润东汽车

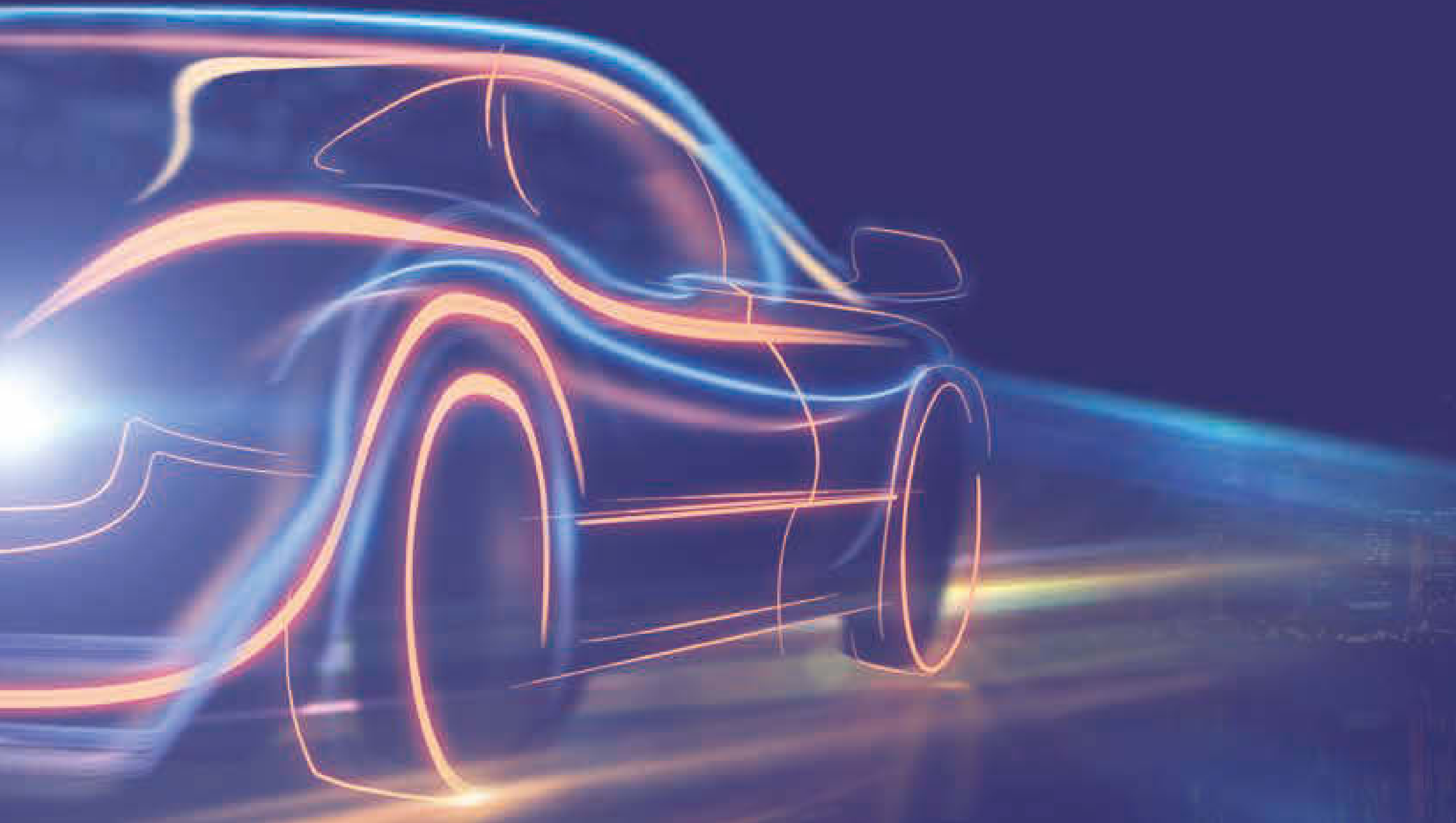
# CHINA RUNDONG AUTO GROUP LIMITED
# 中國潤東汽車集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)

Stock Code 股份代號：1365

2018

ANNUAL REPORT
年報



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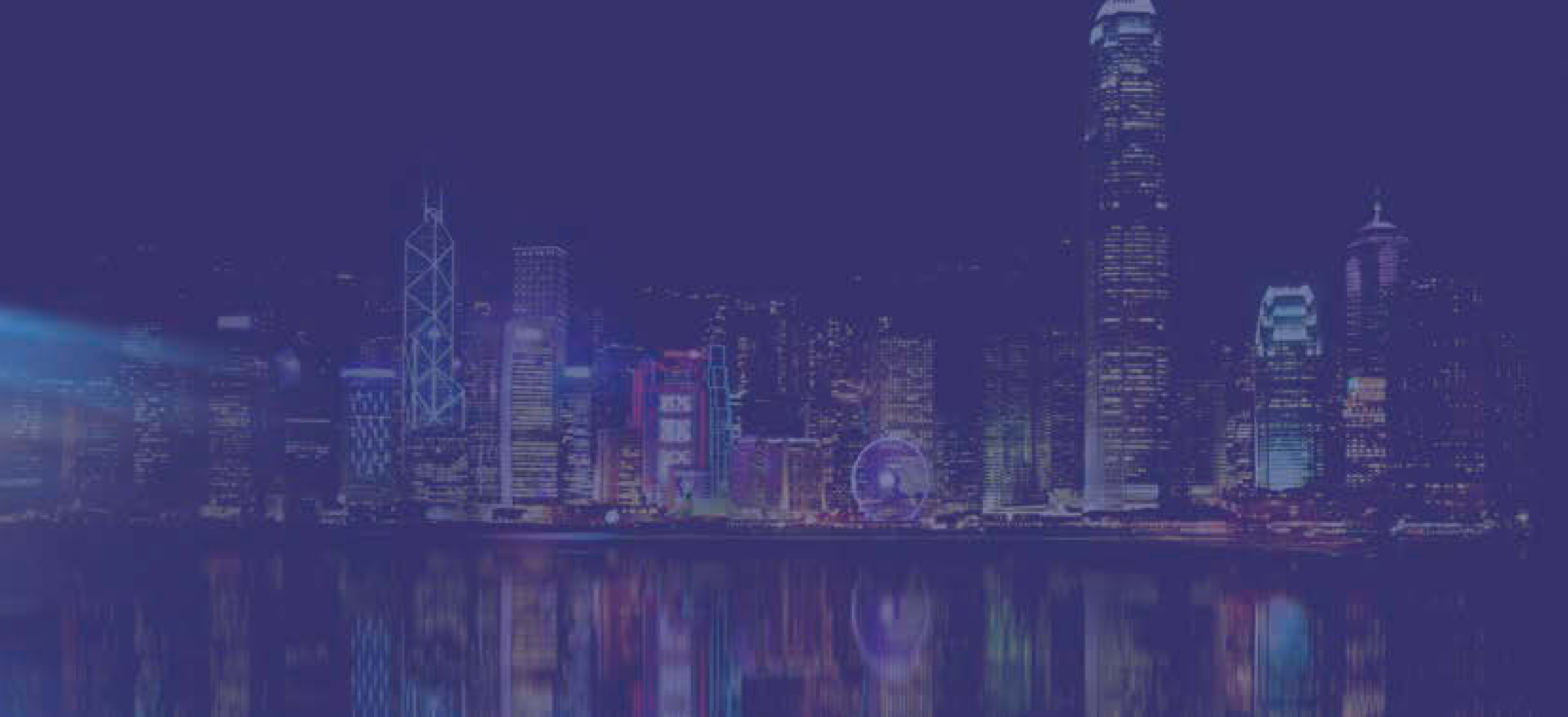


# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Mr. Yang Peng *(Chairman, executive Director and Chief Executive Officer of the Group)*
Mr. Mei Jianping *(independent non-executive Director)*
Mr. Lee Conway Kong Wai *(independent non-executive Director)*
Mr. Xiao Zhengsan *(independent non-executive Director)*
Mr. Li Xin *(independent non-executive Director)*

## AUDIT COMMITTEE

Mr. Lee Conway Kong Wai *(Chairman)*
Mr. Xiao Zhengsan
Mr. Li Xin

## RISK MANAGEMENT COMMITTEE

Mr. Lee Conway Kong Wai *(Chairman)*
Mr. Xiao Zhengsan
Mr. Li Xin

## REMUNERATION COMMITTEE

Mr. Mei Jianping *(Chairman)*
Mr. Yang Peng
Mr. Xiao Zhengsan
Mr. Li Xin

## NOMINATION COMMITTEE

Mr. Yang Peng *(Chairman)*
Mr. Mei Jianping
Mr. Xiao Zhengsan
Mr. Li Xin

## COMPANY SECRETARY

Ms. Ho Siu Pik *(appointed on 28 March 2019)*
Ms. Mak Tze Fan *(resigned on 28 March 2019)*

## AUTHORIZED REPRESENTATIVES

Mr. Yang Peng
Ms. Mak Tze Fan *(resigned on 28 March 2019)*
Ms. Ho Siu Pik *(appointed on 28 March 2019)*

## REGISTERED OFFICE

Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

## HEAD OFFICE IN THE PRC

9F, Shenzhou Wisdom Plaza
No. 567, West Tianshan Road, Changning District
Shanghai, PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

## PRINCIPAL SHARE REGISTRAR

Maples Fund Service (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square, Grand Cayman
KY1-1102, Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

