows:

Option Type	Date of Grant	Exercisable Period	Exercise Price
2014 Options	20.01.2014	01.01.2015-12.11.2023	HK$1.80
	20.01.2014	01.01.2016-12.11.2023	HK$1.80
	20.01.2014	01.01.2017-12.11.2023	HK$1.80
	20.01.2014	01.01.2018-12.11.2023	HK$1.80
2018 Options	04.01.2018	04.01.2018-03.01.2028	HK$2.58
	04.01.2018	04.01.2019-03.01.2028	HK$2.58
	04.01.2018	04.01.2020-03.01.2028	HK$2.58
	04.01.2018	04.01.2021-03.01.2028	HK$2.58

The following table discloses movements in the share options of the Company during the period:

Name of Director	Options type	Date of grant	Exercisable period	Exercisable price HK$	Number of Shares subject to the outstanding options as at 01.01.2018	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Number of shares subject to the outstanding option as at 31.12.2018	Weighted average closing price of shares immediately before the date on which the options were exercised HK$
Category1: Directors										
Mr. YE Tao	2014	20.01.2014	01.01.2015–12.11.2023	1.80	500,000	–	–	–	500,000	–
	Options	20.01.2014	01.01.2016–12.11.2023	1.80	500,000	–	–	–	500,000	–
		20.01.2014	01.01.2017–12.11.2023	1.80	500,000	–	–	–	500,000	–
		20.01.2014	01.01.2018–12.11.2023	1.80	500,000	–	–	–	500,000	–
	2018	04.01.2018	04.01.2018–03.01.2028	2.58	–	500,000	–	–	500,000	–
	Options	04.01.2018	04.01.2019–03.01.2028	2.58	–	500,000	–	–	500,000	–
		04.01.2018	04.01.2020–03.01.2028	2.58	–	500,000	–	–	500,000	–
		04.01.2018	04.01.2021–03.01.2028	2.58	–	500,000	–	–	500,000	–
Ms. LIU Xuehua	2014	20.01.2014	01.01.2015–12.11.2023	1.80	537,500	–	(537,500)	–	–	3.51
	Options	20.01.2014	01.01.2016–12.11.2023	1.80	537,500	–	(462,500)	–	75,000	3.51
		20.01.2014	01.01.2017–12.11.2023	1.80	537,500	–	–	–	537,500	–
		20.01.2014	01.01.2018–12.11.2023	1.80	537,500	–	–	–	537,500	–
	2018	04.01.2018	04.01.2018–03.01.2028	2.58	–	537,500	–	–	537,500	–
	Options	04.01.2018	04.01.2019–03.01.2028	2.58	–	537,500	–	–	537,500	–
		04.01.2018	04.01.2020–03.01.2028	2.58	–	537,500	–	–	537,500	–
		04.01.2018	04.01.2021–03.01.2028	2.58	–	537,500	–	–	537,500	–
Total for Directors					4,150,000	4,150,000	(1,000,000)	–	7,300,000	
Category2 Employees	2014	20.01.2014	01.01.2015–12.11.2023	1.80	1,330,000	–	(410,000)	(12,500)	1,130,000	3.30
	Options	20.01.2014	01.01.2016–12.11.2023	1.80	1,330,000	–	(410,000)	(12,500)	1,130,000	3.30
		20.01.2014	01.01.2017–12.11.2023	1.80	1,330,000	–	(410,000)	(12,500)	1,130,000	3.30
		20.01.2014	01.01.2018–12.11.2023	1.80	1,330,000	–	(410,000)	(12,500)	1,130,000	3.30
	2018	04.01.2018	04.01.2018–03.01.2028	2.58	–	1,957,500	–	(25,000)	1,932,500	–
	Options	04.01.2018	04.01.2019–03.01.2028	2.58	–	1,957,500	–	(25,000)	1,932,500	–
		04.01.2018	04.01.2020–03.01.2028	2.58	–	1,957,500	–	(25,000)	1,932,500	–
		04.01.2018	04.01.2021–03.01.2028	2.58	–	1,957,500	–	(25,000)	1,932,500	–
Total for Employees					5,320,000	7,830,000	(1,640,000)	(150,000)	11,360,000	
All Category					9,470,000	11,980,000	(2,640,000)	(150,000)	18,660,000	

Notes:

(1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

(2) The closing price of the Shares immediately before 4 January 2018, the date of grant of the 2018 Options, was HK$2.60.

(3) The fair value of the 2018 Options granted at the date of grant (4 January 2018) totaled approximately HK$10,377,000.

CONTINUING CONNECTED TRANSACTION

There were no significant connected transactions.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in normal course of business are set out in note 32 to the consolidated financial statements.

NON-COMPETITION UNDERTAKINGS

Each of the controlling Shareholders has provided to the Company a written confirmation in respect of his/its compliance with the Non-Compete Undertakings dated 13 November 2013 (the "**Non-Compete Undertakings**") for the year ended 31 December 2018. The independent non-executive Directors have also reviewed the status of compliance by each of the controlling Shareholders with the undertakings in the Non-Compete Undertakings and have confirmed that, as far as he/it can ascertain, there is no breach of any of the undertakings in the Non-Compete Undertakings.

BORROWINGS

Particulars of borrowings of the Group as at 31 December 2018 are set out in note 22 to the consolidated financial statements.

DONATIONS

During the year ended 31 December 2018, the Group made charitable and other donations amounting to RMB Nil.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this Annual Report, there is sufficient public float of not less than 25% of the Shares in issue as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2018, the five largest customers of the Group accounted for approximately 0.27% of the total revenue and sales to the largest customer accounted for approximately 0.14% of the total revenue. The five largest suppliers of the Group in aggregate accounted for about 90.49% of its operating costs for the year ended 31 December 2018. Purchases from the largest supplier accounted for about 26.03% of its operating costs for the year ended 31 December 2018. None of the Directors, their close associates, or any Shareholder (who to the knowledge of the Directors owned more than 5% of the Company's share capital) had any interest in the Group's five largest customers or suppliers.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2018, save as disclosed herein, the Company has not entered into any equity-linked agreement.

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

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the year ended 31 December 2018 and until the date of this report.

EMOLUMENT POLICY

As at 31 December 2018, the Group had a total of 4,292 employees, the majority of whom are situated in the PRC. In addition to offering competitive remuneration packages to employee, discretionary bonuses and share options may also be granted to eligible employees based on individual performance.

The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

The Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics, decides the emoluments of the Directors. No Director, or any of his close associates, and executive, is involved in dealing with his own remuneration.

The Company has adopted the SOS as an incentive to Directors and eligible employees, details of the schemes is set out in note 25 to the consolidated financial statements and under the heading "Share Option Scheme" in this Report of Directors.

DIRECTORS' INDEMNITY

Pursuant to the Articles of Association, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules (the "**Code**") during the year ended 31 December 2018. Details of the corporate governance of the Group are set out in the section headed "Corporate Governance Report" in this Annual Report.

SIGNIFICANT LEGAL PROCEEDINGS

During the year ended 31 December 2018, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.

EVENTS AFTER THE REPORTING PERIOD

Particulars of important events affecting the Group that have occurred since the end of the year ended 31 December 2018 are provided in note 34 to the consolidated financial statements.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2018 have been audited by KPMG, the Company's external auditors (the "**Auditors**"). A resolution will be proposed at the AGM to re-appoint KPMG as the Auditors.

On behalf of the Board
YE Fan
Chairman

Hong Kong, 25 March 2019

CORPORATE GOVERNANCE REPORT

The Directors and other members of the management team of the Company are dedicated to maintain high standards of corporate governance. They will continue to exercise leadership, enterprise, integrity and judgement so as to achieve continuing prosperity and to act in the best interests of the Company and its Shareholders as a whole in a transparent and responsible manner. Strategic development with prudence and adherence to ethical principles form the core of the Company's corporate governance practices.

The Company continues to devote efforts on promoting good corporate governance so as to ensure its ability to attract investment, protect the rights of the Shareholders and stakeholders, and enhance Shareholders' value.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the Code as its own code on corporate governance practices. The Company has taken various measures to cope with the latest development in the corporate governance regime.

The Company has complied with the code provisions as set out in the Code during the year ended 31 December 2018.

The Board continues to monitor and review the Company's corporate governance practices to ensure compliance.

BOARD OF DIRECTORS

Composition of the Board

As at the date of this Annual Report, the Board comprises six members as follows:

Executive Directors
Mr. YE Fan *(Chairman)*
Mr. YE Tao *(Chief Executive Officer)*
Ms. LIU Xuehua

Independent Non-executive Directors
Mr. CHEN Guiyi
Mr. WANG, Michael Chou
Mr. JIP Ki Chi

All Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each Director are disclosed on pages 15 to 19 of this Annual Report.

The Company has arranged appropriate directors' and officers' liabilities insurance for Directors and officers of the Company. Details of the directors' indemnity are provided in the Report of the Directors on page 34 of this Annual Report. The insurance coverage is reviewed on an annual basis.

Each independent non-executive Director has confirmed, in accordance with the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules that he is independent of the Company and the Company also considers that all of them are independent.

Except for the family relationship between Mr. YE Fan and Mr. YE Tao as disclosed in the biographical details on pages 15 to 16 of this Annual Report, there is no relationship (including financial, business, family or other material/relevant relationship) between any members of the Board.

The list of Directors is disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

Each of the executive Directors has entered into a new letter of appointment with the Company commencing with effect from 15 November 2016. Each of the executive Directors was not appointed for any specific length or proposed length of services and his term of service shall continue unless and until terminated by either party giving not less than three months' notice in writing to the other party.

The independent non-executive Director, Mr. CHEN Guiyi has entered into a letter of appointment with the Company on 1 April 2017. Mr. CHEN Guiyi was not appointed for any specific length or proposed length of services and his term of service shall continue unless and until terminated by either party by not less than three months' notice in writing. The independent non-executive Director, Mr. JIP Ki Chi has entered into a letter of appointment with the Company on 15 November 2016. Mr. JIP Ki Chi was not appointed for any specific length or proposed length of services and his term of service shall continue unless and until terminated by either party by not less than three months' notice in writing. The independent non-executive Director, Mr. WANG, Michael Chou has entered into a letter of appointment with the Company on 20 June 2018. Mr. WANG, Michael Chou was not appointed for any specific length or proposed length of services and his term of service shall continue unless and until terminated by either party giving not less than three months' notice in writing to the other party. Each of the independent non-executive Directors is subject to the provisions for retirement by rotation and re-election at the AGM in accordance with the Articles of Association. Save as disclosed above, no Director will be proposed for re-election at the AGM in accordance with the Articles of Association.

Pursuant to the Articles of Association, at least one-third of the Directors shall retire from office but are eligible for re-election by the Shareholders at each annual general meeting of the Company and each Director shall retire on a rotational basis at least once every three years.

During the year ended 31 December 2018, the Board had at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise pursuant to Rule 3.10 of the Listing Rules and the appointment of independent non-executive Directors representing at least one-third of the Board pursuant to Rule 3.10A of the Listing Rules.

Functions of the Board

The Board, headed by the chairman of the Board (the "**Chairman**"), is responsible for formulation and approval of the Group's development, business strategies, policies, annual budgets and business plans, recommendation of any dividend and supervision of management.

The executive Directors are responsible for day-to-day management of the Company's operations, financial management and conducting meetings with senior management of the Group, at which operational issues and financial performance are evaluated.

The Company considers that internal control system and risk management function are essential, and the Board plays an important role in implementing and monitoring internal control system and risk management function.

Matters specifically decided by the Board and those reserved for the management, such as daily management, administration, operation of the Company and so forth, are reviewed by the Board on a periodic basis. The management shall report back to the Board.

In addition, the Directors may seek independent professional advice in appropriate circumstances at the Company's expenses.

The Articles of Association sets out the responsibilities and proceedings of the Board. The Board meets regularly, at least four times a year, to consider operational reports and policies of the Company. Significant operational policies are discussed and passed by the Board.

BOARD DIVERSITY POLICY

The Board has adopted a policy of the Board diversity (the "Board Diversity Policy") which sets out the approach to achieve diversity on the Board. Under the Board Diversity Policy, the Company considers diversity of Board members to be achieved through consideration of a number of aspects, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments are based on merit and contribution, and candidates are considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee is responsible for reviewing and monitoring the implementation of the Board Diversity Policy to ensure the effectiveness of the Board Diversity Policy.

NOMINATION POLICY

The Company has adopted a nomination policy, which establishes written guidelines to nomination committee to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorships with reference to the formulated criteria. The Board is ultimately responsible for selection and appointment of new Directors. The Board, through the delegation of its authority to the nomination committee, has used its best efforts to ensure the Board has a balance of skills, experience, and diversity of perspectives appropriate to the requirements of the Company's business. Collectively, they have competencies in areas which are relevant and valuable to the Group.

DIVIDEND POLICY

The Company has adopted a dividend policy in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, among other things, the following factors:

(a) the Company's current and future operations, actual and expected financial performance;

(b) any corporate development plans;

(c) the Group's liquidity position, working capital and capital expenditure requirements and future expected capital needs;

(d) the level of the Group's debt to equity ratio, return on equity and the relevant financial covenants;

(e) any restrictions on payments of dividends that may be imposed by the Group's lenders or other third parties;

(f) retained earnings and distributable reserves of the Company and each of the members of the Group;

(g) general economic conditions, the business cycle of the Group's business and other internal and external factors that may have an impact on the business or financial performance and position of the Company; and

(h) any other factor that the Board deems appropriate and relevant.

The recommendation of the payment of dividend is subject to the determination of the Board, and, any declaration of final dividend for the year will be subject to the approval of the Shareholders. The payment of dividend is also subject to any restrictions under the Companies Law of the Cayman Islands and any other applicable laws, rule and regulations and amended and restated memorandum and articles of association of the Company.

Corporate Governance Functions

The Board is responsible for performing corporate governance duties that include:

(a) developing and reviewing the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) reviewing and monitoring the training and continuous professional development of the Directors and senior management;

(c) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;

(d) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and the Directors; and

(e) reviewing the Company's compliance with the Code and disclosure in the Corporate Governance Report.

During the year ended 31 December 2018, the Board approved the terms of reference of the Board (with respect to corporate governance duties), and the terms of reference of the Nomination Committee, the audit committee (the "**Audit Committee**") and the Remuneration Committee and the Shareholders communication policy of the Company (the "**Shareholders Communication Policy**").

Directors' Training and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and management to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, companies ordinance/act and corporate governance practices organized by professional bodies, independent auditors and/or chambers in Hong Kong so that they can continuously update and further improve their relevant knowledge and skills.

From time to time, the Company Secretary updates and provides written training materials on the latest developments of applicable laws, rules and regulations to the Directors.

Each of the Directors have attended training sessions arranged by the Company on the continuing obligations of listed companies and directors, disclosure obligations of listed companies and amendments to the Listing Rules and the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) in relation to "inside information".