## AUDITOR

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

## STOCK CODE

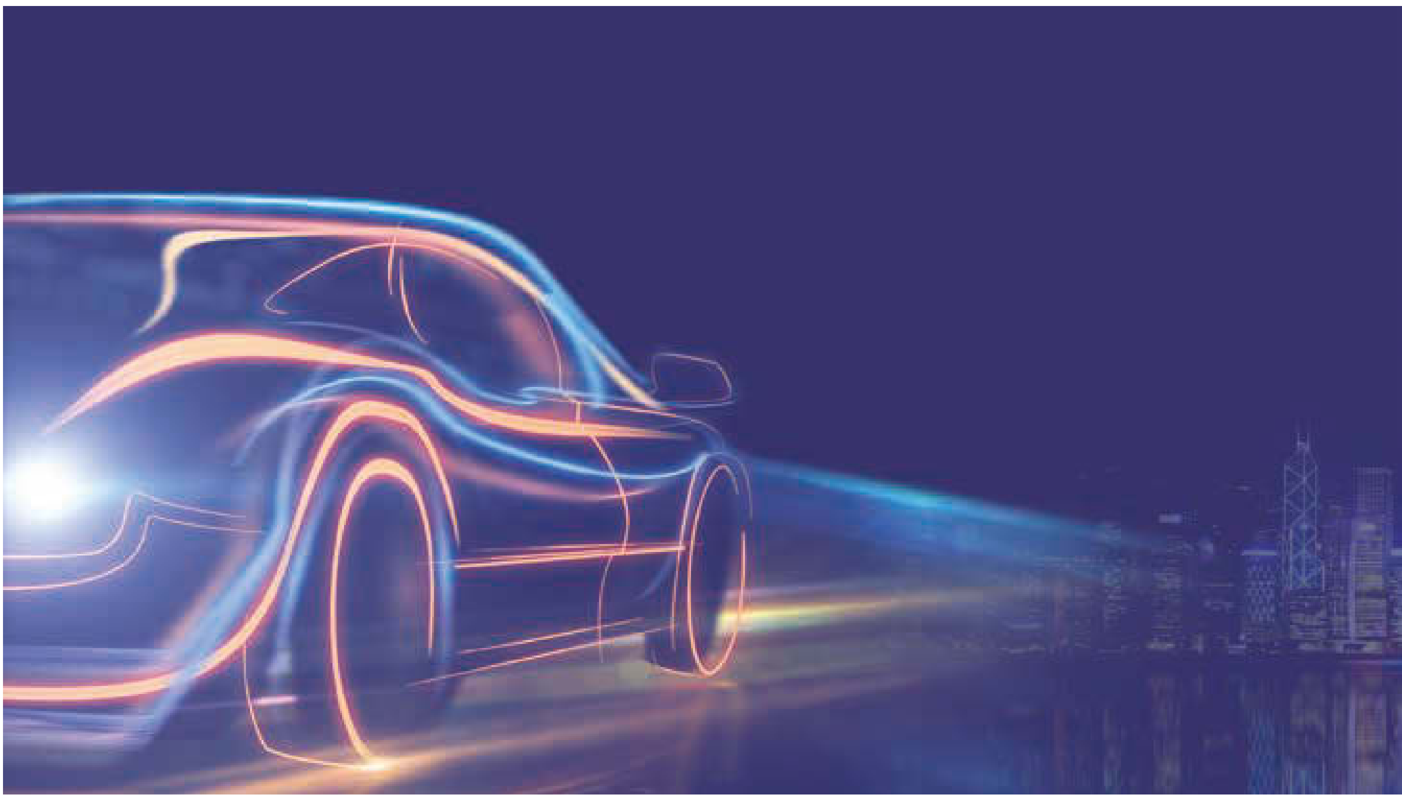
1365

## WEBSITE

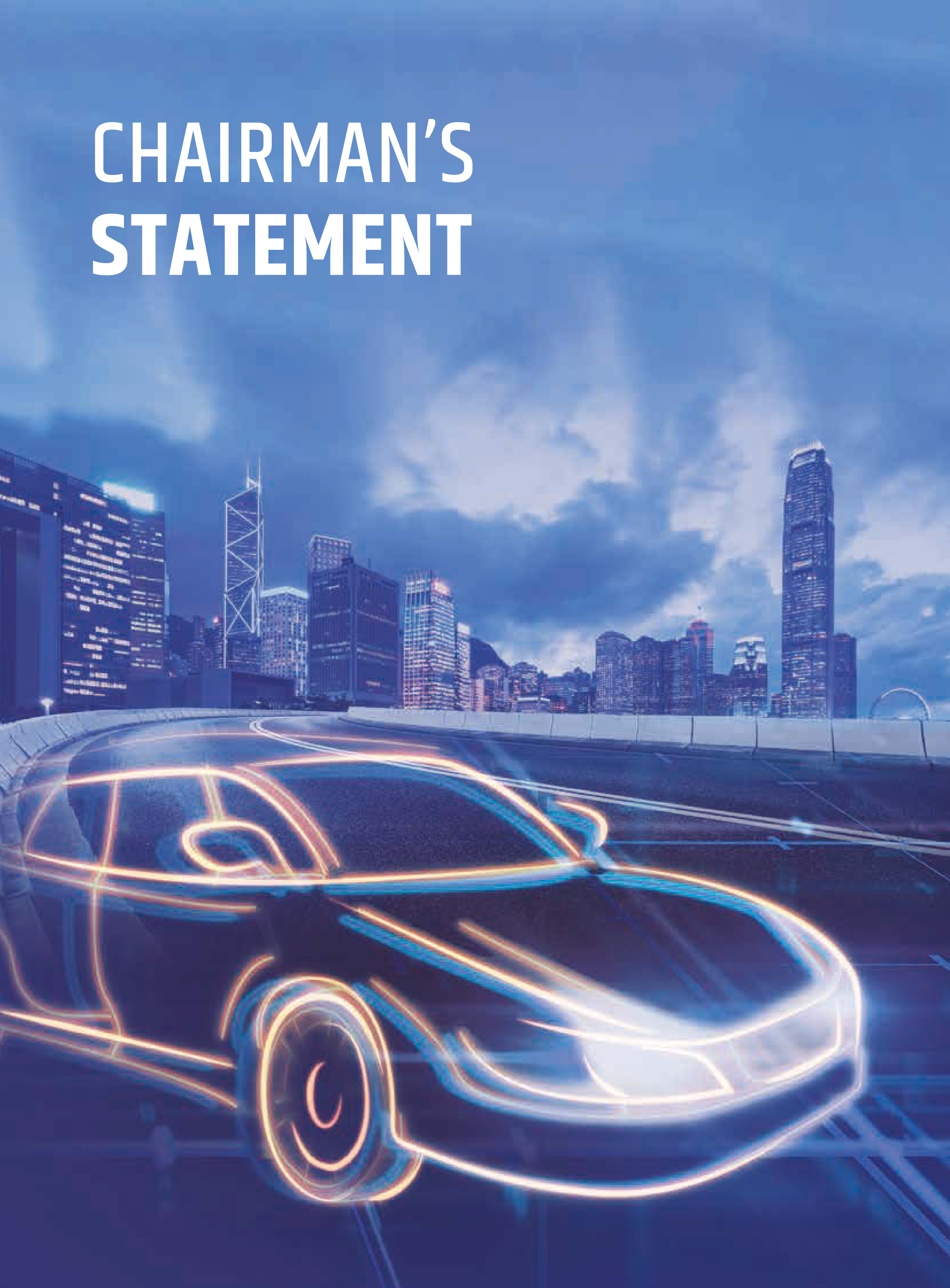
www.rundong.com.cn

# FINANCIAL HIGHLIGHTS

| | Year ended December 31 | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | **2018** |
| **Results (RMB'000)** | | | | | |
| Revenue | 15,469,317 | 14,923,054 | 17,972,988 | 19,111,084 | **12,712,630** |
| Net profit | 312,930 | 203,303 | 281,397 | 260,202 | **(1,518,286)** |
| **Financial Position (RMB'000)** | | | | | |
| Total assets | 10,509,124 | 12,692,785 | 14,206,810 | 18,406,129 | **13,432,888** |
| Shareholders' equity | 1,739,603 | 3,216,730 | 3,416,093 | 3,631,757 | **2,102,719** |
| **Financial indicators** | | | | | |
| Gross profit margin | 9.3% | 9.3% | 9.0% | 6.8% | **3.4%** |
| Return on equity | 18.5% | 6.5% | 8.2% | 7.2% | **-72.2%** |
| **Financial information per share** | | | | | |
| Earnings per share (RMB) | 0.34 | 0.20 | 0.29 | 0.28 | **-1.60** |
| Net assets per share (RMB) | 2.06 | 3.13 | 3.61 | 3.84 | **2.22** |



# CHAIRMAN'S STATEMENT



# CHAIRMAN'S STATEMENT

## DEAR SHAREHOLDERS,

On behalf of the board of directors (the "**Board**") and the management of China Rundong Auto Group Limited (the "**Company**" and together with its subsidiaries, the "**Group**", the "**Company**" or "**we**"), I am pleased to present the 2018 annual report of the Group.

In 2018, economic growth in China remained stable overall, continuing a healthy development trend. The economy throughout the year remained within a reasonable range, and was generally stable and made progress. The GDP exceeded RMB90 trillion, with an increase of 6.6% over the previous year.

According to the statistics of the Ministry of Public Security, as of the end of 2018, the automobile ownership in China reached 240 million units, with an increase of 22.85 million units, or 10.51%, compared with 2017. In contrast to the steady growth in the ownership, both the production and sales of automobile in China showed a rapid decline year-on-year in 2018. In 2018, under the combined influence of tariff reduction, US-China trade war, de-leverage of the financial sectors and falling consumer confidence, China's automobile market experienced negative growth for the first time in 28 years. According to figures released by the China Association of Automobile Manufacturers, total volumes of automobile production and sales in the PRC were 27.809 million units and 28.081 million units respectively, representing a year-on-year decrease of 4.16% and 2.76%. Among which, the volume of production and sales of passenger vehicles were 23.530 million units and 23.710 million units, representing a year-on-year decrease of 5.15% and 4.08% respectively. Although the automobile market experienced negative growth for the first time in 2018, in the medium and long term, the population, economic scale and resident income in China will continue to grow, and urbanization level will continue to improve. Therefore, there is still room for continued growth in the automobile market. China's automobile industry is still in popularization period and shows a great potential for development.

# CHAIRMAN'S STATEMENT

In 2018, the Group adopted a more prudent operational strategy and corresponding measures, which slowed down the pace of procurement and gradually reduced inventory. In addition, the store acquired by the Group in 2017 was in the integration period, and the synergies of integration have not met expectations due to organizational restructuring, management changes and staffing. The above factors led to a decline in the overall performance of the Group. The Group recorded a total revenue of RMB12,712.6 million, representing a year-on-year decrease of 33.5%, and achieved gross profit of RMB412.2 million, representing a year-on-year decrease of 68.1%. Profit attributable to owners of the parent company decreased by 680.0% over last year to a loss of RMB1,513.8 million.

In 2018, the Group followed the industry development trend, and relied on the analysis and judgment of the overall trend and development potential of the industry. Based on the existing resources and operation of the Company, the Group continued to adjust its brand structure and optimize management. The Group further optimized its business structure with the automotive after-sale market as its business focus and enhanced its profitability.

In order to promote the Group's improvement in its operating results, the Group has made efforts in the following areas: In terms of corporate governance, the Group has formulated targeted improvement plans based on the original management system, implemented refined management, and vigorously improved its operational management level; in terms of business structure, the Group conducted scientific demonstration and overall planning to further optimize its business structure; in terms of operations, the Group conducted channel innovation and integrated resources to optimize its business model; in terms of work, the Group has unified its understanding and made performance-oriented efforts to enhance its operational and sales capabilities; in terms of the team, the Group strengthened its internal quality, shaped its external image, and strengthened corporate culture and team cohesion.

Looking forward, facing the complex domestic and overseas economic condition and fierce market competition, the Group will conform to the market discipline, continue to strengthen management, promote the business transformation, explore new models; we will also make great efforts in developing after-sales services business while optimising the brand structure, focusing on automobile finance and insurance agency business, and changing the profitability structure. Besides, the Group will improve its operation efficiency and strengthen its risk management. We are determined to become China's leading integrated service provider for luxury automobile cars. Although we are still operating in a more challenging market environment, we will actively face up to it with strong confidence towards the future.

On behalf of the Group, I would like to express my sincere gratitude to our shareholders, customers and business partners for their consistent support and to all employees for their hard work. We will continue to strive to provide comprehensive premium services for our customers, to offer a favorable development platform for all employees, and to bring greater value to our shareholders.

**Yang Peng**
*Chairman*

28 March 2019

# MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY REVIEW

In 2018, economic growth in China remained stable overall, continuing a healthy development trend. The economy throughout the year remained within a reasonable range, and is generally stable and made progress. The GDP exceeded RMB90 trillion, with an increase of 6.6% over the previous year.

According to the statistics of the Ministry of Public Security, as of the end of 2018, the automobile ownership in China reached 240 million units, with an increase of 22.85 million units, or 10.51%, compared with 2017. In contrast to the steady growth in the ownership, both the production and sales of automobile in China showed a rapid decline year-on-year in 2018. In 2018, under the combined influence of tariff reduction, US-China trade war, de-leverage of the financial sectors and falling consumer confidence, China's automobile market experienced negative growth for the first time in 28 years. According to figures released by the China Association of Automobile Manufacturers, total volumes of automobile production and sales in the PRC were 27.809 million units and 28.081 million units respectively, representing a year-on-year decrease of 4.16% and 2.76%. Among which, the volume of production and sales of passenger vehicles were 23.530 million units and 23.710 million units, representing a year-on-year decrease of 5.15% and 4.08% respectively. Although the automobile market experienced negative growth for the first time in 2018, in the medium and long term, the population, economic scale and resident income in China will continue to grow, and urbanization level will continue to improve. Therefore, there is still room for continued growth in the automobile market. China's automobile industry is still in popularization period and shows a great potential for development.

In 2018, the volume of vehicle transfer registration business continued to grow, and the second-hand car market became increasingly active. The total volume of transfer registrations for motor vehicles in China was 21.28 million, of which 20.58 million registrations involved with automobiles, accounting for 96.72%, with an increase of 1.77 million units compared with 2017, or 9.44%. According to statistics, the proportion of vehicle transfer registration and registration business increased from 0.55 to 0.77 in the past five years, and the second-hand car market is increasingly active.

In 2018, the new energy vehicle ownership in China reached 2.61 million units, accounting for 1.09% of the total number of automobiles, an increase of 1.07 million units, or 70.00%, compared with 2017. Among which, the electric vehicles ownership is 2.11 million, accounting for 81.06% of the total number of new energy vehicles. According to statistics, the new energy vehicle ownership has increased by an average of 500,000 units per year, showing an accelerating growth.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

For the year ended 31 December 2018, the Group recorded a total revenue of RMB12,712.6 million, representing a year-on-year decrease of 33.5%, and achieved gross profit of RMB412.2 million, representing a year-on-year decrease of 68.1%. Profit attributable to owners of the parent company decreased by 680.0% last year to a loss of RMB1,513.8 million. The loss was primarily due to the following factors:

1. In 2018, China's passenger vehicle market experienced negative growth for the first time in 28 years, which was due to the combined effects of factors such as Sino-US trade friction, deleveraging and the weak purchasing power of consumers in areas where the Company is operating. This caused the sales volume in China's passenger vehicle market to weaken in the second half of 2018. In 2018, the sales volume of passenger vehicles of Chinese brands decreased by 7.99% year-on-year according to the statistics from China Association of Automobile Manufactures.

2. Besides industry declining growth factor, the Group also experienced capital shortage. As at 31 December 2018, the Company's short-term interest-bearing bank and other borrowings was RMB5,702.3 million, which was declined by RMB1,139.6 million as compared to the year end of 2017. Trade and bills payable also declined by 49.9% from RMB4,294.4 million as at the end of 2017 to RMB2,150.7 million as at the end of 2018. Due to the capital shortage and declining sales trend of the Chinese auto market, the Company had to reduce new car purchase volume, which directly led to a reduced new car sales volume and revenue.

3. In addition, the Group acquired a number of new entities as detailed in the 2017 annual report of the Company. Upon the completion of these acquisitions, the acquired entities have been undergoing post acquisition integration. The aftermath synergies and combined results were yet to be crystalized for the period ended 31 December 2018 as anticipated, which was due to, among others, the realignment in the overall organization structure, transitional changes of key management and staff relocation. In addition, the increase in total financing amount arising from the acquired entities also contributed to the increase in financial costs;

4. During the year ended 31 December 2018, the Group conducted annual impairment tests on various assets in accordance with the Group's accounting policies and the applicable accounting standards. As mentioned in the preceding paragraphs, in view of the overall declining growth in the automobile industry, and that the Group's post acquisition integration is yet to be crystalized as per the Group expectation, the Group assessed and made provision for impairment at the end of the reporting period.

In addition to the factors mentioned above, the Group also experienced a turnover of management team and change of strategic investors over the past two years. These changes have had significant impact on the overall operation and management of the Group.

### Sales of New Automobiles

During the Reporting Period, revenue from new automobile sales amounted to RMB10,948.4 million, representing a year-on-year decrease of 35.3%, among which, revenue from sales of luxury and ultra-luxury automobiles reached RMB8,336.2 million, representing a year-on-year decrease of 34.5% and accounting for 76.1% of the revenue from sales of new automobiles. In terms of sales volume, the Group sold a total of 49,583 vehicles during the Reporting Period, a decrease of 33.8%, of which, sales volume of luxury and ultra-luxury brand automobiles totaled 26,512 units, a decrease of 27.3%.

### After-sales Service

In recent years, due to the downturn of the overall car market and gradual marketization of vehicle parts and accessories distribution channel, the market attractiveness and profitability of maintenance business in 4S stores have declined accordingly. Meanwhile, the vehicle accident frequency reduced due to the reform of commercial auto insurance policy. The above factors caused increasing pressures on the business of after-sales service. During the Reporting Period, to enhance after-sales business, the Group concentrated on four key aspects of examination and appraisal mechanism, namely customer retention management, increase of 4S stores maintenance business from original customers, securing of customer referrals from insurance companies and expansion of car beauty business. Specifically, to ensure the effect in customer retention management and increase of 4S stores maintenance business from original customers, we carried out measures and standards for implementation targeting various brands and stores. In terms of securing customer referrals from insurance companies, we integrated and controlled insurance premium expenditures in exchange for more accident repairs. In terms of car beauty business, we selected competitive products and endeavored to reduce the cost of certain brand products, parts and accessories, as well as to improve the gross profit margin via centralized procurement.

During the Reporting Period, the after-sales service revenue decreased by 19.7% from last year to RMB1,764.2 million, and accounted for 13.9% of the total revenue of the Group. The gross profit of our after-sales service decreased by 42.1% from last year to RMB503.2 million, and the gross profit margin of after-sales service was 28.5%. This was mainly attributable to the decrease of sales.