In addition to the above-mentioned training sessions, some Directors and members of the senior management of the Company have also attended several presentations organized by the Company on the compliance of the Listing Rules and conducts of listed companies.

Board Meetings

Code provision A.1.1 of the Code prescribes that at least four regular board meetings should be held in each year at approximately quarterly intervals with active participation of majority of directors, either in person or through electronic means of communication. Due notices and board papers were given to all Directors prior to each meeting in accordance with the Articles of Association and the Code.

During the year ended 31 December 2018, four Board meetings were held. Details of individual attendance of each of the Directors are set out below:

	Attendance/ Number of Meetings Eligible to Attend
Executive directors:	
Mr. YE Fan *(Chairman)*	4/4
Mr. YE Tao *(Chief Executive Officer)*	4/4
Ms. LIU Xuehua	4/4
Independent Non-executive Directors:	
Mr. CHEN Guiyi	4/4
Mr. WANG, Michael Chou	4/4
Mr. JIP Ki Chi	3/4

Board Process

Directors are provided with relevant information to make informed decisions. The Board and each Director have separate and independent access to the Company's senior management for information and making enquiries if necessary. In addition, Directors may seek independent professional advice in appropriate circumstances at the Company's expenses.

Every Director is entitled to have access to the advice and services of the Company Secretary with a view to ensure that the Board procedures, and all applicable rules and regulations, are complied with. All minutes are kept by the Company Secretary and are opened for inspections by any Director during normal office hours by giving reasonable advance notice.

If a substantial Shareholder or a Director has a conflict of interest in a matter before the Board, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent board committee will be set up to deal with the matter.

Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same person. The Chairman is Mr. YE Fan; and the chief executive officer of the Company (the "**Chief Executive Officer**") is Mr. YE Tao. The roles of Chairman and Chief Executive Officer are separate. Such division of responsibilities has been clearly established. It allows a balance of power between the Board and the management of the Group, and ensures the independence and accountability of each of the Board and management of the Group. The Chairman oversees the Board so that it acts in the best interests of the Group. With the support of the executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and that they receive adequate, clear, complete and reliable information in a timely manner. The Chairman has overall responsibility for providing leadership, vision and direction regarding business development of the Group and ensuring that good corporate governance practices and procedures are established.

The Chief Executive Officer, who is assisted by other executive Directors, is responsible for the day-to-day business management and operations of the Group for formulating and successfully implementing policies and maintaining an effective executive support team. The Chief Executive Officer is accountable to the Board for keeping the Chairman and all the Directors fully informed of all major business developments and issues.

Responsibilities of the Directors

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and its Shareholders. Their responsibilities include:

- attending regular Board meetings focusing on business strategy, operational issues and financial performance;

- active participation on the boards of subsidiaries and associated companies;
- approval of annual budgets for each operating company covering strategy, financial and business performance, key risks and opportunities;
- monitoring the quality, timeliness, relevance and reliability of internal and external reporting;
- consideration of misuse of corporate assets and abuse in related party transactions; and
- ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

To enable the Directors to meet their obligations, an appropriate organizational structure is in place with clearly defined responsibilities and limits of authority.

BOARD COMMITTEES

The Company has set up a number of committees of the Board, including the Remuneration Committee, the Audit Committee and the Nomination Committee, with specific terms of reference relating to their authority and duties, which strengthen the Board's functions and enhance its expertise.

Remuneration Committee

The Remuneration Committee comprise of three independent non-executive Directors, namely Mr. WANG, Michael Chou, Mr. JIP Ki Chi and Mr. CHEN Guiyi. Mr. WANG, Michael Chou is the chairman of the Remuneration Committee.

The Remuneration Committee was established in November 2013 and written terms of reference of the Remuneration Committee have been adopted by the Board and posted on the websites of the Company and the Stock Exchange.

The Remuneration Committee's responsibilities include but not limited to the review and consideration of the Company's remuneration policy for the Directors and senior management, the recommendations to the Board on the remuneration packages of individual executive Director and senior management including benefits in kind, pension rights and compensation payments, and recommendations relating to remunerations of independent non-executive Directors.

The Remuneration Committee held two meetings during the year ended 31 December 2018 with individual attendance as follows:

Members of the Remuneration Committee	Attendance/ Number of Meetings
Mr. WANG, Michael Chou *(Chairman)*	2/2
Mr. CHEN Guiyi	2/2
Mr. JIP Ki Chi	1/2

The Group remunerates its employees based on their individual performance, job nature and responsibilities. The Group also provides training and various benefits to its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment to maximize their potential and contribution to the Group.

Audit Committee

The Audit Committee comprises, Mr. CHEN Guiyi, Mr. WANG, Michael Chou and Mr. JIP Ki Chi, all of whom are independent non-executive Directors. Mr. JIP Ki Chi is the chairman of the Audit Committee.

The Audit Committee was established in November 2013 and written terms of reference, which describe the authority and duties of the Audit Committee have been adopted and posted on the websites of the Company and the Stock Exchange, and are regularly reviewed and updated by the Board.

The Audit Committee reports directly to the Board and reviews financial statements, risk management and internal control system, and to protect the interests of the Shareholders.

The Audit Committee meets regularly with the Auditors to discuss various accounting issues, and reviews the effectiveness of internal controls.

The Audit Committee held three meetings during the year ended 31 December 2018 with individual attendance as follow:

Members of the Audit Committee	**Attendance/ Number of Meetings Eligible to Attend**
Mr. JIP Ki Chi *(Chairman)*	3/3
Mr. CHEN Guiyi	3/3
Mr. WANG, Michael Chou	3/3

A meeting of the Audit Committee was held on 25 March 2019 to review the Group's consolidated financial statements for the year ended 31 December 2018.

Nomination Committee

The Nomination Committee comprises one executive Director, Mr. YE Fan and two independent non-executive Directors, Mr. WANG, Michael Chou, and Mr. JIP Ki Chi.

The Nomination Committee was established in November 2013 and written terms of reference of the Nomination Committee have been adopted by the Board and are posted on the websites of the Company and the Stock Exchange.

The Nomination Committee's responsibilities include but not limited to formulating policy and making recommendation to the Board on nominations and appointments of Directors and Board succession.

The Nomination Committee is also responsible for reviewing the structure, size and composition of the Board, assessing independence of the independent non-executive Directors and making recommendations on any proposed changes to the Board.

The Nomination Committee held one meeting during the year ended 31 December 2018. The attendance records of the meetings are as follow:

Members of the Nomination Committee	**Attendance/ Number of Meeting**
Mr. YE Fan *(Chairman)*	1/1
Mr. WANG, Michael Chou	1/1
Mr. JIP Ki Chi	1/1

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "**Model Code**") as the code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiries by the Company, that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2018.

EXTERNAL AUDITOR

The Auditors is KPMG. KPMG provided services in respect of the audit of Company's consolidated financial statements which were prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the year ended 31 December 2018. KPMG also reviewed the 2018 unaudited interim financial information of the Group prepared in accordance with Hong Kong Accounting Standards 34 "Interim Financial Reporting" issued by the HKICPA.

During the year ended 31 December 2018, total fees charged by KPMG in respect of audit services amounted to RMB5,000,000, including interim review of the financial statement of the Company for the six months ended 30 June 2018.

Non-audit service fees charged by KPMG during the year ended 31 December 2018 are as follows:

Description of services performed

	RMB
Tax service	8,300
	8,300

The statement of the Auditors regarding their reporting responsibilities for the financial statements is set out in the Independent Auditor's Report on pages 49 to 56 of this Annual Report.

DIRECTORS' RESPONSIBILITIES IN PREPARING FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements and ensuring that the preparation of the accounts is in accordance with statutory requirements and applicable accounting standards.

GOING CONCERN

The Directors, having made appropriate enquiries, consider that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

EFFECTIVENESS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Board is responsible for the Company's risk management and internal control systems and for reviewing its effectiveness on a ongoing basis. The Group's internal audit department and senior management conduct reviews of the effectiveness of the risk management and internal control systems of the Group. The Audit Committee reviews the findings and recommendations of the internal audit department and the senior management in their meetings held at least twice a year and reports to the Board on such review.

The risk management and internal control systems are designed to manage, rather than eliminate business risk; to help safeguard the Group's assets against fraud and other irregularities; and to give reasonable, but not absolute, assurance against material financial misstatement or loss. In addition, it should provide a basis for the maintenance of proper and fair accounting records and assist in the compliance with relevant rules and regulations.

In respect of the year ended 31 December 2018, the Board, through the Audit Committee, reviewed the overall effectiveness of the Group's risk management and internal control systems, covering financial, operational and compliance controls and risk management functions, which included the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget.

The Board believes that there are no material internal controls deficiencies that may affect the Shareholders and an effective and adequate risk management and internal control system is in place to safeguard the assets of the Group. The Group will continue to enhance the system to cope with the changes in the business environment.

COMPANY SECRETARY

The Company Secretary is Mr. WONG Cheung Ki Johnny, who is not an employee of the Company, has duly complied with the relevant training requirement under Rule 3.29 of the Listing Rules.

CONSTITUTIONAL DOCUMENTS

There were no changes to the memorandum of association of the Company and Articles of Association from the date of its listing on the Stock Exchange (the "**Listing Date**").

A copy of the memorandum and Articles of Association of the Company is posted on the websites of the Company and the Stock Exchange.

COMMUNICATION WITH SHAREHOLDERS

The Directors are aware of the importance of maintaining good relations and communications with the Shareholders. The Board established a Shareholders Communication Policy setting out the principles of the Company in relation to Shareholders' communications, with the objective of ensuring that its communication with the Shareholders are timely and accurate.

The Company uses a range of communication tools, such as annual general meetings, annual reports, various notices, announcements and circulars, to ensure the Shareholders are kept well informed of the Group's key business imperatives.

The Company has maintained a website at www.meidongauto.com which serves as a forum for corporate communications with the Shareholders and the general public. All corporate communications required under the Listing Rules are displayed and archived since the Listing Date on the Company's website and there are established procedures to ensure timely update in compliance with the Listing Rules.

At the AGM, separate resolutions will be proposed by the Chairman in respect of each issue itemized on the agenda, including the re-election of the Directors. The Chairman, the chairman of each of the Remuneration Committee, the Audit Committee and the Nomination Committee and members of senior management, together with representative(s) from the Auditors will attend the AGM to answer questions from the Shareholders.

The notice of the AGM will be distributed to all Shareholders at least 20 clear business days prior to the AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules.

During the year ended 31 December 2018, AGM was held on 17 May 2018, details of individual attendance of each of the Directors are as follows:

	Attendance/Annual General Meeting eligible to attend
Executive Directors	
Mr. YE Fan *(Chairman)*	1/1
Mr. YE Tao *(Chief Executive Officer)*	1/1
Ms. LIU Xuehua (retired with effect from 25 March 2019)	1/1
Independent Non-executive Directors	
Mr. CHEN Guiyi	1/1
Mr. WANG, Michael Chou	1/1
Mr. JIP Ki Chi	1/1

SHAREHOLDERS' RIGHTS

Convening an Extraordinary General Meeting by Shareholders and Putting Forward Proposals

Under the Articles of Association, an extraordinary general meeting ("**EGM**") may be convened by the Board upon requisition by any one or more Shareholders holding not less than one-tenth of the paid up capital of the Company which carries the right of voting at any general meetings. The Shareholder(s) shall make a written requisition to the Board or the Company Secretary at the head office of the Company in Hong Kong, specifying the shareholding information of the Shareholder(s), his/her/their contact details and the proposal regarding any specifying transaction/business and its supporting documents.

If within 21 days of deposit of such written requisition, the Board does not proceed to convene such EGM, the requisitionist(s) himself/herself/themselves may convene an EGM in the same manner as that in which such meeting may be convened by the Board, provided that such meeting so convened shall not be held after the expiration of two months from the date of deposit of such requisition.

Making Enquiries to the Board

Shareholders may send written enquiries, either by post or by facsimiles, together with his/her/its contact details, such as postal address or fax, addressing to the head office of the Company at 2404, 24th Floor, World-Wide House, 19 Des Voeux Road Central, Hong Kong or facsimile number (852) 2668 5798.

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report to the shareholders of
China MeiDong Auto Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China MeiDong Auto Holdings Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 57 to 155, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 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**") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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.

Timing of revenue recognition

Refer to note 4 to the consolidated financial statements and the accounting policies on pages 84 to 85.

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue principally comprises sales of passenger motor vehicles and the provision of after-sales services to a significant number of individual customers. Sales of passenger motor vehicles are recognised when the Group satisfies the performance obligation by transferring control of the vehicle promised in the contract to the customer, which is evidenced by the customer's acceptance of the vehicle and signature on the car delivery note. Revenue arising from after-sales services is recognised when the Group satisfies its performance obligation, which is evidenced by signed customer acceptance for after-sales service transaction. The Group manually records revenue according to car delivery notes and signed customer acceptances. We identified the timing of revenue recognition as a key audit matter because the manual tracking and recording processes increase the risk of error whereby revenue may not be recognised in the correct financial period.	Our audit procedures to assess the accuracy of timing of revenue recognition included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to the timing of revenue recognition; • inspecting standard sales contracts for sales of passenger motor vehicles and after-sales services to identify terms and conditions which may affect revenue recognition and assessing the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards;

KEY AUDIT MATTERS (CONTINUED)

Timing of revenue recognition

Refer to note 4 to the consolidated financial statements and the accounting policies on pages 84 to 85.

The Key Audit Matter	How the matter was addressed in our audit
	• selecting a sample of sales of passenger motor vehicles recorded during the year and after-sales services rendered during the year, plus additional samples of revenue records for one month before and after the year end and comparing the details of the selected transactions with the related sales contracts, car delivery notes and evidence of signed customer acceptance for passenger vehicles sales and after-sales service transactions, where applicable, to assess whether the related performance obligations were satisfied and the revenue had been recognised appropriately in the correct accounting period; and • scrutinising all manual journal entries relating to revenue during the year and inspecting underlying documentation for journal entries which were considered to be material or met other specified risk-based criteria.

KEY AUDIT MATTERS (CONTINUED)

Recognition of vendor rebates

Refer to notes 6(c) and 19 to the consolidated financial statements and the accounting policies on page 85.

The Key Audit Matter	How the matter was addressed in our audit
The Group earns vendor rebates under numerous different arrangements with automobile manufacturers. Rebate arrangements vary between different automobile manufactures and in different fiscal years and principally comprise volume based purchase rebates, sales rebates for certain specific car models, performance rebates and other specific rebates. Volume based purchase rebates and sales rebates are usually granted by the vendors if certain purchase or sales targets are met. Performance rebates are granted by the vendors in accordance with the vendors' comprehensive assessment of the Group's business performance. In addition, other specific rebates are granted to the Group, which include, but are not limited to, new store one-off compensation and regional annual awards. Volume based purchase rebates are recognised as a deduction from the cost of purchase of motor vehicles when the performance conditions associated with them are met. Sales rebates, performance rebates and other specific rebates are recognised as a deduction from costs of sales when the respective conditions associated with them are met.	Our audit procedures to assess the accuracy of recognition of vendor rebates included the following: • obtaining an understanding of the design and implementation of management's key internal controls in relation to the recognition of vendor rebates; • assessing the accounting treatment in respect of the recognition of vendor rebates by inspecting the terms and conditions of the vendor rebate arrangements for all automobile manufacturers with reference to the requirements of the prevailing accounting standards; • selecting a sample of vendor rebates recognised and settled during the year and comparing the recognised rebate amount with credit notes issued by the vendors or bank payment slips; • for vendor rebate receivables at the reporting date, performing recalculations of the receivable amounts, on a sample basis, based on the terms of the underlying vendor rebate arrangements and relevant inputs, including sales and purchase volume data, rebate rates and other specific criteria as set out in the respective vendor rebate arrangements;

KEY AUDIT MATTERS (CONTINUED)

Recognition of vendor rebates

Refer to notes 6(c) and 19 to the consolidated financial statements and the accounting policies on page 85.

The Key Audit Matter	How the matter was addressed in our audit
The Group manually calculates vendor rebates and recognises them when the associated conditions for recognition are met. We identified recognition of vendor rebates as a key audit matter because there are many different kinds of rebate arrangements in place and because the manual calculation of the Group's entitlement to such rebates increases the risk that vendor rebates could be recognised before the entitlement conditions have been met.	• evaluating, on a sample basis, the above relevant inputs used to calculate vendor rebates by comparing the inputs with relevant underlying documentation; and • assessing, on a sample basis, whether vendor rebates accrued at the previous financial reporting date were subsequently settled in the current year.

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

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the 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 THE 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 are assisted by the Audit Committee in discharging their responsibilities 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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.

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

- 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

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.

The engagement partner on the audit resulting in this independent auditor's report is AU Yat Fo.

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

25 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018
(Expressed in RMB'000)

	Note	**2018**	2017
Revenue	4	**11,067,424**	7,682,714
Cost of sales		**(9,994,483)**	(6,862,969)
Gross profit		**1,072,941**	819,745
Other income	5	**153,926**	99,055
Distribution costs		**(390,543)**	(272,445)
Administrative expenses		**(312,780)**	(230,327)
Profit from operations		**523,544**	416,028
Finance costs	6(a)	**(63,188)**	(61,331)
Share of profits of an associate	15	**—**	320
Share of profits of a joint venture	16	**30,878**	22,701
Profit before taxation	6	**491,234**	377,718
Income tax	7(a)	**(127,780)**	(98,967)
Profit for the year		**363,454**	278,751
Other comprehensive income for the year		**—**	—
Profit and total comprehensive income for the year		**363,454**	278,751
Profit and total comprehensive income attributable to:			
Equity shareholders of the Company		**362,929**	275,787
Non-controlling interests		**525**	2,964
Profit and total comprehensive income for the year		**363,454**	278,751
Earnings per share			
Basic (RMB cents)	10(a)	**31.57**	25.26
Diluted (RMB cents)	10(b)	**31.41**	25.23

The notes on pages 62 to 155 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 27(b).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

(Expressed in RMB'000)

	Note	31 December 2018	31 December 2017
Non-current assets			
Property, plant and equipment	11	**857,929**	681,146
Lease prepayments	12	**117,514**	97,528
Intangible assets	13	**69,275**	10,228
Interest in an associate	15	**—**	19,153
Interest in a joint venture	16	**43,676**	37,413
Other non-current assets	17	**48,637**	48,392
Deferred tax assets	26(b)	**25,260**	12,887
		1,162,291	906,747
Current assets			
Inventories	18	**838,856**	673,129
Trade and other receivables	19	**889,183**	583,983
Pledged bank deposits	20	**417,365**	264,543
Cash and cash equivalents	21	**866,821**	545,207
		3,012,225	2,066,862
Current liabilities			
Loans and borrowings	22	**1,028,868**	674,282
Trade and other payables	23	**1,549,809**	1,030,069
Corporate bonds	24	**—**	91,905
Income tax payables	26(a)	**37,317**	30,212
		2,615,994	1,826,468
Net current assets		**396,231**	240,394
Total assets less current liabilities		**1,558,522**	1,147,141

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018
(Expressed in RMB'000)

	Note	**31 December 2018**	31 December 2017
Non-current liabilities			
Loans and borrowings	22	**143,550**	50,677
Deferred tax liabilities	26(b)	**14,736**	2,849
		158,286	53,526
NET ASSETS		**1,400,236**	1,093,615
EQUITY			
Share capital	27(c)	**90,978**	86,585
Reserves	27(e)	**1,288,442**	968,972
Total equity attributable to equity shareholders of the Company		**1,379,420**	1,055,557
Non-controlling interests		**20,816**	38,058
TOTAL EQUITY		**1,400,236**	1,093,615

Approved and authorised for issue by the board of directors on 25 March 2019.

YE Fan	**YE Tao**
Director	*Director*

The notes on pages 62 to 155 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018
(Expressed in RMB'000)

	Attributable to equity shareholders of the Company								
	Share capital RMB'000	Share premium RMB'000 (note 27(e)(i))	Capital redemption reserve RMB'000 (note 27(e)(ii))	Capital reserves RMB'000 (note 27(e)(iii))	PRC statutory reserves RMB'000 (note 27(e)(iv))	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017	85,529	322,312	986	(37,976)	89,537	404,096	864,484	37,806	902,290
Changes in equity for 2017:									
Profit and total comprehensive income for the year	–	–	–	–	–	275,787	275,787	2,964	278,751
Capital injection by non-controlling interests	–	–	–	–	–	–	–	4,000	4,000
Appropriation to reserves	–	–	–	–	46,324	(46,324)	–	–	–
Dividends declared and paid (note 27(a) and note 27(b))	–	(107,812)	–	–	–	–	(107,812)	–	(107,812)
Equity settled share-based transactions (note 25)	–	–	–	348	–	–	348	–	348
Acquisition of non-controlling interest	–	–	–	–	–	(788)	(788)	(6,712)	(7,500)
Issue of ordinary shares upon exercise of warrants (note 27(d))	1,056	25,091	–	(2,609)	–	–	23,538	–	23,538
Balance at 31 December 2017	86,585	239,591	986	(40,237)	135,861	632,771	1,055,557	38,058	1,093,615
Balance at 1 January 2018	**86,585**	**239,591**	**986**	**(40,237)**	**135,861**	**632,771**	**1,055,557**	**38,058**	**1,093,615**
Changes in equity for 2018:									
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**362,929**	**362,929**	**525**	**363,454**
Changes in ownership interests in subsidiaries without change in control	**–**	**–**	**–**	**–**	**–**	**5,278**	**5,278**	**(1,615)**	**3,663**
Appropriation to reserves	**–**	**–**	**–**	**–**	**68,195**	**(68,195)**	**–**	**–**	**–**
Dividends declared and paid (note 27(a) and note 27(b))	**–**	**(149,038)**	**–**	**–**	**–**	**–**	**(149,038)**	**–**	**(149,038)**
Dividends paid to non-controlling interests (note 27(b))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(16,152)**	**(16,152)**
Equity settled share-based transactions (note 25)	**–**	**–**	**–**	**6,068**	**–**	**–**	**6,068**	**–**	**6,068**
Issue of ordinary shares upon exercise of share options (note 25))	**221**	**5,273**	**–**	**(1,533)**	**–**	**–**	**3,961**	**–**	**3,961**
Issue of ordinary shares upon exercise of warrants (note 27(d))	**4,172**	**100,987**	**–**	**(10,494)**	**–**	**–**	**94,665**	**–**	**94,665**
Balance at 31 December 2018	**90,978**	**196,813**	**986**	**(46,196)**	**204,056**	**932,783**	**1,379,420**	**20,816**	**1,400,236**

The notes on pages 62 to 155 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018

(Expressed in RMB'000)

	Note	2018	2017
Operating activities:			
Cash generated from operations	21(b)	**419,191**	378,674
Income tax paid	26(a)	**(131,585)**	(92,613)
Net cash generated from operating activities		**287,606**	286,061
Investing activities:			
Payment for the purchase of property, plant and equipment		**(284,436)**	(178,470)
Proceeds from disposal of property, plant and equipment		**68,545**	50,083
Net cash flow from business combination	28	**(33,000)**	—
Payment for purchase of lease prepayments		**(23,402)**	—
Proceeds from disposal of an associate		**19,850**	—
Dividends received from a joint venture	16	**24,615**	38,731
Dividends received from an associate		**12,497**	—
Other cash flows arising from investing activities		**7,083**	3,921
Net cash used in investing activities		**(208,248)**	(85,735)
Financing activities:			
Proceeds from loans and borrowings	21(c)	**1,522,322**	763,813
Repayment of loans and borrowings	21(c)	**(1,086,759)**	(725,082)
Decease in pledged bank deposits	20	**25,980**	19,278
Dividends declared and paid to equity shareholders	27(b)	**(149,038)**	(107,812)
Dividends paid to non-controlling interests	27(b)	**(16,152)**	—
Proceeds from exercise of share options	25	**3,961**	—
Proceeds from exercise of warrants	27(d)	**92,217**	14,123
Interest paid	21(c)	**(62,433)**	(47,137)
Repayment of corporate bonds	21(c)	**(89,074)**	—
Acquisition of non-controlling interests in a subsidiary		**—**	(7,500)
Changes in interests in subsidiaries without change in control		**663**	—
Advances from related parties	21(c)	**569**	5,029
Capital injection by non-controlling interests		**—**	4,000
Net cash generated from/(used in) financing activities		**242,256**	(81,288)
Net increase in cash and cash equivalents		**321,614**	119,038
Cash and cash equivalents at 1 January	21(a)	**545,207**	426,169
Cash and cash equivalents at 31 December	21(a)	**866,821**	545,207

The notes on pages 62 to 155 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China MeiDong Auto Holdings Limited (the "**Company**") was incorporated in the Cayman Islands on 24 February 2012 as an exempted company with limited liability under the Companies Law (2011 Revision) (as consolidated and revised) of the Cayman Islands. Its registered address is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1–1111, Cayman Islands. The Company and its subsidiaries (together, the "**Group**") are principally engaged in 4S dealership business in the People's Republic of China (the "**PRC**").

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries and the Group's interests in a joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— derivative financial instruments (see note 2(g)).

These consolidated financial statements are presented in Renminbi ("**RMB**") which is the Group's presentation currency, rounded to the nearest thousands, except for earnings per share information.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements (continued)

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9, Financial instruments

(ii) HKFRS 15, Revenue from contracts with customers

(iii) HK (IFRIC) 22, Foreign currency transactions and advance consideration.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 9 and HK (IFRIC) 22 do not have a material effect on how the Group's results and financial position for the current or prior accounting period have been prepared or presented in this financial report.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

The Group has been impacted by HKFRS 15 in relation to presentation of contract liabilities. Details of the changes in accounting policies are discussed in note 2(c)(i) for HKFRS 15. Under the transition methods chosen, there is no significant cumulative effect of the initial application of HKFRS 15 recognised by the Group as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated.

(i) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method. Comparative information has not been restated and continues to be reported under HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

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

a. 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 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 non-refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the group recognises the related revenue. 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.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

— "Receipt in advance" amounting to RMB328,939,000 as at 1 January 2018, which was mainly related to sales of passenger vehicles and after-sales services previously included in trade and other payables is now presented as "Contract liabilities".

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Business combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see note 2(e)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note 2(k)(iii)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it 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, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in 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 the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Subsidiaries and non-controlling interests (continued)

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

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-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, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (see note 2(f)).

In the Company's statement of finance position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)(iii)).

(f) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Associates and joint ventures (continued)

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(k)(iii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of comprehensive income, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associate and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(h) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses (see note 2(k)(iii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(x)).

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

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

—	Buildings	15–30 years
—	Leasehold improvements	over the shorter of the unexpired term of the lease and the estimated useful lives
—	Plant and machinery	5–10 years
—	Passenger vehicles	1–5 years
—	Office equipment and furniture	3–5 years

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property, plant and equipment (continued)

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 2(k)(iii)). Capitalisation of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(i) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(k)(iii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Car dealership is amortised from the date of acquisition over its estimated useful life of 20 years. Software is amortised from the date it is available for use over its estimated useful life of 2–10 years. Both the period and method of amortisation are reviewed annually.

(j) Leased assets

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Leased assets (continued)

(ii) Lease prepayments

Lease prepayments represent cost of land use right paid to the PRC governmental authorities or third parties.

Lease prepayments are stated at cost less accumulated amortisation and impairment losses (see note 2(k)(iii)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits and trade and other receivables).

Measurement of ECLs

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

(A) Policy applicable from 1 January 2018 (continued)

Measurement of ECLs (continued)

The expected cash shortfalls are discounted using the effective interest rate determined at initial recognition or an approximation thereof; where the effect of discounting is material.

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

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

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

(A) Policy applicable from 1 January 2018 (continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the group in full, without recourse by the group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. 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 since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

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

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

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the group.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

(A) Policy applicable from 1 January 2018 (continued)

Basis of calculation of interest income

Interest income recognised in accordance with note 2(u)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

— significant financial difficulties of the debtor;

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

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

(A) *Policy applicable from 1 January 2018* (continued)

Write-off policy

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

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

(B) *Policy applicable prior to 1 January 2018*

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

— significant financial difficulties 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

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

(B) Policy applicable prior to 1 January 2018 (continued)

If any such evidence existed, an impairment loss was determined and recognised as follows:

— For trade and other receivables carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Credit losses and impairment of assets (continued)

(ii) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "**holder**") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. 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.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

(A) Policy applicable from 1 January 2018

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 2(k)(i) apply.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Credit losses and impairment of assets (continued)

(ii) Credit losses from financial guarantees issued (continued)

(A) Policy applicable from 1 January 2018 (continued)

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, a provision would be recognised if and when it became probable that (i) the holder of the guarantee would call upon the Group under the guarantee and (ii) the amount of the claim on the Group was expected to exceed the amount carried in “trade and other payables” in respect of the guarantee.

(iii) Impairment of other non-current assets

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

— property, plant and equipment;

— lease prepayments;

— intangible assets;

— investment in an associate;

— investment in a joint venture; and

— investments in a subsidiary in the Company’s statement of financial position.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Credit losses and impairment of assets (continued)

(iii) Impairment of other non-current assets (continued)

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

— *Calculation of recoverable amount*

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

— *Recognition of impairment losses*

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

— *Reversals of impairment losses*

In respect of assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Credit losses and impairment of assets (continued)

(iv) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(k)(i) and (ii)).

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.

(l) Inventories

Inventories are assets which are held for sale in the ordinary course of business or in the form of materials or supplies to be consumed in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated on specific identification or weighted average basis as appropriate and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the group recognises the related revenue (see note 2(u)). A contract liability would also be recognised if the group has an unconditional right to receive non-refundable consideration before the group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(n)).