### Value-added Business

During the Reporting Period, the Group made full use of transactions scenarios provided by 4S stores to focus on, excavate and satisfy customer needs in order to provide diversified and personalized products and services, and to enhance profitability and value of channels and platforms.

The Group's financial business department in its headquarters facilitates the integration of business resources and the construction of a comprehensive financial platform. During the Reporting Period, the Group actively expanded financial channels and strengthened financial cooperation with manufacturers. As a result, income from financial agency business was further improved. During the Reporting Period, income from financial agency service of the Group amounted to RMB122.6 million, with a decrease of 39.0% in 2017. This was mainly attributable to the decrease of sales.

During the Reporting Period, the Group continued to strengthen cooperation with insurance companies, and actively launched new insurance products and new business models to enhance differentiated competitiveness. While continuing to increase the penetration rate of products such as scratch insurance, paint work insurance and key insurance, we also introduced new insurance products to target customers in order to ensure a continuous and stable income growth of insurance agency service. During the Reporting Period, income from insurance agency service was RMB145.6 million, with a decrease of 14.8% in 2017. This was mainly due to the decrease of sales.

In 2018, the Group continued to strengthen the second-hand car business by building a regional second-hand car center and improving the second-hand car management system. Through the development of second-hand car remote evaluation platform, we enhanced the evaluation efficiency and pricing accuracy, and strengthened the front-end entrance management of second-hand cars. Besides, we established a standardized all-round quality control system to enhance the store sales of second-hand car, and strengthened cooperation with second-hand car e-commerce platform to ensure the efficiency of the second-hand car turnover. Moreover, we established a stable inventory finance channel for second-hand car to further support the rapid development of retail business. During the Reporting Period, income from the second-hand car agency services of the Group amounted to RMB8.2 million.

## Brand and Network Layout

During the Reporting Period, the Group constantly optimized its brand portfolio. During the Reporting Period, the Company disposed three stores, including one Cadillac 4S store, one Shanghai-Volkswagen 4S store and one Hyundai 4S store.

As at 31 December 2018, the Group's brand portfolio includes nine luxury brands, namely BMW, MINI, Jaguar, Land Rover, Audi, Alfa Romeo, Lexus, Cadillac and Chrysler; two ultra-luxury brands, namely Maserati and Ferrari; 14 mid- to high-end brands, namely Buick, Hyundai, Ford, Chevrolet, Shanghai-Volkswagen, Kia, Dongfeng Honda, GAC-Honda, FAW-Toyota, GAC-Toyota, Toyota, Dongfeng Nissan, Zhengzhou Nissan and FAW Volkswagen.

As at 31 December 2018, the Group operated 85 stores in total, of which 62 were located in Jiangsu Province, fourteen in Shandong Province, six in Shanghai, one in Zhejiang Province, one in Anhui Province and one in Liaoning Province.

## Outlook and Strategy

The year 2019 is the era when sales volume of new vehicles presents a notable growth in the automobile dealership industry in China comes to an end, and the competition among automobile enterprises will be intense. In 2019, under the combination effects of factors such as national policies of automobile subsidies for rural areas, reduction of value-added tax, stabilizing negotiation between China and the U.S.A., suspension of tax hike for automobiles made in the U.S.A., together with collective cut-down of prices of imported cars of several brands, it is expected that the imported volume of automobiles will pick up this year, and the sales volume will maintain a slow growth in 2019.

According to the analysis and judgment on the industry's overall trends and development potential, and based on our existing resources and operating conditions, the Group will strive to continuously optimize business operations, adjust brand structure and enhance profitability. The Group will also actively look for new opportunities within the auto dealing industry.

Looking forward, under the complex domestic and foreign economic condition as well as keen competition, the Group shall, in compliance with the market rules, persistently strengthen our management, promote business transformation and explore new models of business. We shall optimize the product structure while vigorously developing after-sales service business. We shall focus on developing automobile financing business and insurance agency business, changing our profitability structure, improving operating efficiency and enhancing risk control and management. Although we are still operating in a more challenging market environment, we will actively face up to it with strong confidence towards future.

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2018, our revenue was RMB12,712.6 million, representing a decrease of 33.5% as compared with 2017, primarily attributable to the decrease in sales volume generally during the year.

The table below sets out the Group's revenue for the Reporting Period as indicated.

### Revenue Source

| Source of turnover | 2018 Turnover (RMB'000) | 2018 Contribution (%) | 2017 Turnover (RMB'000) | 2017 Contribution (%) | Change (%) |
|---|---|---|---|---|---|
| **New automobile sales** | | | | | |
| Luxury and ultra-luxury brands | **8,336,206** | **65.6** | 12,720,425 | 66.6 | -34.5 |
| Mid- to high-end brands | **2,612,185** | **20.5** | 4,194,267 | 21.9 | -37.7 |
| **Subtotal** | **10,948,391** | **86.1** | 16,914,692 | 88.5 | -35.3 |
| **After-sales business** | | | | | |
| Luxury and ultra-luxury brands | **1,361,737** | **10.7** | 1,726,958 | 9.0 | -21.1 |
| Mid- to high-end brands | **402,502** | **3.2** | 469,434 | 2.5 | -14.3 |
| **Subtotal** | **1,764,239** | **13.9** | 2,196,392 | 11.5 | -19.7 |
| **Total** | **12,712,630** | **100** | 19,111,084 | 100 | -33.5 |

During the Reporting Period, revenue from the sales of automobiles decreased by RMB5,966.3 million, or 35.3% from 2017. Revenue generated from automobile sales accounted for 86.1% of our revenue for the Reporting Period. Revenue generated from sales of luxury and ultra-luxury brands and mid- to high-end brands accounted for approximately 76.1% and 23.9% of our revenue from automobile sales, respectively.

Revenue from our after-sales business slightly decreased by 19.7%, from RMB2,196.4 million in 2017 to RMB1,764.2 million in 2018.

### Cost of sales and services

Cost of sales and services decreased by 31.0% from RMB17,817.9 million in 2017 to RMB12,300.5 million for the year ended 31 December 2018.

The cost of sales and services of the automobile sales business amounted to RMB11,039.0 million for the Reporting Period, representing a decrease of RMB5,452.1 million, or 33.1%, from 2017. The sales cost of the after-sales business amounted to RMB1,261.5 million for the year ended 31 December 2018, representing a decrease of RMB65.3 million, or 4.9%, from 2017.

### Gross profit and gross profit margin

Gross profit for the year ended 31 December 2018 was RMB412.2 million, representing a decrease of RMB881.0 million, or 68.1%, from 2017. Gross profit from automobile sales decreased by 121.5% from RMB423.6 million for the year ended 31 December 2017 to RMB-91.0 million in 2018. Gross profit from after-sales business decreased by 42.2% from RMB869.6 million for the year ended 31 December 2017 to RMB502.8 million in 2018. Automobile sales and after-sales business contributed -22.1% and 122.1% respectively to our total gross profit in 2018.

Comprehensive gross profit margin for the year ended 31 December 2018 was 3.2%, which was lower than the gross margin in 2017, of which the gross profit margin of new automobile sales was -0.8% (2017: 2.5%) due to intensified market competition and the product cycle of the main agency car brands of the Group. Gross profit margin of after-sales business was 28.5% (2017: 39.6%), due to the shrinking after-sales market of mid- to high-end brand car and falling prices of components and parts.

### Other Income and net gains

Other income and net gains increased by 18.7% from RMB471.1 million for the year ended 31 December 2017 to RMB559.1 million for same period of 2018. Of which, the gain from disposal of subsidiaries amounted to RMB227.9 million.

### Selling and distribution expenses

Selling and distribution expenses of the Group amounted to RMB482.7 million for the year ended 31 December 2018, representing an increase of 1.84% over RMB474.0 million in 2017, which was mainly due to the increase in fees payable to the suppliers of the Company.

### Administrative expenses

Administrative expenses of the Group amounted to RMB587.8 million for the year ended 31 December 2018, representing an increase of 14.9% over the administrative expenses of RMB511.7 million in 2017, which was mainly due to the increase in provisions for impairment of inventory and staff cost and consultancy service fees.

### Finance costs

Finance costs of the Group amounted to RMB531.1 million for the year ended 31 December 2018, representing an increase of 35.0% over the finance costs of RMB393.4 million in 2017, which was primarily attributable to the increase in interest rate arising from tightening loans from banks in 2018.

### Profit from operations

Loss from operations of the Group amounted to RMB1,454.2 million for the year ended 31 December 2018, representing a decrease of 486.0% over a profit of RMB376.7 million in 2017. Operating profit margin was -11.4%, representing a decrease of 13.4 percentage point from 2.0% in 2017.

### Income tax expenses

Income tax expenses of the Group amounted to RMB64.0 million for the year ended 31 December 2018.

### Profit for the year

Loss for the year of the Group amounted to RMB1,518.3 million for the year ended 31 December 2018, representing a decrease of 683.5% over a profit of RMB260.2 million in 2017. Net profit margin for the year was -11.9%, representing a decrease of 13.3 percentage point over 1.4% in 2017.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flows

As at 31 December 2018, cash and cash equivalents amounted up to RMB866.0 million, representing a decrease of 28.9% from RMB1,218.1 million as at 31 December 2017.

Our primary uses of cash were to pay for the purchases of new automobiles, spare parts and automobile accessories, and to fund our working capital and daily operating costs. We financed our liquidity requirements through short-term bank loans and other borrowings and cash flows generated from our operating activities.

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of bank loans and other borrowings, cash flow generated from our operating activities and other funds raised from the capital market from time to time.

For the year ended 31 December 2018, we had a net cash inflow from operating activities of RMB238.5 million (2017: net cash inflow of RMB431.2 million), a net cash inflow from investing activities of RMB467.5 million (2017: net cash outflow of RMB203.4 million) and a net cash outflow of RMB1,053.2 million generated from financing activities (2017: net cash outflow of RMB252.6 million).

### Net current liabilities

As at 31 December 2018, we had net current liabilities of RMB2,495.6 million, representing an increase of RMB90.1 million over the net current liabilities of RMB2,405.5 million as at 31 December 2017, as a result of the slowdown of whole sales during the year and the decrease in balance payable to manufacturers.

### Capital expenditure

Our capital expenditures primarily comprise expenditures on property, plant and equipment and intangible assets. For the year ended 31 December 2018, our total capital expenditure was RMB243.6 million (2017: RMB237.6 million).

### Inventory

Our inventory primarily consisted of new automobiles, spare parts, and automobile accessories and supplies. Each of our dealership stores has dedicated staff to manage their orders for new automobiles and after-sales products.

Our inventory decreased by 44.0% from RMB2,644.7 million as at 31 December 2017 to RMB1,480.8 million as at 31 December 2018, primarily due to the slowdown of whole sales of the Company and reduction of inventories.

Our average inventory turnover days for the year ended 31 December 2018 increased to 60 days from 49 days in 2017.

### Trade receivables

Trade and bills receivables decreased from RMB413.9 million for the year ended 31 December 2017 to RMB311.0 million for the year ended 31 December 2018, primarily due to the decrease of receivables in relation to automobile financing lending as a result of the decrease in automobile sales.

### Bank loans and other borrowings

As at 31 December 2018, the Group's available but unused banking facilities were RMB4,461.6 million (31 December 2017: RMB3,037.5 million).

Our bank loans and other borrowings as at 31 December 2018 were RMB6,382.2 million, with a decrease of 1,107.6 million from RMB7,489.8 million as at 31 December 2017.

### Interest rate risk

We are exposed to interest rate risk resulting from fluctuations in the interest rate of our debts. Part of our borrowings were floating rate borrowings that are linked to the benchmark rates of the People's Bank of China. Increase in interest rate could result in an increase in our cost of borrowing. In such case, not only our finance costs, but also our profit and financial position would be adversely affected.

### Gearing ratio

Our gearing ratio (defined as the sum of interest-bearing bank loans and other borrowings divided by shareholders' equity as at the end of the Reporting Period and then multiplied by 100%) for the year ended 31 December 2018 was 303.5% (31 December 2017: 206.2%).

### Human resources

As at 31 December 2018, the Group had approximately 5,409 employees (31 December 2017: 6,145). Total staff costs for the year ended 31 December 2018, excluding directors' remuneration, were RMB368.0 million (2017: RMB369.7 million).

The Group values the recruiting and training of quality personnel. We implement remuneration policy, bonus and long term incentive schemes with reference to the performance of the Group and individual employees. The Group also provides benefits, such as insurance, medical and retirement funds, to employees to sustain competitiveness of the Group.

### Contingent liabilities

As at 31 December 2018, we did not have any material contingent liabilities or guarantees.

### Pledge of the Group's assets

The Group pledged its assets as securities for bank loans, other borrowings and banking facilities, which were used to finance daily business operation. As at 31 December 2018, the pledged assets of the Group amounted up to RMB3,751.3 million.

# CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report of the Group's annual report for the year ended 31 December 2018.

## 1. CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group is committed to achieving high corporate governance standards.

The Group believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Board is of the view that the Company has fully complied with the code provisions set out in the CG Code during the year ended 31 December 2018, except for the deviation from code provision A.2.1:

### Code Provisions A.2.1

The provision provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company has appointed Mr. Yang Peng as both the Chairman and the Chief Executive Officer of the Company. The Board believes that vesting the roles of the Chairman and Chief Executive Officer in the same individual would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. The Board believes that the balance of power and authority is sufficiently maintained by the operation of the board, comprising the executive Director and independent non-executive Directors. The Board shall review the structure and composition of the Board from time to time in light of prevailing circumstances, to maintain a high standard of corporate governance practices of the Company.

## 2. COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of the Directors. Specific enquiry has been made to all the Directors who have confirmed that they have complied with the Model Code during the year ended 31 December 2018.

The Board has also adopted the Model Code as guidelines for its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the securities of the Company. No incident of non-compliance of the Model Code by the relevant employees was noted by the Company.

## 3. THE BOARD

### (1) Responsibilities

The Board is responsible for leading and control of the Group and is collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorising the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards.