In the comparative period, amounts received before the related work was performed were presented as "receipts in advance" under "trade and other payables". These balances have been reclassified on 1 January 2018 as shown in note 23 (see note 2(c)(i)).

(n) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(k)(i)).

(o) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(x)).

(p) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(k)(i).

(r) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution retirement plan

Contributions to PRC local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in capital reserve within equity. The fair value is measured at grant date using the binomial option-pricing model, taking into account the terms and condition upon which the option were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Income tax

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

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Income tax (continued)

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

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

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

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

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Provisions and contingent liabilities

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

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

(u) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

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

(i) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the goods are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

In the comparative period, revenue from sales of goods was recognised when the customer has accepted the related risks and rewards of ownership.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Revenue and other income (continued)

(ii) Interest income

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

(iii) Services income

Revenue arising from services is recognised when the relevant performance obligation is satisfied.

(iv) Commission income

Commission income is recognised at point in time when the services have been rendered.

(v) Vendor rebates

Incentive rebates provided by vendors are recognised on an accrual basis based on the expected entitlement earned up to the reporting date pursuant to each relevant supplier contract.

Incentive rebates relating to vehicles purchased and sold are deducted from cost of sales, while incentive rebates relating to vehicle purchased but still held as inventories at the reporting date are deducted from the carrying value of such vehicles so that the cost of inventories is recorded net of applicable rebates.

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Translation of foreign currencies (continued)

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the statement of financial position date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Related parties

(a) A person, or a close member of that person's family, is related to the Group 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 the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

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

(iii) Both entities are joint ventures of the same third party.

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

(v) The entity is a post-employment benefit plan for the benefit of employees of either the 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 Group's parent.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Segment reporting

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

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

3 ACCOUNTING JUDGEMENT AND ESTIMATES

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

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

(i) Recognition of income taxes and deferred tax assets

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

3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Depreciation and amortisation

As described in note 2(h), property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. As described in note 2(i), intangible assets are amortised on a straight-line basis over the estimated useful lives. Management reviews annually the useful lives of the assets and residual values, if any, in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological and other changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(ii) Net realisable value of inventories

As described in note 2(l), net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions.

Management reassesses these estimations at the end of reporting period to ensure inventory is shown at the lower of cost and net realisable value.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2018	2017
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
— Sales of passenger vehicles	**9,775,138**	6,778,187
— After-sales services	**1,292,286**	904,527
	11,067,424	7,682,714

All revenue was recognised at a point in time.

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at 31 December 2018, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is RMB158,646,000. This amount represents revenue expected to be recognised in the future from pre-completion sales contracts for after-sales services entered into by the customers with the Group. The Group will recognise the expected revenue in future when the Group satisfied its performance obligation, which is expected to occur over the next 12 to 36 months.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for passenger vehicles such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of passenger vehicles that had an original expected duration of one year or less.

4 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the sales of passenger vehicles and provision of after-sales services.

(i) Information about geographical area

All of the Group's revenue is derived from the sales of passenger vehicles and provision of after-sales services in mainland China and the principal non-current assets employed by the Group are located in mainland China. Accordingly, no analysis by geographical segments has been provided for the reporting period.

(ii) Information about major customers

The Group's customer base is diversified and no customer with whom transactions have exceeded 10% of the Group's revenues.

5 OTHER INCOME

	2018 **RMB'000**	2017 RMB'000
Commission income	**75,260**	56,799
Interest income on financial assets measured at amortised cost	**8,947**	4,766
Management service income	**9,767**	12,107
Net gain on disposal of an associate	**13,194**	—
Net gain on disposal of property, plant and equipment	**18,219**	11,270
Gain on bargain purchase (note 28)	**31,273**	—
Net foreign exchange (loss)/gain	**(8,916)**	10,609
Others	**6,182**	3,504
	153,926	99,055

6 PROFIT BEFORE TAXATION

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

		Note	2018 RMB'000	2017 RMB'000
(a)	**Finance costs:**			
	Interest on			
	— loans and borrowings		**45,353**	29,612
	— corporate bonds		**3,746**	20,819
	Total borrowing costs		**49,099**	50,431
	Other finance cost	(i)	**14,089**	10,900
			63,188	61,331
(b)	**Staff costs:**			
	Salaries, wages and other benefits		**413,046**	302,899
	Equity settled share-based payment expenses	(ii)	**6,068**	348
	Contributions to defined contribution retirement plans	(iii)	**18,256**	10,333
			437,370	313,580

(i) It represents the interest expenses borne by the Group arising from discount of bills issued to automobile manufacturers.

(ii) The Group recognised an expense of RMB6,068,000 for the year ended 31 December 2018 (2017: RMB348,000) in relation to share options granted to certain employees of the Group pursuant to a share option scheme (see note 25).

(iii) Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

6 PROFIT BEFORE TAXATION (continued)

(c) Other items:

	2018 RMB'000	2017 RMB'000
Cost of inventories	**10,516,106**	7,245,866
Write down of inventories	**2,744**	4,983
Depreciation	**94,645**	69,048
Amortisation of lease prepayments	**3,416**	2,950
Amortisation of intangible assets	**3,233**	2,226
Operating lease charges	**66,234**	41,793
Net foreign exchange loss/(gain)	**8,916**	(10,609)
Auditors' remuneration	**5,000**	4,200

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of comprehensive income represents:

	2018 RMB'000	2017 RMB'000
Current tax:		
Provision for PRC income tax for the year (note 26(a))	**138,690**	102,031
Deferred tax:		
Origination of temporary differences (note 26(b))	**(10,910)**	(3,064)
	127,780	98,967

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2018 RMB'000	2017 RMB'000
Profit before taxation	**491,234**	377,718
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned (i)	**126,633**	102,446
Tax effect of non-deductible expenses	**2,155**	1,628
Tax effect of non-taxable income on share of profits of an associate	**–**	(80)
Tax effect of non-taxable income on share of profits of a joint venture	**(7,720)**	(5,675)
Tax effect of non-taxable gain on bargain purchase	**(7,818)**	–
Effect of PRC dividend withholding tax (ii)	**11,000**	–
Tax effect of unused tax losses not recognised	**3,530**	648
Actual tax expense	**127,780**	98,967

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin islands.

No provision for Hong Kong Profits Tax was made for the subsidiary located in Hong Kong as the subsidiary did not have assessable profits subject to Hong Kong Profits Tax during the reporting period. The payments of dividends by companies in Hong Kong are not subject to any Hong Kong withholding tax.

The Group's PRC subsidiaries are subject to income tax at the statutory tax rate of 25%.

(ii) Under the CIT Law and its relevant regulations, dividends receivable by non-PRC resident enterprises from PRC resident enterprises for earnings accumulated beginning on 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. The PRC dividend withholding tax of RMB11,000,000 represents the estimated dividend distribution out of earnings of PRC subsidiaries of RMB110,000,000 during the year ended 31 December 2018, out of which RMB90,000,000 was distributed in December 2018.

8 DIRECTORS' EMOLUMENTS

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

Year ended 31 December 2018

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments (note i) RMB'000	Total RMB'000
Executive directors							
Mr. YE Fan	–	605	2,500	6	3,111	–	3,111
Mr. YE Tao	–	2,418	2,020	–	4,438	1,021	5,459
Ms. LIU Xuehua	–	724	900	–	1,624	1,098	2,722
Non-executive directors							
Mr. WANG Ju	84	–	–	–	84	–	84
Mr. JIP Ki Chi	139	–	–	–	139	–	139
Mr. CHEN Gui Yi	84	–	–	–	84	–	84
	307	3,747	5,420	6	9,480	2,119	11,599

8 DIRECTORS' EMOLUMENTS (continued)

Year ended 31 December 2017

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments (note i) RMB'000	Total RMB'000
Executive directors							
Mr. YE Fan	–	604	2,500	5	3,109	–	3,109
Mr. YE Tao	–	2,418	2,020	–	4,438	75	4,513
Ms. LIU Xuehua	–	724	740	–	1,464	81	1,545
Non-executive directors							
Mr. WANG Ju	84	–	–	–	84	–	84
Mr. PAN Lu (resigned on 31 March 2017)	21	–	–	–	21	–	21
Mr. JIP Ki Chi	139	–	–	–	139	–	139
Mr. CHEN Gui Yi (appointed on 1 April 2017)	63	–	–	–	63	–	63
	307	3,746	5,260	5	9,318	156	9,474

(i) These represent the estimated value of share options granted to the directors under the Company's share option scheme in January 2014 and January 2018. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(r)(iii) and, in accordance with that policy, includes adjustments to reverse amounts accrued where grants of equity instruments are forfeited prior to vesting. The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in report of the directors and note 25.

No directors of the Company waived or agreed to waive any remuneration during the year.

During the year, there were no amounts paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2017: three) are directors whose emoluments is disclosed in note 8. The aggregate of the emoluments in respect of the other two (2017: two) individuals are as follows:

	2018 **RMB'000**	2017 RMB'000
Salaries, allowance and benefits in kind	**475**	494
Share-based payments	**407**	22
	882	516

The emoluments of the two (2017: two) individuals with the highest emoluments are within the following bands:

	2018 **Number of** **individuals**	2017 Number of individuals
HK$		
Nil — 1,000,000	**2**	2

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB362,929,000 (2017: RMB275,787,000) and the weighted average of 1,149,529,000 ordinary shares in issue (2017: 1,091,740,000 shares) during the year ended 31 December 2018.

Weighted average number of ordinary shares

	2018	2017
Issued ordinary shares at 1 January	**1,100,630,000**	1,088,130,000
Effect of exercise of share options (note 25)	**1,163,000**	—
Effect of exercise of warrants (note 27(d))	**47,736,000**	3,610,000
Weighted average number of ordinary shares at 31 December	**1,149,529,000**	1,091,740,000

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB362,929,000 (2017: RMB275,787,000) and the weighted average of 1,155,278,000 ordinary shares (2017: 1,093,245,000 ordinary shares) in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's employee share option scheme during the year ended 31 December 2018.

Weighted average number of shares (diluted)

	2018	2017
Weighted average number of ordinary shares for the year ended 31 December	**1,149,529,000**	1,091,740,000
Effect of deemed issue of shares on the warrants (note 27(d))	**778,000**	—
Effect of deemed issue of shares under the employee share option scheme (note 25)	**4,971,000**	1,505,000
Weighted average number of ordinary shares at 31 December	**1,155,278,000**	1,093,245,000

The impact of warrants to earnings per share was anti-dilutive for the year ended 31 December 2017 and therefore there were no dilutive potential ordinary shares during the year.

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Passenger vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2017	440,525	75,125	97,527	78,598	62,305	19,410	773,490
Additions	206	27,444	991	95,333	12,465	31,043	167,482
Transfer	21,266	8,056	9,440	–	–	(38,762)	–
Disposals	–	–	(281)	(60,709)	(1,360)	–	(62,350)
At 31 December 2017	461,997	110,625	107,677	113,222	73,410	11,691	878,622
At 1 January 2018	**461,997**	**110,625**	**107,677**	**113,222**	**73,410**	**11,691**	**878,622**
Acquisition through business combinations	**–**	**13,265**	**12,246**	**–**	**–**	**–**	**25,511**
Additions	**3,489**	**32,789**	**35,700**	**121,112**	**22,131**	**81,022**	**296,243**
Transfer	**53,613**	**24,837**	**2,065**	**–**	**–**	**(80,515)**	**–**
Disposals	**–**	**–**	**(1,088)**	**(78,658)**	**(1,351)**	**–**	**(81,097)**
At 31 December 2018	**519,099**	**181,516**	**156,600**	**155,676**	**94,190**	**12,198**	**1,119,279**
Accumulated depreciation:							
At 1 January 2017	58,238	20,381	21,970	21,290	30,086	–	151,965
Charge for the year	17,834	6,478	9,121	27,134	8,481	–	69,048
Written back on disposals	–	–	(188)	(22,092)	(1,257)	–	(23,537)
At 31 December 2017	76,072	26,859	30,903	26,332	37,310	–	197,476
At 1 January 2018	**76,072**	**26,859**	**30,903**	**26,332**	**37,310**	**–**	**197,476**
Charge for the year	**19,502**	**11,947**	**12,816**	**39,406**	**10,974**	**–**	**94,645**
Written back on disposals	**–**	**–**	**(748)**	**(29,231)**	**(792)**	**–**	**(30,771)**
At 31 December 2018	**95,574**	**38,806**	**42,971**	**36,507**	**47,492**	**–**	**261,350**
Net book value:							
At 31 December 2018	**423,525**	**142,710**	**113,629**	**119,169**	**46,698**	**12,198**	**857,929**
At 31 December 2017	385,925	83,766	76,774	86,890	36,100	11,691	681,146

11 PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's property, plant and equipment are located in the PRC.

The Group has yet to obtain property ownership certificates of certain buildings with an aggregate net book value of RMB272,259,000 as at 31 December 2018 (2017: RMB227,609,000). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial title to these buildings as at 31 December 2018.

Property, plant and equipment with net book value of RMB70,781,000 are pledged as security for bank loans (see note 22(b)(i)) as at 31 December 2018 (2017: RMB7,995,000).

12 LEASE PREPAYMENTS

	2018 **RMB'000**	2017 RMB'000
Cost:		
At 1 January	**115,651**	115,651
Additions	**23,402**	—
At 31 December	**139,053**	115,651
Accumulated amortisation:		
At 1 January	**(18,123)**	(15,173)
Charge for the year	**(3,416)**	(2,950)
At 31 December	**(21,539)**	(18,123)
Net book value:		
At 31 December	**117,514**	97,528

Lease prepayments represent cost of land use rights in respect of land located in the PRC with a lease period of 34–40 years when granted.

Lease prepayments with net book value of RMB86,502,000 are pledged as security for bank loans (see note 22(b)(i)) as at 31 December 2018 (2017: RMB84,129,000).

13 INTANGIBLE ASSETS

The Group

	Car dealership RMB'000	Software RMB'000	Total RMB'000
Cost:			
At 1 January 2017	16,350	2,820	19,170
Additions	—	—	—
At 31 December 2017	16,350	2,820	19,170
At 1 January 2018	16,350	2,820	19,170
Acquisition through business combination (note 28)	56,697	—	56,697
Additions	—	5,583	5,583
At 31 December 2018	73,047	8,403	81,450
Accumulated amortisation:			
At 1 January 2017	(6,011)	(705)	(6,716)
Charge for the year	(816)	(1,410)	(2,226)
At 31 December 2017	(6,827)	(2,115)	(8,942)
At 1 January 2018	(6,827)	(2,115)	(8,942)
Charge for the year	(2,002)	(1,231)	(3,233)
At 31 December 2018	(8,829)	(3,346)	(12,175)
Net book value:			
At 31 December 2018	64,218	5,057	69,275
At 31 December 2017	9,523	705	10,228

The car dealership arise from the Group's relationship with the automobile manufacturer, with an estimated useful life of 20 years. The fair value of the car dealership as at the acquisition date was determined by using the multiple-period excess earning method.

14 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest			
Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
China MeiDong Auto International Limited ("**MeiDong International**") (中國美東汽車國際有限公司)	British Virgin Islands	100 shares of USD1 each	100%	100%	–	Investment holding
China Meidong Auto (HK) Limited ("**MeiDong HK**") (中國美東汽車(香港)有限公司)	Hong Kong	10,000 shares	100%	–	100%	Investment holding
Dongguan Meixin Business Consulting Co., Ltd. ("**Dongguan Meixin**") (東莞美信企業管理諮詢有限公司)	The PRC	RMB 200,000,000	100%	–	100%	Investment holding
Beijing Zhongye Toyota Auto Sales and Services Co., Ltd. (北京中業豐田汽車銷售服務有限公司)	The PRC	RMB 20,000,000	100%	–	100%	Automobile dealership
Dongguan Guanfeng Auto Co., Ltd. (東莞市冠豐汽車有限公司)	The PRC	RMB 10,000,000	100%	–	100%	Automobile dealership
Dongguan Dongbu Toyota Auto Sales and Services Co., Ltd. (東莞市東部豐田汽車銷售服務有限公司)	The PRC	RMB 50,000,000	100%	–	100%	Automobile dealership
Dongguan Dongmei Toyota Auto Sales and Services Co., Ltd. (東莞東美豐田汽車銷售服務有限公司)	The PRC	RMB 50,000,000	100%	–	100%	Automobile dealership
Dongguan Dongxin Auto Sales and Services Co., Ltd. (東莞市東鑫汽車銷售服務有限公司)	The PRC	RMB 50,000,000	100%	–	100%	Automobile dealership
Xiamen Meidong Auto Sales and Services Co., Ltd. (廈門美東汽車銷售服務有限公司)	The PRC	RMB 20,000,000	100%	–	100%	Automobile dealership
Zhuzhou Meibaohang Auto Sales and Services Co., Ltd. (株洲市美寶行汽車銷售服務有限公司)	The PRC	RMB 30,000,000	100%	–	100%	Automobile dealership

14 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Quanzhou Meidong Toyota Auto Sales and Services Co., Ltd. (泉州美東豐田汽車銷售服務有限公司)	The PRC	RMB 30,000,000	100%	–	100%	Automobile dealership
Lanzhou Meidong Lexus Auto Sales and Services Co., Ltd. (蘭州美東雷克薩斯汽車銷售服務有限公司)	The PRC	RMB 30,000,000	100%	–	100%	Automobile dealership
Yiyang Dongxin Auto Sales and Services Co., Ltd. (益陽市東鑫汽車銷售服務有限公司)	The PRC	RMB 20,000,000	100%	–	100%	Automobile dealership
Heyuan Guanfenghang Auto Co., Ltd. (河源市冠豐行汽車有限公司)	The PRC	RMB 20,000,000	100%	–	100%	Automobile dealership
Hengyang Meibaohang Auto Sales and Services Co., Ltd. (衡陽市美寶行汽車銷售服務有限公司)	The PRC	RMB 30,000,000	100%	–	100%	Automobile dealership
Chengde Meibaohang Auto Sales and Services Co., Ltd. (承德美寶行汽車銷售服務有限公司)	The PRC	RMB 30,000,000	100%	–	100%	Automobile dealership
Beijing Meibaohang Auto Sales and Services Co., Ltd. (北京美寶行汽車銷售服務有限公司)	The PRC	RMB 50,000,000	82%	–	82%	Automobile dealership
Foshan Dongbao Auto Sales and Services Co., Ltd. (佛山東保汽車銷售服務有限公司)	The PRC	RMB 30,000,000	100%	–	100%	Automobile dealership
Changsha Meidong Lexus Auto Sales and Services Co., Ltd. (長沙美東雷克薩斯汽車銷售服務有限公司)	The PRC	RMB 30,000,000	100%	–	100%	Automobile dealership
Dongguan Dongyue Used Vehicles Co., Ltd. (東莞市東粵二手車有限公司)	The PRC	RMB 5,000,000	100%	–	100%	Used vehicle trading

14 INVESTMENTS IN SUBSIDIARIES (continued)

			Proportion of ownership interest			
Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Changde Meibaohang Auto Sales and Services Co., Ltd. (常德市美寶行汽車銷售服務有限公司)	The PRC	RMB 30,000,000	100%	–	100%	Automobile dealership
Shantou Dongbao Auto Sales and Services Co., Ltd. (汕頭市東保汽車銷售服務有限公司)	The PRC	RMB 52,000,000	100%	–	100%	Automobile dealership
Longyan Meidong Lexus Auto Sales and Services Co., Ltd. (龍岩美東雷克薩斯汽車銷售服務有限公司)	The PRC	RMB 30,000,000	100%	–	100%	Automobile dealership
Yueyang Meibaohang Auto Sales and Services Co., Ltd. (岳陽市美寶行汽車銷售服務有限公司)	The PRC	RMB 20,000,000	100%	–	100%	Automobile dealership
Meidong Finance Lease Co., Ltd. (美東融資租賃有限公司)	The PRC	RMB 68,880,000/nil	100%	–	100%	Finance lease service
Jingdezhen Meibaohang Auto Sales and Services Co., Ltd. (景德鎮美寶行汽車銷售服務有限公司)	The PRC	RMB 20,000,000	100%	–	100%	Automobile dealership
Xinyu Dongbu Toyota Auto Sales and Services Co., Ltd. (新余東部豐田汽車銷售服務有限公司)	The PRC	RMB 30,000,000	100%	–	100%	Automobile dealership
Zhuhai Meidong Lexus Auto Sales and Services Co., Ltd. (珠海美東雷克薩斯汽車銷售服務有限公司)	The PRC	RMB 10,000,000	100%	–	100%	Automobile dealership
Huanggang Baoxinhang Auto Sales and Services Co., Ltd. (黃岡寶鑫行汽車銷售服務有限公司)	The PRC	RMB 15,000,000	100%	–	100%	Automobile dealership
Foshan Meixin Lexus Auto Sales and Services Co., Ltd. (佛山美興雷克薩斯汽車銷售服務有限公司)	The PRC	RMB 30,000,000	60%	–	60%	Automobile dealership

14 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Yangjiang Meibaohang Auto Sales and Services Co., Ltd. (陽江美寶行汽車銷售服務有限公司)	The PRC	RMB 15,000,000	100%	–	100%	Automobile dealership
Guangzhou Meibaohang Auto Sales and Services Co., Ltd. (廣州美寶行汽車銷售服務有限公司)	The PRC	RMB 25,000,000	100%	–	100%	Automobile dealership
Beijing Huibaohang Auto Sales and Services Co., Ltd. (北京匯寶行汽車銷售服務有限公司)	The PRC	RMB 50,000,000	100%	–	100%	Automobile dealership
Liuyang Meibaohang Auto Sales and Services Co., Ltd. (瀏陽美寶行汽車銷售服務有限公司)	The PRC	RMB 20,000,000	100%	–	100%	Automobile dealership
Qingyuan Meidong Lexus Auto Sales and Services Co., Ltd. (清遠美東雷克薩斯汽車銷售服務有限公司)	The PRC	RMB 10,000,000	100%	–	100%	Automobile dealership
Zhuzhou Meidong Lexus Auto Sales and Services Co., Ltd. (株洲美東雷克薩斯汽車銷售服務有限公司)	The PRC	RMB 10,000,000	100%	–	100%	Automobile dealership
Jiujiang Dongbu Toyota Auto Sales and Services Co., Ltd. (九江東部豐田汽車銷售服務有限公司)	The PRC	RMB 10,000,000	100%	–	100%	Automobile dealership
Yongzhou Meibaohang Auto Sales and Services Co., Ltd. (永州美寶行汽車銷售服務有限公司)	The PRC	RMB 8,000,000	100%	–	100%	Automobile dealership
Shangrao Meibaohang Auto Sales and Services Co., Ltd. (上饒美寶行汽車銷售服務有限公司)	The PRC	RMB 10,000,000	100%	–	100%	Automobile dealership
Dongguan Meiyue Auto Sales and Services Co., Ltd. (東莞美悅汽車銷售服務有限公司)	The PRC	RMB 12,000,000	100%	–	100%	Automobile dealership

14 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Yangjiang Meidong Lexus Auto Sales and Services Co., Ltd. (陽江美東雷克薩斯汽車銷售服務有限公司)	The PRC	RMB 10,000,000	100%	–	100%	Automobile dealership
Ganzhou Xinbao Auto Sales and Services Co., Ltd. (贛州鑫保汽車銷售服務有限公司)	The PRC	RMB 50,000,000	100%	–	100%	Automobile dealership
Tangxia Meidong Lexus Auto Sales and Services Co., Ltd. (塘厦美東雷克薩斯汽車銷售服務有限公司)	The PRC	RMB 10,000,000	100%	–	100%	Automobile dealership
Doumen Meidong Lexus Auto Sales and Services Co., Ltd. (斗門美東雷克薩斯汽車銷售服務有限公司)	The PRC	RMB 10,000,000	100%	–	100%	Automobile dealership
Langfang Guanbaohang Auto Sales and Services Co., Ltd. (廊坊冠寶行汽車銷售服務有限公司)	The PRC	RMB 30,000,000	100%	–	100%	Automobile dealership
Huaibei Meibaohang Auto Sales and Services Co., Ltd. (淮北美寶行汽車銷售服務有限公司)	The PRC	RMB 10,000,000	100%	–	100%	Automobile dealership
Chuzhou Meibaohang Auto Sales and Services Co., Ltd. (滁州美寶行汽車銷售服務有限公司)	The PRC	RMB 10,000,000	100%	–	100%	Automobile dealership
Tongling Meibaohang Auto Sales and Services Co., Ltd. (銅陵美寶行汽車銷售服務有限公司)	The PRC	RMB 10,000,000	100%	–	100%	Automobile dealership
Chizhou Meibaohang Auto Sales and Services Co., Ltd. (池州美寶行汽車銷售服務有限公司)	The PRC	RMB 10,000,000	100%	–	100%	Automobile dealership
Huangshan Meibaohang Auto Sales and Services Co., Ltd. (黃山美寶行汽車銷售服務有限公司)	The PRC	RMB 10,000,000	100%	–	100%	Automobile dealership

14 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Suzhou Meibaohang Auto Sales and Services Co., Ltd. (宿州美寶行汽車銷售服務有限公司)	The PRC	RMB 10,000,000	100%	–	100%	Automobile dealership
Dongguan Meibaohang Auto Sales and Services Co., Ltd. (東莞美寶行汽車銷售服務有限公司)	The PRC	RMB 10,000,000	100%	–	100%	Automobile dealership
Wuhan Xinbao Auto Sales and Services Co., Ltd. (武漢鑫保汽車銷售服務有限公司)	The PRC	RMB 50,000,000	100%	–	100%	Automobile dealership
Nanchang Jubao Auto Sales and Services Co., Ltd. (南昌聚保汽車銷售服務有限公司)	The PRC	RMB 50,000,000	100%	–	100%	Automobile dealership
Heyuan Guanao Auto Sales and Services Co., Ltd. (河源冠奥汽車銷售服務有限公司)	The PRC	RMB 10,000,000	100%	–	100%	Automobile dealership
Bazhou Guanbaohang Auto Sales and Services Co., Ltd. (霸州冠寶行汽車銷售服務有限公司)	The PRC	RMB 10,000,000	100%	–	100%	Automobile dealership

Note:

(i) Except for MeiDong International and MeiDong HK, the English translation of the company names is for reference only. The official names of the companies established in the PRC are in Chinese.

15 INTEREST IN AN ASSOCIATE

	2018 RMB'000	2017 RMB'000
Share of net assets	–	19,153

On 1 January 2018, Dongguan Meixin, a wholly owned subsidiary of the Group, entered into a share purchase agreement with a third party, pursuant to which Dongguan Meixin had agreed to sell and the third party had agreed to purchase the 49% equity interest of Dongguan Anxin Toyota Auto Sales and Service Co., Ltd. ("**Dongguan Anxin**"), an associate of the Group, for an aggregate purchase price of RMB19,850,000.

The following contains the particulars for the associate during the year ended 31 December 2017, which is an unlisted limited liability company established in the PRC whose quoted market price is not available:

				Proportion of ownership interest			
Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Dongguan Anxin Toyota Auto Sales and Service Co., Ltd.	Incorporated	The PRC	RMB 12,000,000	49%	–	49%	Automobile dealership

The above associate is accounted for using the equity method in the consolidated financial statements for the year ended 31 December 2017.

16 INTEREST IN A JOINT VENTURE

	2018 RMB'000	2017 RMB'000
Share of net assets	**43,676**	37,413

Details of the Group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

				Proportion of ownership interest			
Name of Joint venture	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Dongguan Meidong Automotive Service Co., Ltd. ("**Dongguan Meidong**")	Incorporated	The PRC	RMB 22,000,000	49%	–	49%	Automobile dealership

Dongguan Meidong is structured as a separate vehicle and provides the Group rights to the net assets of the entity. Accordingly, the Group has classified the investment in Dongguan Meidong as a joint venture.

Dongguan Meidong, the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

16 INTEREST IN A JOINT VENTURE (continued)

Summarised financial information of the joint venture and reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	2018 RMB'000	2017 RMB'000
Gross amounts of Dongguan Meidong's		
Current assets	**156,342**	145,897
Non-current assets	**23,327**	15,885
Current liabilities	**(90,535)**	(85,430)
Equity	**(89,134)**	(76,353)
Included in the above assets and liabilities:		
Cash and cash equivalents	**83,362**	64,874
Current financial liabilities (excluding trade and other payables and provisions)	**(9,154)**	(8,218)
Revenue	**865,554**	722,556
Profit and total comprehensive income	**63,016**	46,329
Profit distribution to Dongguan Meixin	**24,615**	38,731
Included in the above profit:		
Depreciation and amortisation	**(2,957)**	(2,484)
Interest income	**686**	839
Interest expense	**(9)**	(109)
Income tax expense	**(21,028)**	(15,576)
Reconciled to the Group's interest in Dongguan Meidong		
Gross amounts of Dongguan Meidong's net assets	**89,134**	76,353
Group's effective interest	**49%**	49%
Group's share of Dongguan Meidong's net assets and carrying amount in the consolidated financial statements	**43,676**	37,413

17 OTHER NON-CURRENT ASSETS

	2018 RMB'000	2017 RMB'000
Prepayments for property, plant and equipment and intangible assets	**4,966**	13,339
Long-term deposits and receivables	**43,671**	35,053
	48,637	48,392

18 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2018 RMB'000	2017 RMB'000
Motor vehicles	**762,765**	622,802
Others	**76,091**	50,327
	838,856	673,129

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2018 RMB'000	2017 RMB'000
Carrying amount of inventories sold	**10,516,106**	7,245,866
Write-down of inventories	**2,744**	4,983

Inventories with carrying amount of RMB329,553,000 have been pledged as security for loans and borrowings (see note 22(b)(i)) as at 31 December 2018 (2017: RMB231,613,000).