### (2) Authorization

The Board delegates the day-to-day management, administration and operation of the Group to the management and contributes to the Group through monitoring daily business operation, development plan and implementation. In addition, the Board has established several board committees and delegates to the board committees the responsibilities set out in their respective written terms of reference. The Board regularly reviews the delegated functions to ensure that they suit the needs of the Group.

### (3) Board composition

The Board of the Company currently comprises five Directors, including one executive Director and four independent non-executive Directors. As at the date of this report, the members of the Board are set out below:

| | |
|---|---|
| Executive Directors | Yang Peng *(Chairman and Chief Executive Officer)* |
| Independent Non-executive Directors | Mei Jianping<br>Lee Conway Kong Wai<br>Xiao Zhengsan<br>Li Xin |

The biographical information of the Directors is set out in the section headed "Directors and Senior Management Profiles" on pages 34 and 35 of this annual report.

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

All the Directors, including independent non-executive Directors, bring invaluable operating experience, knowledge and professionalism to the Board, which allow effective and efficient operation.

In addition, independent non-executive Directors are identified as such in all corporate communications containing the names of the Directors. A list of the names of the Directors and their role and function is published on the websites of the Company and the Stock Exchange.

### (4) Independent non-executive Directors

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

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines as set out in Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent.

### (5) Appointment and re-election of Directors

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing on 8 June 2017 unless terminated by not less than three months' notice in writing served by either the executive Director or the Company.

Each of the independent non-executive Directors has entered into his appointment letter with the Company for a term of one year. It could be renewed automatically for one year, provided that it may be not approved at the shareholders' meeting in case he shall be subject to retirement from office and re-election under the Listing Rules.

Pursuant to the articles of association of the Company (the "**Articles**"), at each annual general meeting, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director, including those appointed for a fixed term, shall be subject to retirement by rotation at least once every three years. The term of retiring Directors shall last until the end of the annual general meeting at which they are subject to retirement by rotation and they shall be eligible for re-election at the meeting.

Pursuant to article 16.18 of the Articles, Mr. Yang Peng and Mr. Mei Jianping will retire at the annual general meeting of the Company to be held on 5 June 2019 (the "**AGM**") and are eligible for re-election.

### (6) Continuous professional development of Directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Internally-facilitated briefings for Directors are arranged and reading materials on relevant topics will be circulated to Directors where appropriate so as to ensure that Directors understand the condition of the Company and the latest policies from regulatory bodies in a timely manner. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2018, all Directors received regular briefings, seminars, conferences and/or updates on the Group's business, operations, risk management, corporate governance, responsibilities and obligations of Directors and other relevant matters. Materials on new or changes to salient laws and regulations applicable to the Group were provided to the Directors. All Directors have provided the Company with their respective training records pursuant to the CG Code.

### (7) Attendance of Directors and committee members

The attendance of each Director at the Board and Board committee meetings and the general meetings of the Company held during the year ended 31 December 2018 is set out in the table below:

| | Attendance/Number of Meetings | | | | | |
|---|---|---|---|---|---|---|
| Director | Board | Nomination Committee | Remuneration Committee | Audit Committee | Risk Management Committee | General Meeting |
| **Executive Directors** | | | | | | |
| Yang Peng | 4/4 | 1/1 | 1/1 | | | 1/1 |
| Zhao Zhongjie Note 1 | 3/3 | | | | | 0/1 |
| Liu Jian Note 2 | 0/1 | | | | | 0/1 |
| **Independent Non-executive Directors** | | | | | | |
| Mei Jianping | 3/4 | 1/1 | 1/1 | | | 1/1 |
| Lee Conway Kong Wai | 4/4 | | | 2/2 | 3/3 | 1/1 |
| Xiao Zhengsan | 3/4 | 1/1 | 1/1 | 2/2 | 3/3 | 0/1 |
| Li Xin | 3/4 | 0/1 | 0/1 | 1/2 | 2/3 | 0/1 |

*Notes:*

1. Mr. Zhao Zhongjie resigned as an executive Director on 30 August 2018. Three Board meetings and one general meeting were held during his tenure as a Director.

2. Mr. Liu Jian resigned as an executive Director on 28 March 2018. One Board meeting was held during his tenure as a Director.

Except for regular Board meetings, the Chairman also held one meeting with the non-executive Directors (including independent non-executive Directors) on 28 March 2018 with the executive Directors being absent. The independent non-executive Directors, Mr. Mei Jianping, Mr. Lee Conway Kong Wai and Mr. Xiao Zhengsan attended the meeting.

The Company make available to the Directors in advance the annual meeting schedules and draft agenda of each meeting of the Board, and serves notices of regular Board meetings at least 14 days before the meetings. For other Board and Committee meetings, reasonable notices are given. Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or Committee meeting to keep the Directors appraised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and every Director also have separate and independent access to the senior management where necessary.

Draft and final versions of minutes are circulated to Directors or relevant Committee members for comment and record respectively within a reasonable time after each meeting. Minutes of Board meetings and Committee meetings are kept by the Company Secretary or the duly appointed secretaries of the respective meetings (as the case may be) and are available for inspection by all Directors at all reasonable time. The Articles contain provisions requiring any Director to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Director or any of his associates has a material interest.

## 4. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company has appointed Mr. Yang Peng as both the Chairman and the Chief Executive Officer of the Company. The Board believes that vesting the roles of the Chairman and Chief Executive Officer in the same individual would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. The Board believes that the balance of power and authority is sufficiently maintained by the operation of the Board, comprising the executive Directors and independent non-executive Directors.

## 5. BOARD COMMITTEES

The Board has established four committees, namely, the Nomination Committee, the Remuneration Committee, the Audit Committee and the Risk Management Committee, to oversee particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

### (1) Nomination Committee

As at the date of this report, the Nomination Committee comprises four members, including one executive Director, Mr. Yang Peng (chairman of the Committee) and three independent non-executive Directors, namely, Mr. Mei Jianping, Mr. Xiao Zhengsan and Mr. Li Xin.

The main responsibilities of the Nomination Committee include reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's strategy, identifying individuals suitably qualified to become Board members, selecting and nominating individuals to be appointed as a Director or advising the Board in this regard, making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors and assessing the independence of independent non-executive Directors. The Nomination Committee also reviews the Board Diversity Policy and Director Nomination Policy from time to time to ensure its effectiveness.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Company's Director Nomination Policy that are necessary to complement the corporate strategy, where appropriate, before making recommendation to the Board.

For the year ended 31 December 2018, the Nomination Committee held one meeting for discussing the structure and composition of the Board, reviewing the independence of the independent non-executive Directors, considering the qualifications of the retiring Directors standing for re-election at the annual general meeting and considering and approving the resolutions in relation to the measurable objectives set for implementing the Board Diversity Policy. Details of each committee member's attendance at the Nomination Committee meeting are set out in "Attendance of Directors and committee members" above.

**Board Diversity Policy**

The Board adopted a board diversity policy ("**Board Diversity Policy**") in August 2014. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

On setting the composition of the Board, the Company maintains that Board appointment should be based on merit that complements and expands the skills, experience and expertise of the Board as a whole, taking into account professional experience and qualifications, gender, age, ethnicity, cultural and educational background, and any other factors that the Board might consider relevant and applicable from time to time towards achieving a diversified Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to experience and expertise, professional experience and qualifications, gender, age, ethnicity and cultural and educational background.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered. The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The Nomination Committee will review the Board Diversity Policy as and when appropriate to ensure its effectiveness.

**Director Nomination Policy**

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- character and integrity;
- qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- diversity in all aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;

- requirements of independent non-executive Directors on the Board and independence of the proposed independent non-executive Directors in accordance with the Listing Rules; and
- commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committees of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. In relation to the appointment of a new director, the Nomination Committee will request the candidate to provide his/her biographical information and other information deemed necessary. The Nomination Committee will review and take reasonable steps to verify the information obtained from the candidate and seek clarification, where required. The Nomination Committee may, at its discretion, invite any candidate to meet with the Nomination Committee members to assist them in their consideration of the proposed nomination or recommendation. The Nomination Committee will then submit its nomination proposal to the Board for consideration and approval, make recommendations to the shareholders of the Company for approval.

The Nomination Committee will conduct regular review on the structure, size and composition of the Board and the Director Nomination Policy, and where appropriate, make recommendations on changes to the Board for consideration and approval to complement the Company's corporate strategy and business needs to ensure its effectiveness.

### (2) Remuneration Committee

As at the date of this report, the Remuneration Committee comprises four members, including three independent non-executive Directors, namely, Mr. Mei Jianping (chairman of the Committee), Mr. Xiao Zhengsan and Mr. Li Xin, and one executive Director, Mr. Yang Peng.

The main responsibilities of the Remuneration Committee include making recommendations to the Board on the Group's policy and structure for Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy, assessing the performance of executive Directors and approving the terms set out in the service contract of executive Directors, reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives, and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

For the year ended 31 December 2018, the Remuneration Committee held one meeting for reviewing the policy and structure of the remuneration of the Directors and senior management, assessing the performance of the senior management, as well as reviewing the management's remuneration proposals with the reference to the Board's corporate goals and objectives. Details of each committee member's attendance at the Remuneration Committee meeting are set out in "Attendance of Directors and committee members" above.

Details of the amount of Directors' remuneration are set out in note 9 to the financial statements.

For the year ended 31 December 2018, the aggregate emoluments payable to members of senior management fell within the following band:

| Emolument Range | Number of Individuals |
|---|---|
| HK$ Nil to HK$1,000,000 | 3 |

### (3) Audit Committee

As at the date of this report, the Audit Committee comprises three independent non-executive Directors, namely, Mr. Lee Conway Kong Wai (chairman of the Committee), Mr. Xiao Zhengsan and Mr. Li Xin.

The main responsibilities of the Audit Committee include, reviewing financial information, financial and accounting standards of the Group, monitoring the external auditor's independence and objectivity and effectiveness of the audit process and making recommendations to the Board on the appointment, re-appointment, removal of the external auditor and approving its remuneration and terms of engagement. The Audit Committee is also responsible for reviewing the arrangements for concerns raised about possible improprieties in the financial reporting process, fiancial controls, internal control or other matters (i.e. the "**whistle blowing policy**").

During the year ended 31 December 2018, the Audit Committee held two meetings to conduct the following works:

(a) reviewed the audited consolidated financial statements, annual results announcement and annual report of the Company and its subsidiaries for the year ended 31 December 2017;

(b) reviewed the unaudited consolidated financial statements, interim results announcement and interim report of the Company and its subsidiaries for the six months ended 30 June 2018;

(c) reviewed and considered the major audit findings by the auditor;

(d) reviewed and considered the financial reporting system of the Company;

(e) reviewed the arrangements employees can use to raise concerns about possible improprieties in financial reporting, internal control or other matters, and to consider and review the investigation progress of reported cases; and

(f) reviewed and revised the terms of reference of the Audit Committee.

During the year ended 31 December 2018, the terms of reference of the Audit Committee have been revised, under which the cooling-off period for a former partner of the Company's existing auditing firm to act as a member of the Audit Committee has been amended to align with the relevant requirements under the Listing Rules.

The Company's annual results for the year ended 31 December 2018 have been reviewed by the Audit Committee.

Details of each committee member's attendance at the Audit Committee meetings are set out under "Attendance of Directors and Committee Members" above.

The Audit Committee also held two meetings with the external auditor with the executive Directors being absent.

### (4) Risk Management Committee

As at the date of this report, the Risk Management Committee comprises three independent non-executive Directors, namely, Mr. Lee Conway Kong Wai (chairman of the Committee), Mr. Xiao Zhengsan and Mr. Li Xin.

The Risk Management Committee is authorized by the Board to oversee the Group's overall risk management framework and advise the Board on risk management matters of the Company. The Risk Management Committee is also responsible for regularly assessing the effectiveness of risk management and internal controls and reviewing environmental, social and governance issues.

For the year ended 31 December 2018, the Risk Management Committee held three meetings to review the adequacy and effectiveness of risk management and internal control systems of the Company and its subsidiaries for the years ended 31 December 2017 and 2018, the Company's investment, the matters relating to the corporate governance report and the Environmental, Social and Governance Report for the year 2017. The Board confirmed that the Company maintained a sound and effective risk management and internal control systems. Details of each committee member's attendance at the Remuneration Committee meeting are set out under "Attendance of Directors and committee members" above.

## 6. CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance functions set out in code provision D.3.1 of the CG Code:

(1) to formulate and review the Group's corporate governance policies and practices;

(2) to review and oversee the training and continuous professional development of Directors and senior management of the Group;

(3) to review and oversee the Group's policies and practices in compliance with any requirements, guidelines and rules that may be imposed by the Board or which may be incorporated into any constitutional documents of the Group or which may have been provided by the Listing Rules, applicable laws and other regulatory requirements as well as by applicable institutional governance standards;

(4) to formulate, review and oversee the code of conduct and the compliance handbook (if any) of the employees and Directors of the Group; and

(5) to review the Group's compliance with the CG Code as adopted by it from time to time and the disclosure in the Corporate Governance Report as set out in the annual reports of the Company.

## 7. DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL REPORT

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018.

The Board is responsible for presenting balanced, clear and understandable annual and interim reports, price sensitive information disclosure and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management is responsible for providing such explanation and information necessary to the Board to enable the Board to carry out an informed assessment of the financial statements of the Company put to the Board for approval.

## 8. EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the independent auditor of the Company about its reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 49 to 55 of this annual report.

During the year, the remuneration paid or payable to the Company's external auditor in respect of audit services for the year ended 31 December 2018 was RMB4.95 million. There were no non-audit services provided by the external auditor during the year ended 31 December 2018.