Inventories with carrying amount of RMB363,331,000 have been pledged as security for the bills payable (see note 23(b)) as at 31 December 2018 (2017: RMB248,015,000).

19 TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**125,534**	81,183
Prepayments	**186,435**	134,017
Other receivables and deposits	**570,209**	354,551
Amounts due from third parties	**882,178**	569,751
Amounts due from related parties (note 32(c))	**7,005**	14,232
Trade and other receivables	**889,183**	583,983

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

Trade and other receivables with carrying amount of RMB158,163,000 have been pledged as security for loans and borrowings (see note 22(b)(i)) as at 31 December 2018 (2017: RMB107,662,000).

Trade and other receivables with carrying amount of RMB27,486,000 have been pledged as security for the bills payable (see note 23(b)) as at 31 December 2018 (2017: RMB15,041,000).

As of the end of the reporting period, the ageing analysis of trade receivables (which are included in trade and other receivables) based on the invoice date that are neither individually nor collectively considered to be impaired is as follows:

	2018 RMB'000	2017 RMB'000
Within 1 month	**109,360**	72,994
1 to 2 months	**7,687**	3,348
2 to 3 months	**2,301**	340
Over 3 months	**6,186**	4,501
	125,534	81,183

Details on the Group's credit policy are set out in note 29.

20 PLEDGED BANK DEPOSITS

	2018 RMB'000	2017 RMB'000
Restricted bank deposits pledged in respect of loans and borrowings (note 22(b)(i))	**24,579**	50,559
Restricted bank deposits pledged in respect of bills payable (note 23(b))	**392,786**	213,984
	417,365	264,543

The pledged bank deposits will be released upon the settlement of relevant loans and borrowings and bills payable.

21 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2018 RMB'000	2017 RMB'000
Cash at bank and in hand	**866,821**	545,207

21 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2018 RMB'000	2017 RMB'000
Profit before taxation		**491,234**	377,718
Adjustments for:			
— Depreciation	6(c)	**94,645**	69,048
— Amortisation of lease prepayments	6(c)	**3,416**	2,950
— Amortisation of intangible assets	6(c)	**3,233**	2,226
— Net gain on disposal of property, plant and equipment	5	**(18,219)**	(11,270)
— Write down of inventories	6(c)	**2,744**	4,983
— Finance costs	6(a)	**63,188**	61,331
— Net gain on disposal of an associate	5	**(13,194)**	—
— Share of profits of an associate		**—**	(320)
— Share of profits of a joint venture		**(30,878)**	(22,701)
— Interest income	5	**(8,947)**	(4,766)
— Equity settled share-based payment expenses	6(b)	**6,068**	348
— Net foreign exchange loss/(gain)		**8,930**	(10,220)
— Net gain on bargain purchase	5	**(31,273)**	—
Changes in working capital:			
Increase in inventories		**(165,776)**	(194,172)
Increase in trade and other receivables		**(301,302)**	(85,361)
(Increase)/decrease in pledged bank deposits		**(178,802)**	63,004
Increase in trade and other payables		**502,742**	140,602
Decrease in other non-current assets		**(8,618)**	(14,726)
Cash generated from operations		**419,191**	378,674

21 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(c) Reconciliation of liabilities arising from financing activities:

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

	Bank loans and other borrowings RMB'000 (Note 1)	Corporate bonds RMB'000 (Note 24)	Interest payables RMB'000 (Note 2)	Other payables due to a related party RMB'000 (Note 32(c))	Total RMB'000
At 1 January 2018	724,959	91,905	3,916	5,055	825,835
Changes from financing cash flows:					
Proceeds from loans and borrowings	1,522,322	–	–	–	1,522,322
Repayment of loans and borrowings	(1,086,759)	–	–	–	(1,086,759)
Repayment of corporate bonds	–	(89,074)	–	–	(89,074)
Interest paid	–	–	(62,433)	–	(62,433)
Advances from related parties	–	–	–	569	569
Total changes from financing cash flows	435,563	(89,074)	(62,433)	569	284,625
Exchange adjustments	11,896	(2,865)	(101)	–	8,930
Other changes:					
Exercise of warrants by way of setting off corporate bonds (note 24)	–	(2,448)	–	–	(2,448)
Interest expenses (note 6(a))	–	2,482	60,706	–	63,188
Total other changes	–	34	60,706	–	60,740
At 31 December 2018	1,172,418	–	2,088	5,624	1,180,130

21 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(c) Reconciliation of liabilities arising from financing activities: (continued)

	Bank loans and other borrowings RMB'000 (Note 1)	Corporate bonds RMB'000 (Note 24)	Interest payables RMB'000 (Note 2)	Other payables due to a related party RMB'000 (Note 32(c))	Total RMB'000
At 1 January 2017	690,343	94,254	2,893	26	787,516
Changes from financing cash flows:					
Proceeds from loans and borrowings	763,813	–	–	–	763,813
Repayment of loans and borrowings	(725,082)	–	–	–	(725,082)
Interest paid	–	–	(47,137)	–	(47,137)
Advances from related parties	–	–	–	5,029	5,029
Total changes from financing cash flows	38,731	–	(47,137)	5,029	(3,377)
Exchange adjustments	(4,115)	(6,077)	(28)	–	(10,220)
Other changes:					
Exercise of warrants by way of setting off corporate bonds (note 24)	–	(9,415)	–	–	(9,415)
Interest expenses (note 6(a))	–	13,143	48,188	–	61,331
Total other changes	–	3,728	48,188	–	51,916
At 31 December 2017	724,959	91,905	3,916	5,055	825,835

Note 1: Bank loans and other borrowings consist of bank loans and borrowings from a related party as disclosed in note 22.

Note 2: Interest payables is recorded in trade and other payables as disclosed in note 23.

22 LOANS AND BORROWINGS

(a) At 31 December 2018, loans and borrowings were repayable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year or on demand (i)	**1,028,868**	674,282
After 1 year but within 2 years (i)	**26,300**	50,677
After 2 years but within 5 years (i)	**117,250**	—
	143,550	50,677
	1,172,418	724,959

(i) Loans and borrowings of RMB634,300,000 repayable within 1 year were guaranteed by related parties as at 31 December 2018 (2017: RMB417,223,000) (see note 32(d)).

Loans and borrowings of RMB26,300,000 repayable after 1 year but within 2 years were guaranteed by a related party as at 31 December 2018 (2017: RMB25,600,000) (see note 32(d)).

Loans and borrowings of RMB117,250,000 repayable after 2 years but within 5 years were guaranteed by a related party as at 31 December 2018 (2017: NIL) (see note 32(d)).

(b) At 31 December 2018, loans and borrowings were secured as follows:

	2018 RMB'000	2017 RMB'000
Unsecured borrowings from other financial institutions	**23,131**	17,371
Unsecured borrowings from a related party (note 32(c))	**43,810**	33,436
	66,941	50,807
Secured bank loans (i)	**665,633**	358,984
Secured borrowings from other financial institutions (i)	**439,844**	315,168
	1,105,477	674,152
	1,172,418	724,959

22 LOANS AND BORROWINGS (continued)

(b) At 31 December 2018, loans and borrowings were secured as follows (continued):

(i) Loans and borrowings were secured by the following assets of the Group:

	2018 RMB'000	2017 RMB'000
Inventories	329,553	231,613
Trade and other receivables	158,163	107,662
Property, plant and equipment	70,781	7,995
Lease prepayments	86,502	84,129
Pledged bank deposits	24,579	50,559
	669,578	481,958

23 TRADE AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	120,316	83,361
Bills payable	783,603	477,040
	903,919	560,401
Receipts in advance	—	328,939
Contract liabilities (i)	481,367	—
Other payables and accruals	158,098	134,990
Amounts due to third parties	1,543,384	1,024,330
Amounts due to related parties (note 32(c))	6,425	5,739
Trade and other payables	1,549,809	1,030,069

(i) "Receipts in advance" in "Trade and other payables" amounting to RMB328,939,000 as at 1 January 2018 is now included in contract liabilities (see note 2(c)(i)).

The amount of revenue recognised in the year that was included in the contract liabilities balance at the beginning of the year was RMB287,905,000.

23 TRADE AND OTHER PAYABLES (continued)

(a) All trade and other payables are expected to be settled within one year.

(b) Bills payable were secured by the following assets of the Group:

	2018 RMB'000	2017 RMB'000
Pledged bank deposits	392,786	213,984
Inventories	363,331	248,015
Trade and other receivables	27,486	15,041
	783,603	477,040

As at 31 December 2018, bills payable of RMB656,256,000 were guaranteed by a related party (2017: RMB199,803,000) (see note 32(d)).

(c) As of the end of the reporting period, the ageing analysis of trade payables and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	2018 RMB'000	2017 RMB'000
Within 3 months	850,096	516,386
After 3 months but within 6 months	53,823	44,015
	903,919	560,401

24 CORPORATE BONDS

On 9 March 2015, the Company issued bonds in the aggregate principal amount of HK$101,400,000 and warrants (see note 27(d)) to certain third parties. The fair value of the bonds amounting to RMB67,126,000 was estimated at the issuance date using the Discounted Cashflow Method.

According to the terms and conditions of the bonds, the bonds bear an interest rate of 9% per annum and will mature in 3 years. The bonds may additionally bear a default interest rate of 25% per annum subject to the occurrence of certain default events. The bondholders were entitled to redeem the bonds after the second anniversary of the issuance date but no later than the date which is fourteen days before the bond maturity date, in a maximum principal amount equal to 50 percent of the principal amount. Unless previously redeemed or cancelled as provided herein, the Company shall redeem any outstanding bonds on the maturity date in an amount equal to the redemption amount and an additional redemption amount HK$22,815,000 on the bonds, to be payable to each bondholder pro-rata to the principal amount of the bonds held by that bondholder. The redemption rights of the bonds were evaluated with nil fair value at the issuance date. As at 31 December 2018, the fair value of redemption rights of the bonds was nil after the repayment of corporate bonds on the maturity date.

During the year ended 31 December 2017, subscription rights attaching to 12,500,000 warrant shares were exercised at a subscription price of RMB1.883 per ordinary share (see note 27(d)). Consequently, the Company issued 12,500,000 ordinary shares upon the exercise of the subscription rights, of which 7,500,000 ordinary shares were issued for a cash consideration of RMB14,122,500 and 5,000,000 ordinary shares were issued for a consideration of RMB9,415,000 which is setting off with the outstanding principal amount of the corporate bonds held by the warrants holders.

During the year ended 31 December 2018, subscription rights attaching to 50,273,614 warrant shares were exercised at a subscription price of RMB1.883 per ordinary share (see note 27(d)). Consequently, the Company issued 50,273,614 ordinary shares upon the exercise of the subscription rights, of which 48,973,614 ordinary shares were issued for a cash consideration of RMB92,217,000 and 1,300,000 ordinary shares were issued for a consideration of RMB2,447,900 which is setting off with the outstanding principal amount of the corporate bonds held by the warrants holders.

On 9 March 2018, the maturity date of corporate bonds, the Group repaid the remaining outstanding principal amount of the corporate bonds of RMB70,611,000, corresponding interests of RMB3,360,000 and the additional redemption amount of RMB18,463,000 to bond holders. Accordingly, 355,838,151 ordinary shares of the Company held by Apex Sail Limited (“Apex Sail”) and secured for the corporate bonds have been released.

Details of the Group’s corporate bonds are set out in note 21(c).

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS

(i) Share options granted on 20 January 2014:

Pursuant to a resolution of the board of directors of the Company passed on 20 January 2014, 11,400,000 share options were granted to certain eligible employees of the Group under the share option scheme adopted by the Company on 13 November 2013, to subscribe for 11,400,000 shares of the Company in aggregate with an exercise price of HK$1.8, among which 2,000,000 and 2,150,000 share options were granted to Mr. YE Tao and Ms. LIU Xuehua, the executive directors of the Company, respectively. Each option gives the holder the right to subscribe for one ordinary share of HK$0.1 each of the Company. The scheme became effective on 13 November 2013, unless otherwise cancelled or amended, will remain in force for ten years from that date.

During the year ended 31 December 2018, 2,640,000 options were exercised (2017: NIL) at a subscription price of HK$1.8 per ordinary share for a total consideration of HK$4,752,000 (equivalent to RMB3,961,000) and consequently, HK$264,000 (equivalent to RMB221,000) and RMB3,740,000 was recorded in share capital and share premium account respectively. Accordingly, the fair value of these share options in an aggregate amount of RMB1,533,000 previously recognised in the capital reserve was transferred to the share premium account upon the exercise of share option.

The options granted on 20 January 2014 outstanding at 31 December 2018 had an exercise price of HK$1.8 (2017: HK$1.8) and a remaining contractual life of 4.87 years (2017: 5.87 years).

(ii) Share options granted on 4 January 2018:

Pursuant to a resolution of the board of directors of the Company passed on 4 January 2018, 11,980,000 share options were granted to certain eligible employees of the Group under the share option scheme adopted by the Company on 13 November 2013, to subscribe for 11,980,000 shares of the Company in aggregate with an exercise price of HK$2.58, among which 2,000,000 and 2,150,000 share options were granted to Mr. YE Tao and Ms. LIU Xuehua, the executive directors of the Company, respectively. Each option gives the holder the right to subscribe for one ordinary share of HK$0.1 each of the Company. Each 25% of these share options will vest on 4 January 2018, 4 January 2019, 4 January 2020 and 4 January 2021, respectively, and be exercisable until 3 January 2028.

The options granted on 4 January 2018 outstanding at 31 December 2018 had an exercise price of HK$2.58 and a remaining contractual life of 9.01 years.