## 9. RISK MANAGEMENT

The Company has set up an organizational structure with clarified responsibilities and reporting procedures to strengthen risk management. The Board established the Risk Management Committee to assist the Board in monitoring risk exposure and to design and enhance the effectiveness of risk management.

| | |
|---|---|
| Board of directors | • Take overall responsibility for risk management of the Company<br>• Assess and determine the nature and extent of risks that the Company could bear for achieving business objectives<br>• Oversee the design, implementation and monitoring of risk management by the management |
| Risk management committee | • Assist the Board of Directors in monitoring risk management performance and major risks<br>• Consider the Company's risk management strategies<br>• Consider, review and approve risk management policies and guidelines<br>• Monitor the effectiveness of risk management<br>• Monitor environmental, social and governance matters |
| Internal audit department | • Independent assessment of risk management systems utilizing audit procedures |
| Management | • Design, implement and monitor risk management systems<br>• Notify the Risk Management Committee of major risks and report on actions to be taken to manage those risks<br>• Confirm the effectiveness of risk management of the Company |
| Business department | • Identify risks, evaluate and execute risk control and rectify measures under respective responsible department |

## Risk Management Procedures

As for the Company's risk management procedures, the Plan-Do-Check-Act (PDCA) recurring model was adopted to identify issues during the course of business and daily operation of the Group, to advise responsive measures against major risks and to monitor their implementation, so as to fully implement risk management in the operation of the Group. The Company's risk management procedures are shown as follows:

**Phase P Information Collection and Risk Identification**

- Collect primary information on risk management of various departments and business lines of the Group
- Conduct a comprehensive risk assessment to identify potential risks

**Phase D Risk Assessment and Risk Management**

- Assess and score the impact of identified risks on the business and the likelihood of occurrence
- Set up risk management strategies and specific implementation plans for the assessment results

**Phase C Risk Reporting and Risk Monitoring**

- Periodically report on the results of implementation of risk management plans for respective business lines
- The management regularly monitors the execution of risk management plans for each department and makes rectification recommendation

**Phase A Enhancement and Improvement of Risk Management**

- Standardise the measures which were proved to be effective during the implementation of risk management, so as to continue to implement those measures in the subsequent works
- Summarise the issues materialised during the implementation of risk management and devise rectification plans, so as to improve the quality of risk management

## Major Risks

| Description of major risks | Risk control measures |
|---|---|
| **Business risk**<br>The slowing down of sales of new automobile and increasing brand competition in the automobile industry in the PRC put pressure on the profitability of automobile dealerships. With the implementation of Measures for the Administration of Automobile Sales (汽車銷售管理辦法), various forms of automobile sales have been developed, and industry competition has further intensified. The agency automobile brands and prices of the Group are facing fierce competition from competitors. | • The Company will continuously monitor the market competition;<br>• The Company will implement a definite strategy to maintain the development of new car sales business, meanwhile deploy the development of the second-hand car and financial business so as to accelerate the business transformation to the automotive post-market;<br>• The Company maintains its competitive position through improving service quality, innovating service products and brand promotion to gain market recognition. |
| **Financial risk**<br>Changes in financial market may have adverse impact on the financial condition of the Company. The Group is exposed to various financial risks, such as interest rate risk, foreign currency risk and liquidity risk. | Please refer to note 41 to the financial statements for details. |
| **Investment and financing risk**<br>• The automobile industry was not as optimistic as expected in general with declining growth rate of sales volume;<br>• Turnover rate of inventory of new automobiles was slowing and realising capability was weakening;<br>• The expansion of the Group and increasing of inventory resulted in increasing costs;<br>• The financing channel was single and the financing cost was high.<br>These internal and external factors may result in the decline of the Company's solvency and debt crisis; the increase in financing cost may lead to the decrease in profitability of the Company. | • According to the development strategies of the Company and based on our own actual condition, the Company will formulate scientific financing plans;<br>• Actively expand financing channels;<br>• Optimise capital usage structure and reasonably allocate funds. |

| Description of major risks | Risk control measures |
|---|---|
| **Legal and compliance risk**<br>The risk is caused by loss arising from violation or non-compliance with applicable laws, regulations or contracts. | • Seek for internal and external legal advice for business activities or new business;<br>• Designate specific legal personnel to review the contracts;<br>• The internal control department conducts specific review of compliance. |
| **Merger, acquisition and integrating risk**<br>The Group will carry out selective acquisition when appropriate opportunities arise in the market, and expand the business scale and coverage of districts. After obtaining the control of the acquiree, uncertainties in respect of management, financial and human recourses will be exposed during the course of take-over, planning and integration, which may have adverse impact on the financial performance, operating results and prospect. | • The management will regularly listen to the progress and periodic report on the consolidation, closely follow up the significant consolidation matters and make adjustments in a timely manner, and to provide guidelines on identified issues in time;<br>• Formulate and implement management and control measures based on local situations;<br>• Develop a stable operation team;<br>• Set up a reasonable and effective financial consolidation mechanism. |

Since the Group is operating under keen competition environment, persistent and effective risk management is the key factor for achieving outstanding performance and business objectives. Facing the continuously severe market environment, the Group will continue to perfect the model and framework of risk management, and speed up the implementation of risk management responsibilities and obligations of each department.

## 10. INTERNAL CONTROL

The Board is responsible for maintaining a solid and effective internal control system to safeguard investments of shareholders and assets of the Company.

The Board conducts review at least once a year on the effectiveness of the internal control systems of the Group, including the adequacy of resources, staff qualifications and experience of the Company's accounting and financial staffs, as well as their training programmes and budget.

The Internal Control Management Department of the Company is responsible for the Company's internal audit function, analyzing and making an independent assessment of the effectiveness of the Company's internal control system. The Internal Control Management Department will formulate the annual internal audit plan on the basis of risk assessment every year. The audit plan will focus on the operation of principal business segment and functional department and high risk business activities. The annual internal audit plan will be subject to the consideration and approval by the Audit Committee at the beginning of every year.

In 2018, the Internal Control Management Department has consistently made an overall audit on the stores and specific audit on internal control and other audit specifics, as well as made assessment on operation and management status of stores and regions. As to various risk and management issues identified during the audit, the Internal Control Management Department will periodically follow and promote the remedies of the units being audited, and effectively propel the continuous improvement of risk management and internal control system. The Internal Control Management Department will report to the Audit Committee regularly.

The Board, through the Audit Committee and the Risk Management Committee, has conducted a review on the risk management and internal control systems of the Company and its subsidiaries for the year ended 31 December 2018. Such review covered the areas of finance, operation, compliance and risk management of the Group. The Board confirmed that these systems are effective and sufficient.

## 11. WHISTLE BLOWING POLICY

A whistle blowing policy was formulated by the Company to ensure inappropriate business practices and behaviors are reported and properly handled. The policy includes the set up of a reporting hotline and an electronic mailbox. Acceptance and follow-up processing will be performed by the Internal Control Management Department at the direction of the Audit Committee. Procedures and controls are in place to ensure the informant's identity is kept confidential.

## 12. INSIDE INFORMATION POLICY

An inside information policy was formulated by the Company. The policy covers the scope, procedures and steps of handling and dissemination of inside information for the purpose of compliance with the obligation of processing and publication of inside information.

## 13. DIVIDEND POLICY

A dividend policy was formulated by the Company on payment of dividends. The policy sets out the factors in determination of dividend payment of the Company, the frequency and form of dividend payments. The Dividend Policy will be reviewed periodically and submitted to the Board for approval if amendments are required.

## 14. INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company considers that effective communication with shareholders is essential for maintaining good investor relations and enhancing investors' understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and extraordinary general meetings. The chairman of the Board, independent non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at general meetings to meet shareholders and answer their enquiries. In addition, to promote effective communication, the Company maintains a website at www.rundongauto.com, where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

## 15. COMPANY SECRETARIES

Ms. Mak Tze Fan resigned as the company secretary of the Company on 28 March 2019 and Ms. Ho Siu Pik of Tricor Services Limited, an external service provider, was engaged as the company secretary of the Company on 28 March 2019. The chief responsibilities of the company secretary include supporting the Board in business transactions, ensuring good communication and flow of information within the Board and the compliance of the policies and procedures of the Board, and advising the Board on governance matters, assisting Directors to their new positions and overseeing their training and continuous professional development. Ms. Mak's primary contact person at the Company is Mr. Yang Peng and Mr. Zhang Zhiqing, the Board secretary of the Company. The biographical details of Ms. Ho Siu Pik are set out on page 34 of this annual report.

According to Rule 3.29 of the Listing Rules, Ms. Mak, the former Company Secretary, has confirmed that she has taken no less than 15 hours of professional training to update her skill and knowledge for the year ended 31 December 2018.

## 16. GOING CONCERN CAPABILITY

The Board has not been aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

## 17. SHAREHOLDERS' RIGHTS

To safeguard shareholder's interests and rights, a separate resolution is proposed for each separate issue at general meetings, including the election of individual Directors.

Except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, all resolutions put forward at general meetings shall be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange after each general meeting.

### Procedure for convening an extraordinary general meeting by shareholders

Pursuant to the Articles of the Company, any one or more shareholders holding not less than one-tenth of the issued share capital of the Company carrying the right of voting at general meetings may require an extraordinary general meeting by a written requisition to the Board or the Company Secretary either via personal delivery or mail (for the attention of the Board of Directors/Company Secretary, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong) or via email (ir@rundongauto.cn). The Board shall, within 21 days from the date of deposit of the requisition, duly convene a general meeting.

### Procedure for putting forward proposals at general meetings

Any shareholder who wishes to put forward proposals at general meetings of the Company shall submit such proposals to the Board in writing for the Board's consideration either via personal delivery, mail (for the attention of the Board of Directors/Company Secretary, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong) or via email (ir@rundongauto.cn). The Board may, in its sole discretion, consider if such proposals are appropriate and shall put forward such proposals to the shareholders for approval at the next annual general meeting, or at an extraordinary general meeting to be convened by the Board, as appropriate.

### Procedure for putting forward enquiries to the Board

Shareholders are, at any time, welcome to send their enquires or requests to the Board via personal delivery or mail (for the attention of Shareholder Communication, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong) or via email (ir@rundongauto.cn).

*Note:* The Company will not normally deal with verbal or anonymous enquiries.

For the avoidance of doubt, shareholder(s) must deposit/send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the Company's aforesaid address, and provide his/her/their full name, contact details and identification in order to give effect thereto. Shareholders' personal information may be disclosed as required by law.

The Shareholders Communication Policy and Procedures for Shareholders to Propose a Person for Election as Director are available on the website of the Company.

## 18. CONSTITUTIONAL DOCUMENTS

The Company adopted its Amended and Restated Memorandum and Articles of Association on 23 July 2014, which came into effect on 12 August 2014 and have subsequently been amended by the special resolutions passed on 5 August 2015 and on 20 January 2017.

There was no change in the Company's memorandum and Articles as at 31 December 2018.

An up-to-date version of the Company's memorandum and the Articles is available for inspection on both the websites of the Stock Exchange and the Company.

# DIRECTORS AND SENIOR MANAGEMENT PROFILES

## DIRECTORS

The Board currently consists of five Directors, comprising one executive Director and four independent non-executive Directors.

### Executive Director

**Mr. Yang Peng (楊鵬)**, aged 49, is our Chairman, executive Director and Chief Executive Officer of our Group as well as the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Yang has substantial experience in the automobile dealership industry. He is the founder of our Group and has been the president of our Group since March 1998. Mr. Yang is responsible for our Group's overall business development and strategic planning. Mr. Yang also serves as a director/corporate representative of various subsidiaries of the Company. From October 1999 to October 2001, he served as the deputy general manager of Jiangsu Hangao Information Industry Co., Ltd. (江蘇漢高信息產業股份有限公司). The Hangao Food website of this company (www.hangaofood.com) is the first "Pilot Urban E-Commerce Project" in the PRC and a significant technological breakthrough project under the "Ninth Five-Year Plan". Mr. Yang Peng also worked at the finance department of Xuzhou Transportation Bureau (徐州市交通局財務科) from September 1990 to September 1992. Mr. Yang obtained an EMBA degree from Cheung Kong Graduate School of Business in October 2009.

### Independent Non-Executive Directors

**Mr. Mei Jianping**, aged 58, is an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Nomination Committee of the Company. Mr. Mei has been a professor of Finance at Cheung Kong Graduate School of Business since 2006. He is currently an independent non-executive director of Powerlong Real Estate Holdings Limited (HK stock code: 1238), MIE Holdings Corporation (HK stock code: 1555) and Cultural Investment Holdings Company Limited (Shanghai stock code: 600715). Mr. Mei served as an independent non-executive director of Ground International Development Limited (formerly known as Ground Properties Company Limited) (HK stock code: 989) from November 2013 to December 2017. Mr. Mei received a doctorate degree in economics (finance) from Princeton University in January 1990.

**Mr. Lee Conway Kong Wai (李港衛)**, aged 64, is an independent non-executive Director and the chairmen of the Audit Committee and the Risk Management Committee of the Company. Mr. Lee has over 30 years of experience in public accounting and auditing, corporate finance, merger and acquisition and initial public offerings. From September 1980 to September 2009, Mr. Lee served as a partner of Ernst & Young. Mr. Lee is currently an independent non-executive director of West China Cement Limited (HK stock code: 2233), Chaowei Power Holdings Limited (HK stock code: 951), GOME Retail Holdings Limited (formerly known as "GOME Electrical Appliances Holding Limited") (HK stock code: 493), Tibet Water Resources Ltd (HK stock code: 1115), NVC Lighting Holding Limited (HK stock code: 2222), China Modern Dairy Holdings Ltd. (HK stock code: 1117), Yashili International Holdings Ltd (HK stock code: 1230), Guotai Junan Securities Co., Ltd. (HK stock code: 2611, Shanghai stock code: 601211), GCL New Energy Holdings Limited (HK stock code: 451) and WH Group Limited (HK stock code: 288). Mr. Lee also acted as a non-executive director and deputy chairman of China Environmental Technology and Bioenergy Holdings Limited (formerly known as "Merry Garden Holdings Limited") (HK stock code: 1237) from July 2014 to September 2015. Mr. Lee also acted as an independent non-executive director of CITIC Securities Company Limited (HK stock code: 6030, Shanghai stock code: 600030) from November 2011 to May 2016. Mr. Lee also acted as an independent non-executive director of China Taiping Insurance Holdings Company Limited (HK stock code: 966) from October 2009 to August 2013. Mr. Lee has been a member of the Institute of Chartered Accountants in England and Wales since October 2007, the Chartered Accountant, in Australia and New Zealand since December 1996, the Association of Chartered Certified Accountants since September 1983, the Hong Kong Institute of Certified Public Accountants since March 1984 and the Macau Society of Certified Practising Accountants since July 1995. From 2007 to the end of 2017, Mr. Lee was a member of the Chinese People's Political Consultative Conference of Hunan Province. Mr. Lee obtained his post graduate diploma in business at Curtin University of Technology in Australia in February 1988.

**Mr. Xiao Zhengsan (肖政三)**, aged 55, is an independent non-executive Director and members of the Nomination Committee, the Remuneration Committee, the Audit Committee and the Risk Management Committee of the Company. Mr. Xiao has been a director of the exhibition department and deputy secretary general of China Automobile Dealers Association (中國汽車流通協會) since August 2008, and has been promoted to the secretary general since November 2014. Mr. Xiao has been a vice-chairman of China Auto Modification Accessories Association since January 2017. He has been a vice-chairman and the secretary general of China Automobile Dealers Association (中國汽車流通協會) since November 2018. He served as a supervisor of Baocheng Investment Co., Ltd. (寶誠投資股份有限公司) (Shanghai stock code: 600892) from July 2003 to June 2008. Mr. Xiao obtained a bachelor's degree in financial accounting from Jiangxi University of Finance and Economics in July 1984.

**Mr. Li Xin (李鑫)**, aged 46, is an independent non-executive Director and members of the Nomination Committee, the Remuneration Committee, the Audit Committee and the Risk Management Committee of the Company. He has been the president of Beijing Zhongzhi Shengdao Management Consultant Limited (北京中智盛道企業管理諮詢有限公司) since 2013. Currently, Mr. Li Xin is currently also a director of Qingdao ZhongFang Elink Development Investment Limited (青島中紡億聯開發投資有限公司), the vice president of Qingdao Elink Group Incorporation Company Limited (青島億聯集團股份有限公司), an executive director and the general manager of Qingdao Fashion Show Network Technology Co., Ltd. (青島時尚秀場網絡科技有限公司), the chairman of Beijing Fashion Show Technology Company Limited (北京時尚秀場科技股份有限公司) and a director of Beijing AZSY Technology Company Limited (北京愛知世元科技股份有限公司), a company listed on the National Equities Exchange and Quotations, stock code: 834817. He is also employed as a professor at the Tsinghua University Training Centre of Professional Managers and a graduate tutor at the Beihang University in China. Prior to those positions, he was a director of SmartHeat, Inc. (Nasdaq stock code: HEAT) from 2009 to 2015 and the chief executive officer of Shenggao Consulting Group (盛高諮詢集團) from 2007 to 2013. Mr. Li Xin is very experienced in management consulting and has been involved in the consultancy of renowned companies such as the headquarters of China Everbright Bank (中國光大銀行總行), Beijing Haidian Science Park (北京海澱科技園), Xtep International Holdings Limited (Hong Kong stock code: 1368), Shaanxi Xindalu Group (陝西新大陸集團), Panjiang Holdings (盤江控股), Xinjiang Electric Power Design Institute (新疆電力設計院), Delisi Group (德利斯集團) and Baolingbao Biology Company Limited (Shenzhen SME Board stock code: 002286). Mr. Li Xin obtained an MBA degree from Beihang University in China in April 2004.

## COMPANY SECRETARY

**Ms. Ho Siu Pik (何小碧)** has been appointed as the Company Secretary of the Company since 28 March 2019. Ms. Ho is an executive director of corporate services of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. She has over 20 years of experience in the corporate secretarial field and has been providing professional services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Ho is currently the company secretary/joint company secretary of five listed companies on the Stock Exchange, namely Asia Cement (China) Holdings Corporation (stock code: 743), China Molybdenum Co., Ltd. (stock code: 3993), Goodbaby International Holdings Limited (stock code: 1086), Grand Talents Group Holdings Limited (stock code: 8516) and Summit Ascent Holdings Limited (stock code: 102). Ms. Ho is a Chartered Secretary, a Chartered Governance Professional and a Fellow of both The Hong Kong Institute of Chartered Secretaries ("HKICS") and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She is a holder of the Practitioner's Endorsement from HKICS.

# REPORT OF DIRECTORS

The Directors are pleased to present this report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

## PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the Cayman Islands with limited liability. Its registered office is situated in the Cayman Islands and its operation headquarter is located in Shanghai, China.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities and other details of subsidiaries of the Company are set out in note 42 to the consolidated financial statements.

## SUBSIDIARIES

Please refer to note 42 to the consolidated financial statements.

## RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated financial statements.

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2018 and for the past five financial years are set out on page 3 of this annual report. This summary does not form part of the audited consolidated financial statements.

## BUSINESS REVIEW

For discussion and analysis as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including a fair view of the Company and a discussion of the principal risks and uncertainties exposed to the Company, particulars of significant events affecting the Company that have occurred subsequent to the end of the financial year of 2018, an indication of likely future development in the Company's business, are set out in sections headed the "Financial Highlights", "Chairman's Statement", "Management Discussion and Analysis" and "Corporate Governance Report" of this annual report. The said discussion forms part of this Report of Directors.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

While maintaining the leading quality of service in the industry, the Company is also dedicated to the environmental protection, safety and health and social responsibility during the development of the Group by setting up an ESG management system that is in line with business development. By adhering to the concept of sustainable development, we proactively monitor the environmental, social and governance risks in our own operations so as to achieve sustainable growth of our Group.

By adhering to the concept of sustainable development, the Company consistently increases investment in environmental protection to achieve social and environmental benefits, in order to make contributions to achieve green and sustainable environment. To this end, the Company has formulated a series of environmental, social and governance policies and has taken corresponding measures for implementation. During the year ended 31 December 2018, there was no violation against laws and regulations related to environment, society and governance and no material adverse effect on environment and society.

As for the environmental aspect, the Company has adopted effective energy conservation and emission reduction measures in its 4S stores and its head office to enhance the utilization efficiency of resources such as water, electricity and energy, as well as to reduce the emissions to the environment. The Group's 5S stores are more focused on integrating the concept of sustainable development into operations and services. As for the social aspect, we adhere to the service concept of "respect, altruism, happiness (尊重、利他、快樂)", and develop a comprehensive and rigorous business process for ensuring quality service, protecting customer rights, paying attention to customers' views and others, so that customers could enjoy a pleasant and perfect experience during each of the procedure of services. At the time of ensuring the quality of services, we also put effort into preventing corruption, protecting the rights and interests of employees and supporting social public welfare undertaking.

On the basis of taking responsibilities actively, the Company also discloses environmental, social and governance information initiatively. According to the requirements relating to the Environmental, Social and Governance Reporting Guide of the Stock Exchange, the Company will promptly announce an environmental, social and governance report of 2018 which discloses the environmental, social and governance information of the Company during the year ended 31 December 2018. For more information about the environmental, social and governance of the Company for the financial year of 2018, please refer to the environmental, social and governance report of 2018 to be published by the Company. After the publication of the report, it will be available for inspection or download at the website of the Stock Exchange.

## COMPLIANCE WITH LAWS AND REGULATIONS

The Company commits to strictly complying with relevant governing laws and regulations of relevant jurisdictions where the Company operates and applicable guidelines and rules issued by regulatory authorities. To the knowledge of the Directors, during the year ended 31 December 2018, the Company has complied with all the relevant laws and regulations of significant impact on the Company.

## RESERVES

As at 31 December 2018, distributable reserves of the Company amounted to RMB2,097.2 million. Details of movements in reserves of the Company during the year are set out in note 31 to the financial statements.

## FINAL DIVIDEND

The Board does not recommend the payment of a final dividend to the shareholders of the Company for the year ended 31 December 2018.

## ANNUAL GENERAL MEETING

The AGM of the Company will be held on 5 June 2019. Notice of the AGM will be published and issued to shareholders of the Company in due course.

## CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the eligibility of the shareholders of the Company to attend and vote at the AGM, the register of members of the Company will be closed from Saturday, 1 June 2019 to Wednesday, 5 June 2019, both dates inclusive, during which period no transfer of shares will be registered. To qualify for attending and voting at the AGM, shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Friday, 31 May 2019 for registration of the relevant transfer.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

Details of movements in share capital of the Company during the year ended 31 December 2018 are set out in note 30 to the financial statements of this annual report.

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

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries purchased or redeemed any of the Company's listed securities.

## CONNECTED TRANSACTIONS

During the year ended 31 December 2018, no connected transaction or continuing connected transaction which shall be disclosed in accordance with the Listing Rules was entered into by the Group.

## OTHER BORROWINGS

Details of bank loans and other borrowings of the Group during the year ended 31 December 2018 are set out in note 28 to the financial statements.

## CONTINGENT LIABILITIES

As at 31 December 2018, the Company and the Group had no significant contingent liabilities.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of the Company and there is no restriction against such rights which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## TAX RELIEF

As at the end of the year ended 31 December 2018, according to the laws of the Cayman Islands, holders of listed securities of the Company are not entitled to tax relief for their status as the holder of such securities.

## NON-COMPETITION UNDERTAKING FROM CONTROLLING SHAREHOLDERS

The Company has received an annual confirmation from its controlling shareholders, Rundong Fortune Investment Limited, Cheerful Autumn Holding Limited, Rue Feng Holding Limited and Mr. Yang Peng to confirm that from the date of execution of non-competition undertaking to the year ended 31 December 2018, they had been in compliance with the non-competition undertaking provision set out in the prospectus of the Company, and they did not engage or hold any interest in any business which is or is likely to be in competition, directly or indirectly, with the business of the Group.

The independent non-executive Directors had reviewed the above undertaking and concluded that Rundong Fortune Investment Limited, Cheerful Autumn Holding Limited, Rue Feng Holding Limited and Mr. Yang Peng had been in compliance with the non-competition undertaking from the date of execution of non-competition undertaking to the year ended 31 December 2018.

# REPORT OF DIRECTORS

## DIRECTORS

The Directors during the financial year and up to the date of this annual report were:

| | |
|---|---|
| Executive Directors | Yang Peng *(Chairman and Chief Executive Officer)*<br>Zhao Zhongjie *(resigned on 30 August 2018)*<br>Liu Jian *(resigned on 28 March 2018)* |
| Independent Non-executive Directors | Mei Jianping<br>Lee Conway Kong Wai<br>Xiao Zhengsan<br>Li Xin |

Pursuant to article 16.18 of the Articles, Mr. Yang Peng and Mr. Mei Jianping, will retire at the AGM to be held on 5 June 2019, and being eligible, will offer themselves for re-election at the AGM.

## CHANGE IN DIRECTORS' INFORMATION PURSUANT TO THE RULE 13.51B(1) OF THE LISTING RULES

Changes in Directors' information since the publication of the 2018 interim report of the Company, that are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

1. **Resignation of Directors**

   Mr. Zhao Zhongjie resigned as an executive Director on 30 August 2018.

2. **Change in Director's biography**

   Mr. Xiao Zhengsan has been a vice president and secretary general of China Automobile Dealers Association (中國汽車流通協會) since November 2018.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years and each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of one year and it may be renewed one year automatically. The appointment may be terminated by either the Company or the Director on not less than three months' notice in writing. The Directors shall retire by rotation and be eligible for re-election in accordance with the Articles.

None of the Directors (including those proposed for re-election at the forthcoming AGM) has an unexpired service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTERESTS IN MAJOR TRANSACTION, ARRANGEMENT OR CONTRACTS

Save as disclosed under note 38 to the financial statements, no major transaction, arrangement or contract to which the Company, its holding company or any of its subsidiaries was a party, and in which a Director of the Company or an entity connected with such Director had a material interest, whether directly or indirectly subsisted at any time during the year ended 31 December 2018.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company or their respective spouses or minor children to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate of the Group.

## MATERIAL CONTRACTS WITH CONTROLLING SHAREHOLDERS OR ITS SUBSIDIARIES

In 2018, the Company obtained financial assistance from Mr. Yang Peng, a controlling shareholder. As at 31 December 2018, the borrowing provided by Mr. Yang Peng was RMB361,416,000. Mr. Yang Peng did not obtain any interest from the financial assistance and the Group did not provide any assets as pledge.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed that none of the Directors has any interest in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly with the Group's business.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

### Interests in shares or underlying shares of the Company

| Name of Director/ Chief Executive | Nature of Interest | Number of Shares or underlying shares[(1)] | Approximate percentage of shareholding interest |
|---|---|---|---|
| Yang Peng[(2)] | Interest of controlled corporation, beneficial owner | 1,347,046,288 (L) | 142.32% |

*Notes:*

(1) The letter "L" denotes the person's long position in such shares.

(2) Mr. Yang Peng as the protector of the Rue Feng family trust is deemed to be interested in the shares held as he has the power to appoint and remove, and to amend the rights of, the trustee to the Rue Feng family trust, currently being HSBC International Trustee Limited. Mr. Yang Peng is also (a) beneficially interested in 14,759,541 management subscription shares pursuant to the Management Subscription; and (b) interested in 664,268,747 convertible preference shares, as he is deemed to be interested in the same number of convertible preference shares which Rundong Fortune Investment Limited is interested in under the SFO.

Save as disclosed above, as at 31 December 2018, none of the Directors and the chief executives of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company 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.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS TO BE DISCLOSED UNDER THE SFO

As at 31 December 2018, the interests or short positions of substantial shareholders (other than the Directors or the chief executives of the Company whose interests and short positions in the shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) as set out below) who had 5% or more interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be maintained by the Company under Section 336 of the SFO were as follows:

| Name of Shareholder | Nature of Interest | Number of Shares[1] | Approximate percentage of shareholding interest |
|---|---|---|---|
| Rundong Fortune Investment Limited[2] | Beneficial owner | 1,332,286,747 (L) | 140.76% |
| Cheerful Autumn Holdings Limited[2] | Interest of a controlled corporation | 1,332,286,747 (L) | 140.76% |
| Rue Feng Holdings Limited[2] | Interest of a controlled corporation | 1,332,286,747 (L) | 140.76% |
| HSBC International Trustee Limited[2] | Trustee | 1,332,286,747 (L) | 140.76% |
| Central Huijin Investment Ltd.[3] | Person having a security interest in shares | 325,949,347 (L) | 37.29% |
| China Construction Bank Corporation[3] | Person having a security interest in shares | 325,949,347 (L) | 37.29% |
| LanHai International Trading Limited[4] | Person having a security interest in shares | 848,270,747 (L) | 89.62% |
| Lanhai Holding (Group) Company Limited[4] | Person having a security interest in shares | 848,270,747 (L) | 89.62% |
| Mi Chunlei (密春雷)[4] | Person having a security interest in shares | 848,270,747 (L) | 89.62% |
| OCI International Holdings Limited[5] | Person having a security interest in shares | 78,000,000 (L) | 8.24% |

*Notes:*

(1) The letter "L" denotes the person's long position in such shares.