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(a) The term and conditions of the grants are as follows:

	Number of Instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
— On 20 January 2014	4,150,000	25% on 1 January 2015 25% on 1 January 2016 25% on 1 January 2017 25% on 1 January 2018	9.82 years
— On 4 January 2018	4,150,000	25% on 4 January 2018 25% on 4 January 2019 25% on 4 January 2020 25% on 4 January 2021	10.00 years
Options granted to employees:			
— On 20 January 2014	7,250,000	25% on 1 January 2015 25% on 1 January 2016 25% on 1 January 2017 25% on 1 January 2018	9.82 years
— On 4 January 2018	7,830,000	25% on 4 January 2018 25% on 4 January 2019 25% on 4 January 2020 25% on 4 January 2021	10.00 years
Total share options granted	23,380,000		

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) The number and exercise prices of share options are as follows:

(i) Share options granted on 20 January 2014:

	2018		2017	
	Exercise price	**Number of options**	Exercise price	Number of options
Outstanding at the beginning of the year	**HK$1.8**	**9,470,000**	HK$1.8	9,470,000
Granted during the year		**–**		–
Exercised during the year		**(2,640,000)**		–
Forfeited during the year		**(50,000)**		–
Outstanding at the end of the year		**6,780,000**		9,470,000
Exercisable at the end of the year		**6,780,000**		9,470,000

(ii) Share options granted on 4 January 2018:

	2018		2017	
	Exercise price	**Number of options**	Exercise price	Number of options
Outstanding at the beginning of the year		**–**	N/A	–
Granted during the year	**HK$2.58**	**11,980,000**		–
Exercised during the year		**–**		–
Forfeited during the year		**(100,000)**		–
Outstanding at the end of the year		**11,880,000**		–
Exercisable at the end of the year		**11,880,000**		–

No options granted on 4 January 2018 were exercised during the year ended 31 December 2018 (2017: NIL).

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) The number and exercise prices of share options are as follows: (continued)

(iii) The weighted average share price at the date of exercise for share options exercised during the year was HK$3.37 (2017: N/A).

(c) Fair value of share options and assumptions:

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measure based on a binomial option-pricing model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option-pricing model.

Fair value of share options and assumptions

	Share options granted on 20 January 2014	**Share options granted on 4 January 2018**
Fair value at measurement date (expressed as weighted average fair value under binomial option-pricing model)	HK$0.75	HK$0.87
Share price	HK$1.63	HK$2.48
Exercise price	HK$1.80	HK$2.58
Expected volatility (expressed as weighted average volatility used in the modelling under binomial option-pricing model)	54.34%	48.08%
Option life (expressed as weighted average life used in the modelling under binomial option-pricing model)	9.82 years	10.00 years
Expected dividends	2.02%	5.75%
Risk-free interest rate (based on HKMA Hong Kong Exchange Fund Notes)	2.23%	1.85%

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(c) Fair value of share options and assumptions: (continued)

Fair value of share options and assumptions (continued)

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on the historical earning per share and management's estimation of dividend payment. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2018	2017
	RMB'000	RMB'000
At the beginning of the year	**30,212**	20,794
Provision for current income tax for the year	**138,690**	102,031
Payment during the year	**(131,585)**	(92,613)
At the end of the year	**37,317**	30,212

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets and liabilities recognised

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

	Fair value adjustment arising from business combinations RMB'000	Depreciation/ amortisation charges in excess of depreciation/ amortisation allowances RMB'000	Unused tax losses RMB'000	Accruals RMB'000	Capitalised interest RMB'000	Inventory provision RMB'000	PRC dividend withholding tax RMB'000	Total RMB'000
Deferred tax (liabilities)/assets arising from:								
At 1 January 2017	(2,791)	100	3,423	7,078	(836)	–	–	6,974
Credited/(charged) to profit or loss (note 7(a))	277	85	(891)	2,307	40	1,246	–	3,064
At 31 December 2017	(2,514)	185	2,532	9,385	(796)	1,246	–	10,038
At 1 January 2018	**(2,514)**	**185**	**2,532**	**9,385**	**(796)**	**1,246**	**–**	**10,038**
Arising from business combinations (note 28)	**(10,424)**	**–**	**–**	**–**	**–**	**–**	**–**	**(10,424)**
Credited/(charged) to profit or loss (note 7(a))	**404**	**840**	**7,743**	**4,443**	**40**	**(560)**	**(2,000)**	**10,910**
At 31 December 2018	**(12,534)**	**1,025**	**10,275**	**13,828**	**(756)**	**686**	**(2,000)**	**10,524**

Deferred tax assets in respect of unused tax losses are related to subsidiaries that were established in recent years, which are progressing to their normal operating stage and are expected to derive profits in the foreseeable future. Accordingly, it is considered probable that sufficient taxable profits will be available to utilise their unused tax losses before they expire.

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets and liabilities recognised (continued)

(ii) Reconciliation to consolidated statement of financial position:

The Group

	2018 RMB'000	2017 RMB'000
Representing:		
Net deferred tax assets	**25,260**	12,887
Net deferred tax liabilities	**(14,736)**	(2,849)
	10,524	10,038

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB27,301,000 (2017: RMB18,892,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity before they expire. The PRC deductible tax losses in PRC expire within 5 years from the year when such losses were incurred. The tax losses incurred by MeiDong HK do not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

The Corporate Income Tax Law of the PRC and its relevant regulations also impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings of PRC enterprises accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. The Group has not recognised deferred tax liabilities as at 31 December 2018 in respect of undistributed earnings of RMB1,095,781,000 (2017: RMB758,763,000) as the Company controls the dividend policy of the subsidiaries and it has been determined that these profits will not be distributable in the foreseeable future.

27 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2017	85,529	322,312	986	18,636	(116,113)	311,350
Loss and total comprehensive income for the year	–	–	–	–	(30,004)	(30,004)
Dividend approved and paid in respect of the previous year (note 27(b))	–	(107,812)	–	–	–	(107,812)
Equity settled share-based transactions (note 25)	–	–	–	348	–	348
Issue of ordinary shares upon exercise of warrants (note 27(d))	1,056	25,091	–	(2,609)	–	23,538
Balance at 31 December 2017	86,585	239,591	986	16,375	(146,117)	197,420
Balance at 1 January 2018	**86,585**	**239,591**	**986**	**16,375**	**(146,117)**	**197,420**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**66,781**	**66,781**
Dividends declared and paid (note 27(b))	**–**	**(149,038)**	**–**	**–**	**–**	**(149,038)**
Equity settled share-based transactions (note 25)	**–**	**–**	**–**	**6,068**	**–**	**6,068**
Issue of ordinary shares upon exercise of share options (note 25)	**221**	**5,273**	**–**	**(1,533)**	**–**	**3,961**
Issue of ordinary shares upon exercise of warrants (note 27(d))	**4,172**	**100,987**	**–**	**(10,494)**	**–**	**94,665**
Balance at 31 December 2018	**90,978**	**196,813**	**986**	**10,416**	**(79,336)**	**219,857**

27 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year:

	2018 RMB'000	2017 RMB'000
Interim dividend for the year, approved and paid during the year, of RMB0.041 per ordinary share (2017: RMB0.035 per ordinary share)	47,259	38,172

	2018 RMB'000	2017 RMB'000
Final dividend proposed after the statement of financial position date of RMB0.0849 per ordinary share (2017: RMB0.0883 per ordinary share)	97,936	101,625

The final dividend proposed after the statement of financial position date has not been recognised as a liability at the statement of financial position date.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2018 RMB'000	2017 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.0883 per ordinary share (2017: RMB0.064 per ordinary share)	101,779	69,640

(iii) Other dividends

During the year ended 31 December 2018, subsidiaries of the Group declared and paid dividends of RMB16,152,000 (2017: NIL) in cash to non-controlling interests.

27 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital

The share capital of the Group as at 31 December 2018 represented the amount of issued and paid-up capital of the Company with details set out below:

Authorised:

	Note	Par value HK$	2018 Number of shares (thousand)	2018 Nominal value of ordinary shares HK$'000	2017 Number of shares (thousand)	2017 Nominal value of ordinary shares HK$'000
At 31 December	(i)	0.1	**20,000,000**	**2,000,000**	20,000,000	2,000,000

Ordinary shares, issued and fully paid:

	Note	Number of ordinary shares (thousand)	Nominal value of ordinary shares HK$('000)
At 1 January 2017		1,088,130	108,813
Issue of ordinary shares upon exercise of warrants	27(d)	12,500	1,250
At 31 December 2017 and 1 January 2018		1,100,630	110,063
Issue of ordinary shares upon exercise of warrants	27(d)	50,274	5,027
Issue of ordinary shares upon exercise of share options	25	2,640	264
At 31 December 2018		1,153,544	115,354
RMB equivalent ('000) at 31 December 2018			90,978
RMB equivalent ('000) at 31 December 2017			86,585

27 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital (continued)

(i) Authorised share capital

The Company was incorporated on 24 February 2012 with an authorised share capital of HK$10,000,000 divided into 100,000,000 ordinary shares of HK$0.1 each. Pursuant to a resolution dated 16 October 2013 passed by its sole shareholder, Apex Sail, the authorised share capital of the Company was increased from HK$10,000,000 to HK$2,000,000,000 by the creation of 19,900,000,000 new share of HK$0.1 each.

(d) Warrants

On 9 March 2015, the Company issued warrants, which entitled the holders thereof to subscribe up to RMB118,202,715 for 62,773,614 warrant shares at a subscription price of RMB1.883 per warrant share within three years after the issuance date. The fair value of warrants amounting to RMB13,103,000 net of direct warrant issuance expenses of RMB127,000 was credited to capital reserve.

During the year ended 31 December 2017, subscription rights attaching to 12,500,000 warrant shares were exercised at a subscription price of RMB1.883 per ordinary share for a total consideration of RMB23,537,500 (see note 24) and consequently, HK$1,250,000 (equivalent to RMB1,056,000) and RMB22,481,500 was recorded in share capital and share premium account respectively. Accordingly, the fair value of these warrants in an aggregate amount of RMB2,609,203 previously recognised in the capital reserve was transferred to the share premium account upon the exercise of warrants.

During the year ended 31 December 2018, subscription rights attaching to 50,273,614 warrant shares were exercised at a subscription price of RMB1.883 per ordinary share for a total consideration of RMB94,665,000 (see note 24) and consequently, HK$5,027,361 (equivalent to RMB4,172,000) and RMB90,493,000 was recorded in share capital and share premium account respectively. Accordingly, the fair value of these warrants in an aggregate amount of RMB10,494,000 previously recognised in the capital reserve was transferred to the share premium account upon the exercise of warrants.

As at 31 December 2018, the Group had no outstanding warrant shares.

27 CAPITAL, RESERVES AND DIVIDENDS (continued)

(e) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the equity shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Capital redemption reserve

Capital redemption reserve represents the nominal value of the shares repurchased which has been paid out of the share premium of the Company.

(iii) Capital reserves

Capital reserve comprises the following:

— contributions by the Controlling Shareholder at the respective dates;

— balances arising from transactions with owners in their capacity as the equity owners; and

— the portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 2(r)(iii).

(iv) PRC statutory reserve

Statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before distribution of a dividend to equity shareholders.

For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of equity shareholders, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

27 CAPITAL, RESERVES AND DIVIDENDS (continued)

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholder and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as loans and borrowings and bills payable plus unaccrued proposed dividends, less pledged bank deposits and cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During 2018, the Group's strategy, which was unchanged from 2017, was to maintain the adjusted net debt-to-capital ratio at a range considered reasonable by management. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

27 CAPITAL, RESERVES AND DIVIDENDS (continued)

(f) Capital management (continued)

The adjusted net debt-to-capital ratio at 31 December 2018 was as follows:

		The Group	
		2018	2017
	Note	**RMB'000**	RMB'000
Current liabilities:			
Loans and borrowings	22	**1,028,868**	674,282
Bills payable	23	**783,603**	477,040
Corporate bonds	24	**—**	91,905
		1,812,471	1,243,227
Non-current liabilities:			
Loans and borrowings	22	**143,550**	50,677
Total debt		**1,956,021**	1,293,904
Add: Proposed dividends	27(b)	**97,936**	101,625
Less: Pledged bank deposits	20	**(417,365)**	(264,543)
Cash and cash equivalents	21(a)	**(866,821)**	(545,207)
Adjusted net debt		**769,771**	585,779
Total equity		**1,400,236**	1,093,615
Less: Proposed dividends	27(b)	**(97,936)**	(101,625)
Adjusted capital		**1,302,300**	991,990
Adjusted net debt-to-capital ratio		**0.59**	0.59

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

28 BUSINESS COMBINATION

In July 2018, the Group entered into an agreement with a third party, pursuant to which the Group agreed to acquire 4S dealership businesses of six BMW branded 4S stores wholly owned by the third party. The acquisition was completed on 1 August 2018 for a total consideration of RMB47,824,000.

The acquisition had the following effect on the Group's assets and liabilities:

	Pre-acquisition Carrying amount RMB'000	**Fair value adjustment RMB'000**	**Recognised value on acquisition RMB'000**
Car dealership	15,000	41,697	56,697
Other net identifiable assets	32,824	—	32,824
Deferred tax liabilities (note 26(b)(i))	—	(10,424)	(10,424)
Net identified assets	47,824	31,273	79,097
Percentage attributable to the Group			100%
Net identified assets attributable to the Group			79,097
Gain on a bargain purchase			(31,273)
Total consideration			47,824
Analysis of the net cash flow in respect of the acquisition			
Less: consideration payable			(14,824)
Less: cash acquired			—
Net cash outflow in acquisition			33,000

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisition. The values of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values.

28 BUSINESS COMBINATION (continued)

The revenue and loss that the companies contributed to the Group during the year ended 31 December 2018 are RMB244,677,000 and RMB3,531,000, respectively. If the acquisition had occurred on 1 January 2018, management estimates that the Group's consolidated revenue and consolidated profit for the year ended 31 December 2018 would have been RMB11,375,936,000 and RMB356,550,000, respectively. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the above acquisition would have been the same if the acquisition had occurred on 1 January 2018.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to cash and cash equivalents, pledged bank deposits, time deposits and trade and other receivables.

The Group's exposure to credit risk arising from cash and cash equivalents, pledged bank deposits and time deposits are limited because the counterparties are banks and financial institutions for which the Group considers to have low credit risk.

Trade receivables

Credit risk in respect of trade receivables is limited since credit sales are offered in rare cases subject to high level management's approval. Trade receivables balances mainly represent mortgage granted by major financial institutions to customers of the Group, insurance commission receivables from insurance companies and warranty receivables from automobile manufacturers. The mortgage is normally settled within one month directly by major financial institutions. While for the receivables from insurance companies and automobile manufacturers, risk of default is considered low as these are either reputable companies or with good credit rating. Based on past experience, the Group was of the opinion that no provision for impairment was necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable. Normally, the Group does not obtain collateral from customers.

At the end of the reporting period, 51% (2017: 51%) and 20% (2017: 16%) of the total trade receivables were due from the Group's five largest debtors and the largest single debtor respectively.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs. The Group assessed that there is no significant loss allowance recognised in accordance with HKFRS 9 for trade receivables as at 31 December 2018.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

Prepayments and other receivables and deposits

Credit risk in respect of prepayments and other receivables and deposits is limited since the counterparties are mainly reputable automobile manufacturers.

The Group measures loss allowances for prepayments and other receivables and deposits at an amount equal to 12-month ECLs unless there has been a significant increase in credit risk since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs. The Group assessed that there is no significant loss allowance recognised in accordance with HKFRS 9 for prepayments and other receivables and deposits as at 31 December 2018.

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 2(k)(i)(B)-policy applicable prior to 1 January 2018).

Trade receivables

The ageing analysis of trade receivables that were not considered to be impaired was disclosed in note 19.

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were considered fully recoverable.

Prepayments and other receivables and deposits

Receivables that were neither past due nor impaired mainly related to reputable automobile manufacturers for whom there was no recent history of default.

Receivables that were past due but not impaired mainly related to automobile manufacturers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were considered fully recoverable.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor liquidity requirements, and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

	At 31 December 2018				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	**More than 1 year but less than 2 years RMB'000**	**More than 2 year but less than 5 years RMB'000**	**Total RMB'000**	**Balance sheet carrying amount RMB'000**
Loans and borrowings	**1,035,597**	**56,584**	**124,851**	**1,217,032**	**1,172,418**
Trade and other payables	**1,549,809**	**—**	**—**	**1,549,809**	**1,549,809**
	2,585,406	**56,584**	**124,851**	**2,766,841**	**2,722,227**

	At 31 December 2017				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 year but less than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Corporate bonds	97,969	—	—	97,969	91,905
Loans and borrowings	686,311	54,619	—	740,930	724,959
Trade and other payables	1,030,069	—	—	1,030,069	1,030,069
	1,814,349	54,619	—	1,868,968	1,846,933

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The group's interest rate risk arises primarily from cash at bank, pledged bank deposits and interest-bearing borrowings. These financial instruments issued at variable rates and fixed rates expose the group to cash flow interest rate risk and fair value interest rate risk respectively. The group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

Cash at bank, pledged bank deposits and interest-bearing borrowings are the major types of the Group's financial instruments subject to interest rate risk. Cash at bank and pledged bank deposits are with fixed interest rates ranging from 0.30% to 3.00% per annum as at 31 December 2018 (2017: 0.30% to 3.65%).

The Group's interest-bearing borrowings and interest rates at the end of the reporting period are set out as follows:

	2018		2017	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate borrowings				
Bank loans	3.27–5.22	75,000	1.20–7.38	165,836
Borrowings from a related party	6.00	43,810	6.00	33,436
Corporate bonds	N/A	–	23.82	91,905
		118,810		291,177
Variable rate borrowings				
Bank loans	3.26–7.83	590,633	3.50–6.48	193,148
Borrowings from other financial institutions	4.70–9.25	462,975	5.25–8.50	332,539
		1,053,608		525,687
		1,172,418		816,864

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

The Group does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rate at the reporting date would not affect profit or loss.

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis during the reporting period for 2017.

	Increase/ (decrease) in basis points	(Decrease)/ increase in profit after tax and retained profits for the year RMB'000
At 31 December 2018		
Basis points	**100**	**(8,307)**
Basis points	**(100)**	**8,307**
At 31 December 2017		
Basis points	100	(4,112)
Basis points	(100)	4,112

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(d) Currency risk

The Group is exposed to currency risk primarily through financing activities which give rise to cash and cash equivalents and loans and borrowings that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to the risk is primarily Hong Kong dollars.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date.

	Exposure to foreign currencies (expressed in Renminbi)			
	2018		2017	
	Hong Kong Dollars RMB'000	**United States Dollars RMB'000**	Hong Kong Dollars RMB'000	United States Dollars RMB'000
Cash and cash equivalents	**85,385**	**17**	12,011	16
Loans and borrowings	**(205,907)**	**—**	(101,075)	—
Corporate bonds	**—**	**—**	(91,905)	—
Net exposure arising from recognised assets and liabilities	**(120,522)**	**17**	(180,969)	16

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(d) Currency risk (continued)

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rate to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2018		2017	
	Increase/ (decrease) in foreign exchange rate	**(Decrease)/ increase in profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rate	(Decrease)/ increase in profit after tax and retained profits RMB'000
Hong Kong Dollars	**5%**	**(6,026)**	5%	(9,048)
	(5%)	**6,026**	(5%)	9,048
United States Dollars	**5%**	**1**	5%	1
	(5%)	**(1)**	(5%)	(1)

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for 2017.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available;

- Level 3 valuations: Fair value measured using significant unobservable inputs.

The Group hired external valuation company performing valuations for the financial instruments, including the redemption option embedded in the corporate bonds. The external valuation company reports directly to the chief financial officer. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer is held twice a year, to coincide with the reporting dates.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(e) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

	Fair value at 31 December 2018	**Fair value measurement as at 31 December 2018 categorised into**		
		Level 1	**Level 2**	**Level 3**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Recurring fair value measurement				
Financial liabilities:				
Derivative financial instruments:				
— Redemption option embedded in corporate bonds	**–**	**N/A**	**N/A**	**–**

	Fair value at 31 December 2017	Fair value measurement as at 31 December 2017 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement				
Financial liabilities:				
Derivative financial instruments:				
— Redemption option embedded in corporate bonds	–	N/A	N/A	–

During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2017: NIL). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(e) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Range	Weighted average
Redemption option embedded in corporate bonds	Swaption Model	Discount rate	N/A (2017: 7%)	N/A (2017: 7%)

The fair value of redemption option embedded in the corporate bonds is determined using swaption model and the significant unobservable input used in the fair value measurement is discount rate. The fair value measurement is negatively correlated to the discount rate. As at 31 December 2018, the fair value of redemption option embedded in the corporate bonds was nil after the repayment of corporate bonds on the maturity date.

The movement during the year in the balance of Level 3 fair value measurements is as follows:

	2018 RMB'000
Redemption option embedded in corporate bonds at issuance date (9 March 2015) and 31 December 2018	–

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2018 and 31 December 2017.

30 COMMITMENTS

(a) Capital commitments for property, plant and equipment outstanding at 31 December 2018 not provided for in the consolidated financial statements were as follows:

	The Group	
	2018	2017
	RMB'000	RMB'000
Contracted for	**46,788**	22,485
Authorised but not contracted for	**2,520**	99,962
	49,308	122,447

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases of buildings and lands are payable as follows:

	The Group	
	2018	2017
	RMB'000	RMB'000
Within 1 year	**53,069**	41,371
After 1 year but within 5 years	**172,022**	132,158
After 5 years	**412,677**	334,970
	637,768	508,499

The Group is the lessee in respect of a number of land and properties held under operating leases. The leases typically run for an initial period of 1 to 20 years, with an option to renew the leases when all the terms are renegotiated.

31 CONTINGENT LIABILITIES

As at 31 December 2018, one subsidiary of the Group issued financial guarantee to a financial institution in respect of financial facilities granted to Dongguan Meidong amounting to RMB80,000,000 (2017: RMB80,000,000) and the financial facilities utilised by Dongguan Meidong amounted to RMB9,154,000 (2017: RMB8,218,000) as at 31 December 2018 (see note 32(e)).

31 CONTINGENT LIABILITIES (continued)

As at 31 December 2018, no financial guarantees were issued to Dongguan Anxin. As at 31 December 2017, one subsidiary of the Group issued financial guarantee to a financial institution in respect of financial facilities granted to Dongguan Anxin amounting to RMB78,000,000 and the financial facilities utilised by Dongguan Anxin amounted to RMB24,540,000 (see note 32(e)).

As at 31 December 2018, the directors do not consider it probable that a claim will be made under the above guarantees taking into account the financial performance of the related parties.

32 MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2018, the directors are of the view that the following companies are related parties of the Group:

Name of party	**Relationship**
YE Fan 葉帆	Controlling Shareholder
YE Tao 葉濤	Close family member of the Controlling Shareholder
Guangdong Dadong Automotive Group Co., Ltd. ("Dadong Group") 廣東大東汽車集團有限公司	Controlled by the Controlling Shareholder
Dongguan Meidong 東莞美東汽車服務有限公司	Joint venture
Dongguan Anxin 東莞安信豐田汽車銷售服務有限公司	Associate (disposed on 1 January 2018)
Apex Sail	Immediate parent company

Notes: The English translation of the company names is for reference only. The official names of the companies established in the PRC are in Chinese.

32 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Recurring transactions

	2018 **RMB'000**	2017 RMB'000
Rental expense:		
Dadong Group	**2,340**	1,620
Management service income:		
Dongguan Meidong	**9,767**	12,107

The Company's directors are of the opinion that the above related party transactions were conducted on terms no less favourable to the Group than terms available to or from independent third parties and in the ordinary course of business.

(b) Non-recurring transactions

	2018 **RMB'000**	2017 RMB'000
Sales of passenger vehicles:		
Dongguan Meidong	**15,035**	11,339
Purchases of passenger vehicles:		
Dongguan Meidong	**17,475**	13,310
Advance from a related party:		
YE Fan	**569**	5,029
Loans and borrowing from a related party:		
Apex Sail (i)	**16,172**	8,359
Repayment of loans and borrowing from related parties:		
Apex Sail (ii)	**8,184**	–

(i) Unsecured loans and borrowing of HK$20,000,000 (equivalent to RMB16,172,000) with one year maturity period was borrowed by MeiDong HK from Apex Sail during the year 31 December 2018 (2017: HK$10,000,000 (equivalent to RMB8,359,000)), which bears an annual interest rate at 6%.

(ii) Unsecured loans and borrowing of HK$10,000,000 (equivalent to RMB8,184,000) with one year maturity period borrowed by Meidong HK from Apex Sail was repaid during the year ended 31 December 2018 (2017: NIL), which bears an annual interest rate at 6%.

32 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

At 31 December 2018, the Group had the following balances with related parties:

	2018 RMB'000	2017 RMB'000
Other receivables due from:		
Dongguan Meidong	**7,005**	14,232
Other payables due to:		
Dadong Group	**684**	684
YE Fan	**5,624**	5,055
Dongguan Meidong	**117**	—
	6,425	5,739
Loans and borrowings due to:		
Apex Sail	**43,810**	33,436

Except for loans and borrowings due to Apex Sail, the amounts due from/to related parties are unsecured, interest free and have no fixed terms of repayment.

32 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(d) Guarantees and securities issued by related parties

	At 31 December 2018 RMB'000	At 31 December 2017 RMB'000
Guarantees issued by related parties in respect of loans and borrowings borrowed by the Group:		
— YE Fan (i)	**763,750**	442,823
— Dadong Group (ii)	**14,100**	—
	777,850	442,823
Guarantees issued by a related party in respect of bills issued by the Group:		
— YE Fan	**656,256**	199,803
Guarantees issued by related parties in respect of corporate bonds issued by the Group:		
— YE Fan/YE Tao (iii)	**–**	91,905
Securities provided by a related party in respect of corporate bonds by the Group:		
— Apex Sail (iii)	**–**	91,905

(i) Loans and borrowings of RMB763,750,000 (2017: RMB442,823,000) were guaranteed by Mr. YE Fan as at 31 December 2018.

(ii) Loans and borrowings of RMB14,100,000 (2017: NIL) were guaranteed by Dadong Group as at 31 December 2018.

(iii) Corporate bonds of RMB91,905,000 were guaranteed by Mr. YE Fan and Mr. YE Tao and secured by 355,838,151 original shares of the Company held by Apex Sail as at 31 December 2017. On 9 March 2018, the guarantee and security was released after repayment of corporate bonds.

32 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(e) Guarantees issued by the Group

	2018 RMB'000	2017 RMB'000
Guarantees issued by the Group in respect of financial facilities granted to related parties:		
— Dongguan Meidong	**80,000**	80,000
— Dongguan Anxin (i)	**—**	78,000
	80,000	158,000

(i) Dongguan Anxin was an associate of the Group as at 31 December 2017. The Group disposed its interest in Dongguan Anxin on 1 January 2018.

(f) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2018 RMB'000	2017 RMB'000
Short-term employee benefits	**11,582**	10,194
Equity compensation benefits	**3,393**	200
	14,975	10,394

Total remuneration is included in staff costs (see note 6(b)).

(g) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of rental expense and financial assistance as disclosed above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. However those transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

The related party transactions in respect of management service income as disclosed above do not fall under the definition of connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

33 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	31 December 2018	31 December 2017
Non-current assets			
Interests in a subsidiary		**304,725**	292,662
Long-term receivables		**30,718**	39,319
		335,443	331,981
Current assets			
Other receivables		**89,287**	4,834
Cash and cash equivalents		**48,537**	26,216
		137,824	31,050
Current liabilities			
Other payables		**73,789**	6,068
Loans and borrowings		**179,621**	67,638
Corporate bonds		**—**	91,905
		253,410	165,611
Net current liabilities		**(115,586)**	(134,561)
Total assets less current liabilities		**219,857**	197,420
NET ASSETS		**219,857**	197,420
EQUITY	27		
Share capital		**90,978**	86,585
Reserves		**128,879**	110,835
TOTAL EQUITY		**219,857**	197,420

34 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Final dividend

After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 27(b).

35 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2018, the directors consider the immediate parent of the Group to be Apex Sail, which is incorporated under the laws of the British Virgin Islands, and the ultimate controlling party of the Group to be Mr. YE Fan.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015–2017 Cycle	1 January 2019
Amendments to HKAS 28, Long-term interest in associates and joint ventures	1 January 2019

The group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the group has identified some aspects of the HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the group, and further impacts may be identified before the standard is initially applied in the group's interim financial report for the six months ended 30 June 2019. The group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

HKFRS 16, *Leases*

As disclosed in note 2(j), 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.

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 and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will 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 for properties, plant and equipment 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 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. 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.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

HKFRS 16, *Leases* (continued)

The group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 30(b), at 31 December 2018 the group's future minimum lease payments under non-cancellable operating leases amount to RMB637,768,000 for properties and other assets respectively, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to RMB757,801,000 and RMB757,801,000 respectively, after taking account the effects of discounting, as at 1 January 2019.

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 financial statement from 2019 onwards.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Revenue	3,854,807	4,807,980	6,263,322	7,682,714	**11,067,424**
Profit before taxation	156,115	146,587	218,209	377,718	**491,234**
Taxation	(41,367)	(40,535)	(61,243)	(98,967)	**(127,780)**
Profit for the year	114,748	106,052	156,966	278,751	**363,454**
Profit attributable to equity shareholders of the Company	110,680	102,163	152,057	275,787	**362,929**
Non-controlling interests	4,068	3,889	4,909	2,964	**525**
Profit for the year	114,748	106,052	156,966	278,751	**363,454**
Earnings per share					
Basic (RMB cents)	11.07	9.69	13.97	25.26	**31.57**
Diluted (RMB cents)	11.07	9.69	13.97	25.23	**31.41**

ASSETS AND LIABILITIES

	As at 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Total Assets	2,109,714	2,378,716	2,591,868	2,973,609	**4,174,516**
Total Liabilities	(1,544,414)	(1,585,063)	(1,689,578)	(1,879,994)	**(2,774,280)**
	565,300	793,653	902,290	1,093,615	**1,400,236**
Equity attributable to equity shareholders of the Company	544,292	764,756	864,484	1,055,557	**1,379,420**
Non-controlling interests	21,008	28,897	37,806	38,058	**20,816**
Total Equity	565,300	793,653	902,290	1,093,615	**1,400,236**