(2) Rundong Fortune Investment Limited is the wholly-owned subsidiary of Cheerful Autumn Holdings Limited, which is wholly-owned by Rue Feng Holdings Limited, which in turn is legally owned by the trustee to the Rue Feng family trust (being HSBC International Trustee Limited as at the date of this annual report) for the benefit of the beneficiaries of the Rue Feng family trust. Mr. Yang Peng, being the protector of the Rue Feng family trust, has the power to appoint and remove, and to amend the rights of, the trustee to the Rue Feng family trust.

(3) Pursuant to a deed of charge, Rundong Fortune Investment Limited has pledged certain shares in favor of Cheer Hope Holdings Limited, which is wholly controlled by CCBI Investments Limited, which is wholly controlled by CCB International (Holdings) Limited, which is wholly controlled by CCB Financial Holdings Limited, which is wholly controlled by CCB International Group Holdings Limited, which is wholly controlled by China Construction Bank Corporation, which is in turn 57.11% controlled by Central Huijin Investment Ltd.

(4) Pursuant to a deed of charge, Rundong Fortune Investment Limited has pledged certain shares in favor of LanHai International Trading Limited, which is wholly controlled by Lanhai Holding (Group) Company Limited, which is in turn 99% controlled by Mr. Mi Chunlei (密春雷).

(5) Pursuant to a deed of charge, Rundong Fortune Investment Limited has pledged certain shares in favor of OCI International Holdings Limited.

Save as disclosed above, as at 31 December 2018, the Company was not aware of any person (who are not Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be registered pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

## SHARE OPTION SCHEME

### a. Pre-IPO Share Option Scheme

In recognition of the contributions of the employees of the Group, the Group has implemented a share option scheme on 27 September 2011 (the "**Pre-IPO Share Option Scheme**"). For more information, please refer to the section headed "History and Reorganization – Establishment of the Employee Pre-IPO Trust" of the prospectus of the Company.

The details of the movements of the Pre-IPO Share Option Scheme during the Reporting Period are as follows:

| | | | | | Number of share options | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Type of participant | Date of grant | Exercise period | Vesting period | Exercise price per Share | Outstanding as at 1 January 2018 | Granted during the Reporting Period | Lapsed/ forfeited during the Reporting Period | Exercised during the Reporting Period | Expired during the Reporting Period | Outstanding as at 31 December 2018 |
| Employees | 15 November 2011 | Note 1 | Note 2 | US$0.3573 | 4,701,712 | 20,318 | 906,712 | - | - | 3,815,317 |

*Note 1:* Each grantee to whom a share option has been granted shall be entitled to exercise his/her share option in such manner as set out below:

| Exercise date | Maximum cumulative percentage of the vested share options exercised |
|---|---|
| The date after the first anniversary of the Listing Date but before the second anniversary of the Listing Date | 30% |
| The date after the second anniversary of the Listing Date but before the third anniversary of the Listing Date | 60% |
| The date after the third anniversary of the Listing Date but before the fourth anniversary of the Listing Date | 80% |
| The date after the fourth anniversary of the Listing Date | 100% |

The listing date of the Company was 12 August 2014.

*Note 2*:The Pre-IPO Share Option shall be vested in accordance with the following schedule (the "**Vesting Date**"):

i. if a grantee is employed on or before 31 December 2011, the Vesting Date shall be 31 March of every year commencing 2012;

ii. if a grantee is employed from 1 January 2012 to 31 December 2012, the Vesting Date shall be 31 March of every year commencing 2013; and

iii. if a grantee is employed from 1 January 2013 to 31 December 2013, the Vesting Date shall be 31 March of every year commencing 2014.

After the expiry of the Pre-IPO Share Option Scheme, no further Pre-IPO Share Options shall be offered but in all other respects the provisions of the Pre-IPO Share Option Scheme shall remain in force. The Pre-IPO Share Options (to the extent not already exercised) granted prior to such expiry shall continue to be valid and exercisable until 15 November 2021.

During the period from the Listing Date and up to the date of this annual report, none of the Pre-IPO Share Options was granted or exercised.

### b. Share Option Scheme

On 23 July 2014, the shareholders of the Company approved and adopted a share option scheme (the "**Share Option Scheme**") conditionally upon the approval by the Stock Exchange of the listing of, and permission to deal in, any shares to be allotted and issued pursuant to the exercise of options under the Share Option Scheme. The Company received such approval from the Stock Exchange on 11 August 2014.

The Share Option Scheme has been terminated on 14 August 2015.

### c. Management Subscriptions

The purpose of the Management Subscriptions is to provide incentives to the Directors and the senior management of the Group who are regarded as valuable human resources of the Group to continuously drive the growth of the Group's businesses. On 16 May 2015, the Company entered into the Management Subscription Agreement with each of the Management Subscribers (namely several senior management members of the Group) and the Connected Management Subscribers (namely the Directors). The Company conditionally agreed to allot and issue, and the Management Subscribers and the Connected Management Subscribers conditionally agreed to subscribe for, a total of 80,537,237 Management Subscription Shares at the price of HK$2.89 each pursuant to the terms and conditions of the Management Subscription Agreements. The 80,537,237 Management Subscription Shares represent (a) 8.5% of the issued Ordinary Shares as at the end of the Reporting Period; and (b) 4.8% of the issued Ordinary Shares as enlarged by the Subscription Ordinary Shares, the Conversion Shares and the Management Subscription Shares. Please refer to the Company's circular dated 13 July 2015 for more information and terms used herein shall have the details as defined in such circular.

The Completion of the Management Subscriptions with respect to each of the Management Subscribers and the Connected Management Subscribers will take place in four installments (the "**Installment Completion**") as following:

| Time of Installment Completion | Percentage of the aggregate number of Management Subscription Shares agreed to be issued to the relevant subscriber (%) |
|---|---|
| First anniversary of the date of completion of the Subscription Agreement | 30 |
| Second anniversary of the date of completion of the Subscription Agreement | 30 |
| Third anniversary of the date of completion of the Subscription Agreement | 20 |
| Fourth anniversary of the date of completion of the Subscription Agreement | 20 |

In addition to the Management Subscription Conditions, each Installment Completion with respect to each of the Management Subscribers and the Connected Management Subscribers is also conditional upon the fulfillment of the following conditions (the "**Installment Completion Conditions**"):

(a) the revenue and net profit of the Group for the financial year immediately preceding each Installment Completion are not less than the revenue and net profit of the Group for the financial year ended 31 December 2014, respectively;

(b) the relevant Management Subscriber or Connected Management Subscribers having achieved the performance target for the relevant financial year of the Company set by the Board specifically with respect to such subscriber (the "**Relevant Performance Target**"), subject to the following adjustments:

    i. if the relevant Management Subscriber or Connected Management Subscribers achieves 70% of his Relevant Performance Target before the relevant Installment Completion, the number of Management Subscription Shares that he is entitled to subscribe for at such Installment Completion shall be 70%;

    ii. if the relevant Management Subscriber or Connected Management Subscribers achieves between 70% to 100% of his Relevant Performance Target before the relevant Installment Completion, the number of Management Subscription Shares that he is entitled to subscribe for at such Installment Completion shall be adjusted proportionally (up to 100%); and

    iii. if the relevant Management Subscriber or Connected Management Subscribers achieves below 70% of his Relevant Performance Target, the Management Subscription Shares that he is entitled to subscribe for at such Installment Completion shall be cancelled;

(c) the relevant Management Subscribers or Connected Management Subscribers having remained as employees of the Group; and

(d) compliance with the requirement of maintaining the prescripted public float by the Company and the voting rights of Rundong Fortune Investment Limited in the Company not falling from above 30% to below 30% at the relevant Installment Completion; otherwise the relevant Installment Completion will need to be postponed until these two conditions can be met.

Each Management Subscription Agreement shall be terminated, among other grounds, (a) upon mutual termination by the parties to the agreement; or (b) if the Management Subscription Conditions have not been satisfied within 12 months from the date of the relevant Management Subscription Agreement.

As the results of 2015, 2016, 2017 and 2018 cannot fulfill the Subscription Conditions, the management cannot subscribe 100% of the shares in total for the previous four years, details of which are set out in the below table:

| | Total subscription number (shares) | Number of shares cancelled due to the unfulfillment of Subscription Conditions (shares) | Remaining subscription number (shares) |
|---|---|---|---|
| Yang Peng | 36,898,851 | 36,898,851 | 0 |
| Liu Dongli Note 2 | 7,737,800 | 7,737,800 | 0 |
| Zhao Zhongjie Note 1 | 7,737,800 | 7,737,800 | 0 |
| Liu Jian Note 1 | 4,855,600 | 4,855,600 | 0 |
| Yan Sujian Note 2 | 4,418,186 | 4,418,186 | 0 |
| Zhu Lidong Note 3 | 3,477,800 | 3,477,800 | 0 |
| Jiang Xiaofei Note 2 | 3,077,800 | 3,077,800 | 0 |
| Zhao Ruoxu | 4,077,800 | 4,077,800 | 0 |
| Zhou Jian Note 2 | 4,777,800 | 4,777,800 | 0 |
| Lee Nan-Pin Note 4 | 3,477,800 | 3,477,800 | 0 |
| **Total** | 80,537,237 | 80,537,237 | 0 |

*Notes*:

1. Mr. Liu Jian and Mr. Zhao Zhongjie resigned their positions in 2018.

2. Mr. Liu Dongli, Mr. Yan Sujian, Mr. Jiang Xiaofei and Mr. Zhou Jian resigned their positions in 2017.

3. Mr. Zhu Lidong resigned his position in 2016.

4. Mr. Lee Nan-Ping resigned his position in 2015.

## RETIREMENT BENEFITS SCHEME

As stipulated by the PRC state regulations, the Mainland China subsidiaries shall participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 14% to 22% (2017: 14% to 22%) of the year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries.

The Group has no obligation for the payment of other pension benefits beyond the annual contributions as set out above.

None of the retirement schemes have provisions for the forfeiture of contributions made to the scheme. Contributions to these plans are expensed as incurred. The Group's contributions to the retirement benefit schemes charged to the consolidated income statement for the year ended 31 December 2018 was RMB38.14 million (2017: RMB37.03 million).

According to the relevant rules and regulations of the PRC, the Mainland China subsidiaries and their employees are each required to make contributions to a housing provident fund at 5% to 10% (2017: 5% to 12%) of the salaries and wages of the employees, which is administered by the Provident Fund Administration Center. There is no further obligation on the part of the Group except for such contributions to the housing provident fund.

As at 31 December 2018, the Group had no significant obligation apart from the contributions as stated above.

## EMOLUMENT POLICY

The emolument policy of the general staff of the Company is set up by the management of the Group on the basis of their merit, qualifications and competence.

The emoluments of the Directors and senior management of the Company are proposed by the Remuneration Committee of the Company to the Board, having regard to the Company's operating results, individual performance and comparable market statistics, and subject to the final decision by the Board.

The remuneration of the Directors and senior management of the Company are set out in note 9 to the financial statements.

To the knowledge of the Company, as at the date of this annual report, none of the Directors had waived or agreed to waive any arrangement for emolument.

## PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Directors' and senior management's liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. Pursuant to the Articles, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

The Company has purchased and maintained Directors' liability insurance during the year ended 31 December 2018 and as at the date of this annual report, which provides appropriate cover for the Directors and officers of the Company and its subsidiaries.

## EQUITY-LINK ARRANGEMENTS

Apart from the Pre-IPO Share Option Scheme and Management Subscriptions as disclosed above, the Company did not enter into any equity-linked agreement during the year ended 31 December 2018, nor was there any subsisting equity-linked agreement entered into by the Company at the end of year.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or substantial part of the business of the Company were entered into or existed during the year ended 31 December 2018.

## MAJOR CUSTOMERS AND SUPPLIERS

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the year under review, and sales to the Group's five largest customers accounted for less than 30% of the Group's total sales during the year, no major customer segment information is presented in accordance with HKFRS 8 Operating Segments.

The aggregate purchase attributable to the Group's five largest suppliers accounted for 84.98% (2017: 80.4%) and the largest supplier accounted for approximately 51.27% (2017: 46.0%) of the Group's total purchases for the year ended 31 December 2018.

At no time during the year ended 31 December 2018 have any of the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of share capital of the Company) had any interest in these major customers and suppliers.

## RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group recognises that the employees, customers and suppliers are important to corporate sustainability and are keen on developing long-term relationships with these stakeholders. The Company places significant emphasis on human capital and strives to foster an environment in which the employees can develop to their fullest potential and can assist their personal and professional growth. The Company provides a fair and safe workplace, promotes diversity to our staff, and provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions.

The Group understands that it is important to maintain good relationship with customers and provide the products and services in a way that satisfy needs and requirements of the customers. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand for the products and services so that the Group can respond proactively. The Group has also established procedures in place for handling customers' complaints to ensure customers' complaints are dealt with in a timely and effective manner.

The Group is also dedicated to develop good relationship with suppliers as long-term business partners to ensure stability of the Group's businesses. Our business partnerships with suppliers have been enhanced by ongoing communication in a proactive and effective manner.

## SUFFICIENCY OF PUBLIC FLOAT

For the whole year ended 31 December 2018 and up to the date of this annual report, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed the minimum percentage of public float as required by the Listing Rules.

## AUDITOR

Our external auditor, Ernst & Young, will retire and a resolution for its re-appointment as the auditor of the Company will be proposed at the forthcoming AGM of the Company.

## EVENTS AFTER THE REPORTING PERIOD

Please refer to note 43 to the financial statements of this annual report for details of significant events after the Reporting Period.

On behalf of the Board
**Yang Peng**
*Chairman*

28 March 2019

EY 安永

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel電話: +852 2846 9888
Fax傳真: +852 2868 4432
ey.com

Independent auditor's report
**To the shareholders of China Rundong Auto Group Limited**
*(Incorporated in the Cayman Islands as an exempted company with limited liability)*

## OPINION

We have audited the consolidated financial statements of China Rundong Auto Group Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 56 to 156, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

Independent auditor's report *(Continued)*
**To the shareholders of China Rundong Auto Group Limited**
*(Incorporated in the Cayman Islands as an exempted company with limited liability)*

## KEY AUDIT MATTERS *(Continued)*

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment assessments of property, plant and equipment and intangible assets* | |
| The carrying values of property, plant and equipment ("**PPE**") and intangible assets amounted to approximately RMB3,343 million and RMB490 million as at 31 December 2018, respectively. Under HKFRSs, the PPE and the intangible assets with definite useful lives are reviewed whether there are any indications of impairment at each reporting period end. An impairment test itself for PPE & intangible assets with definite useful lives only has to be carried out if there are such indications. The impairment test is based on the higher of its fair value less costs to sell and its value in use of each of the cash-generating units ("**CGU**") or group of CGUs, to which the PPE & the intangible assets are assigned to.<br><br>Management's assessment process was complex and significant judgement was involved, including the degree of subjectivity of expected future cash flow forecasts, associated growth rates and the discount rate applied.<br><br>Information about the PPE and intangible assets were disclosed in Note 2.4, Note 3 *Significant accounting judgements and estimates*, Note 13 *Property, plant and equipment* and Note 15 *Intangible assets* to the financial statements. | We have reviewed Group's assessment of whether there had been any indicators of impairment of the PPE and intangible assets with definite useful lives for the year and involved our internal valuation specialists to assist us in evaluating the models and assumptions used by the Group in the impairment tests of PPE and intangible assets. We paid attention to the fair value less costs to sell of respective CGU or group of CGUs, and the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historical performance of respective CGU or group of CGUs. We also checked the related disclosures. |

Independent auditor's report *(Continued)*
**To the shareholders of China Rundong Auto Group Limited**
*(Incorporated in the Cayman Islands as an exempted company with limited liability)*

## KEY AUDIT MATTERS *(Continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment assessment of goodwill* | |
| The carrying value of goodwill amounted to approximately RMB869 million as at 31 December 2018. Under HKFRSs, the Group is required to perform an impairment test for goodwill annually. The impairment test is based on the higher of its fair value less costs to sell and its value in use of each of the cash-generating units ("**CGU**") or group of CGUs. to which the goodwill is assigned to.<br><br>Management's assessment process was complex and significant judgement was involved, including the degree of subjectivity of expected future cash flow forecasts, associated growth rates and the discount rate applied.<br><br>Information about the goodwill was disclosed in Note 2.4 *Summary of significant accounting policies*, Note 3 *Significant accounting judgements and estimates* and Note 18 *Goodwill* to the financial statements. | We have involved our internal valuation specialists to assist us in evaluating the models and assumptions used by the Group in the impairment test of goodwill. We paid attention to the fair value less costs to sell of respective CGU or group of CGUs, and the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historical performance of respective CGU or group of CGUs. We also checked the related disclosures. |

Independent auditor's report *(Continued)*
**To the shareholders of China Rundong Auto Group Limited**
*(Incorporated in the Cayman Islands as an exempted company with limited liability)*

## KEY AUDIT MATTERS *(Continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Vendor rebate receivables* | |
| The Group recorded accruals of vendor rebate amounted to RMB1,338 million in the consolidated financial statements resulting from the rebates receivables in accordance with the applicable terms and conditions of the suppliers' agreements.<br><br>The accruals for vendor rebates involved management estimation on the extent of rebates entitlement and the balance of rebate receivables was significant.<br><br>Information about rebates receivables were disclosed in Note 2.4 *Summary of significant accounting policies*, Note 3 *Significant accounting judgements and estimates* and Note 22 *Prepayments, other receivables and other assets* to the financial statements. | We understood and tested management's key internal controls in relation to recognition of vendor rebates. We checked the rebate policies adopted against the terms of the relevant supplier contracts and checked the calculation of the rebate receivables based on the rebate policies. We also checked subsequent settlement of the rebates against the accrued balance. |

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises 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.

Independent auditor's report *(Continued)*
**To the shareholders of China Rundong Auto Group Limited**
*(Incorporated in the Cayman Islands as an exempted company with limited liability)*

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company 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. Our 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.

Independent auditor's report *(Continued)*
**To the shareholders of China Rundong Auto Group Limited**
*(Incorporated in the Cayman Islands as an exempted company with limited liability)*

## 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.

- 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.

Independent auditor's report *(Continued)*
**To the shareholders of China Rundong Auto Group Limited**
*(Incorporated in the Cayman Islands as an exempted company with limited liability)*

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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 Leung Wai Lap, Philip.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong

28 March 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| Revenue | 5(a) | **12,712,630** | 19,111,084 |
| Cost of sales | 6(b) | **(12,300,471)** | (17,817,884) |
| **Gross profit** | | **412,159** | 1,293,200 |
| Other income and gains | 5(b) | **559,133** | 471,140 |
| Selling and distribution costs | | **(482,712)** | (473,973) |
| Administrative expenses | | **(587,831)** | (511,663) |
| Other expenses | 6(c) | **(823,869)** | (8,532) |
| Finance costs | 7 | **(531,119)** | (393,438) |
| **(Loss)/Profit before tax** | 6 | **(1,454,239)** | 376,734 |
| Income tax expense | 8 | **(64,047)** | (116,532) |
| **(Loss)/Profit for the year** | | **(1,518,286)** | 260,202 |
| **(Loss)/Profit for the year attributable to:** | | | |
| Owners of the parent | | **(1,513,797)** | 261,000 |
| Non-controlling interests | | **(4,489)** | (798) |
| | | **(1,518,286)** | 260,202 |
| **(Loss)/Earnings per share attributable to ordinary equity holders of the parent:** | 12 | | |
| Basic | | | |
| – For (loss)/profit for the year (RMB) | | **(1.60)** | 0.28 |
| Diluted | | | |
| – For (loss)/profit for the year (RMB) | | **(1.60)** | 0.16 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

| | Notes | **2018**<br>***RMB'000*** | 2017<br>*RMB'000* |
|---|---|---|---|
| **(Loss)/Profit for the year** | | **(1,518,286)** | 260,202 |
| **OTHER COMPREHENSIVE (LOSS)/INCOME** | | | |
| **Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:** | | | |
| Available-for-sale investments: | | **–** | (32,475) |
| Exchange differences on translation of foreign operations | | **(5,011)** | 3,973 |
| **Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:** | | | |
| Equity investments designated at fair value through other comprehensive income: | | | |
| Changes in fair value | | **(1,835)** | – |
| **Other comprehensive loss for the year, net of tax** | | **(6,846)** | (28,502) |
| **Total comprehensive (loss)/income for the year, net of tax** | | **(1,525,132)** | 231,700 |
| **Total comprehensive (loss)/income for the year attributable to:** | | | |
| Owners of the parent | | **(1,520,643)** | 232,498 |
| Non-controlling interests | | **(4,489)** | (798) |
| | | **(1,525,132)** | 231,700 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

| | Notes | 31 December 2018 RMB'000 | 31 December 2017 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | **3,342,558** | 3,828,489 |
| Land use rights | 14 | **710,009** | 755,420 |
| Intangible assets | 15 | **490,162** | 573,554 |
| Prepayments | 16 | **–** | 309,209 |
| Finance lease receivables | 17 | **13** | 779 |
| Goodwill | 18 | **869,107** | 1,358,066 |
| Equity investments designated at fair value through other comprehensive income | 19 | **55,719** | – |
| Available-for-sale investments | 19 | **–** | 59,680 |
| Deferred tax assets | 29 | **1,510** | 1,510 |
| **Total non-current assets** | | **5,469,078** | 6,886,707 |
| **CURRENT ASSETS** | | | |
| Inventories | 20 | **1,480,761** | 2,644,686 |
| Trade receivables | 21 | **311,029** | 413,904 |
| Finance lease receivables | 17 | **2,587** | 5,138 |
| Prepayments, other receivables and other assets | 22 | **3,907,031** | 4,197,784 |
| Cash in transit | 23 | **9,821** | 23,144 |
| Pledged bank deposits | 24 | **1,386,631** | 3,016,625 |
| Cash and cash equivalents | 25 | **865,950** | 1,218,141 |
| **Total current assets** | | **7,963,810** | 11,519,422 |
| **TOTAL ASSETS** | | **13,432,888** | 18,406,129 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other borrowings | 28 | **679,976** | 647,953 |
| Deferred tax liabilities | 29 | **190,800** | 201,511 |
| **Total non-current liabilities** | | **870,776** | 849,464 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 26 | **2,150,700** | 4,294,374 |
| Other payables and accruals | 27 | **1,998,749** | 2,338,919 |
| Amount due to a related party | 38 | **361,416** | 226,397 |
| Interest-bearing bank and other borrowings | 28 | **5,702,266** | 6,841,828 |
| Income tax payable | | **246,262** | 223,390 |
| **Total current liabilities** | | **10,459,393** | 13,924,908 |
| **NET CURRENT LIABILITIES** | | **(2,495,583)** | (2,405,486) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **2,973,495** | 4,481,221 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 30 | **5** | 5 |
| Reserves | 31 | **2,097,150** | 3,621,699 |
| | | **2,097,155** | 3,621,704 |
| **Non-controlling interests** | | **5,564** | 10,053 |
| **Total equity** | | **2,102,719** | 3,631,757 |
| **TOTAL EQUITY AND LIABILITIES** | | **13,432,888** | 18,406,129 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

| | Attributable to owners of the parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 (note 30) | Share premium RMB'000 (note 30) | Merger reserve RMB'000 (note 31(i)) | Share option reserve RMB'000 (note 34) | Statutory reserve RMB'000 (note 31(ii)) | Other reserve RMB'000 (note 31(iii)) | Available-for-sale investment revaluation /Fair value reserve RMB'000 (note 31(iv)) | Exchange fluctuation reserve RMB'000 (note 31(v)) | Retained earnings RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **At 1 January 2017** | 5 | 2,026,648* | 522,797* | 8,571* | 214,681* | (30,603)* | 32,475* | (13,311)* | 627,653* | 3,388,916 | 27,177 | 3,416,093 |
| Profit for the year | – | – | – | – | – | – | – | | 261,000 | 261,000 | (798) | 260,202 |
| Other comprehensive income/(loss) | – | – | – | – | – | – | (32,475) | 3,973 | – | (28,502) | – | (28,502) |
| Total comprehensive income/(loss) for the year | – | – | – | – | – | – | (32,475) | 3,973 | 261,000 | 232,498 | (798) | 231,700 |
| Acquisition of subsidiaries | – | – | – | – | – | – | – | – | – | – | 10,851 | 10,851 |
| Disposal of a subsidiary | – | – | – | – | – | – | – | – | – | – | (27,177) | (27,177) |
| Transfer from retained earnings | – | – | – | – | 54,860 | – | – | – | (54,860) | – | – | – |
| Equity-settled share option arrangements | – | – | – | 290 | – | – | – | – | – | 290 | – | 290 |
| **At 31 December 2017** | 5 | 2,026,648* | 522,797* | 8,861* | 269,541* | (30,603)* | –* | (9,338)* | 833,793* | 3,621,704 | 10,053 | 3,631,757 |
| Effect of adoption of HKFRS 9 | **–** | **–** | **–** | **–** | **–** | **–** | **(3,931)** | **–** | **–** | **(3,931)** | **–** | **(3,931)** |
| At 1 January 2018 (restated) | **5** | **2,026,648** | **522,797** | **8,861** | **269,541** | **(30,603)** | **(3,931)** | **(9,338)** | **833,793** | **3,617,773** | **10,053** | **3,627,826** |
| Loss for the year | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(1,513,797)** | **(1,513,797)** | **(4,489)** | **(1,518,286)** |
| Other comprehensive loss | **–** | **–** | **–** | **–** | **–** | **–** | **(1,835)** | **(5,011)** | **–** | **(6,846)** | **–** | **(6,846)** |
| Total comprehensive loss for the year | **–** | **–** | **–** | **–** | **–** | **–** | **(1,835)** | **(5,011)** | **(1,513,797)** | **(1,520,643)** | **(4,489)** | **(1,525,132)** |
| Transfer from retained earnings | **–** | **–** | **–** | **–** | **15,120** | **–** | **–** | **–** | **(15,120)** | **–** | **–** | **–** |
| Equity-settled share option arrangements | **–** | **–** | **–** | **25** | **–** | **–** | **–** | **–** | **–** | **25** | **–** | **25** |
| **At 31 December 2018** | **5** | **2,026,648*** | **522,797*** | **8,886*** | **284,661*** | **(30,603)*** | **(5,766)*** | **(14,349)*** | **(695,124)*** | **2,097,155** | **5,564** | **2,102,719** |

* These reserve accounts comprise the consolidated reserves of RMB3,621,699,000 and RMB2,097,150,000, respectively, in the consolidated statements of financial position as at 31 December 2017 and 2018.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| (Loss)/profit before tax | | **(1,454,239)** | 376,734 |
| Adjustments for: | | | |
| Depreciation and impairment of property, plant and equipment | 6(c)/6(d) | **426,993** | 236,394 |
| Amortisation and impairment of intangible assets | 6(c)/6(d) | **84,987** | 33,185 |
| Amortisation of land use rights | 6(d) | **21,248** | 13,422 |
| Finance costs | 7 | **531,119** | 393,438 |
| Interest income | 5(b) | **(39,212)** | (30,169) |
| Loss/(Gain) on disposal of items of property, plant and equipment | 5(b)/6(c) | **6,289** | (2,765) |
| Gain on disposal of available-for-sale investment | 5(b) | **–** | (28,120) |
| (Gain)/Loss from disposal of subsidiaries | 32 | **(227,881)** | 1,545 |
| Impairment of goodwill | 6(c) | **488,959** | – |
| Equity-settled share option expense | 34 | **25** | 290 |
| Decrease/(increase) in inventories | | **1,122,551** | (97,112) |
| Decrease in trade receivables | | **99,448** | 34,271 |
| Decrease in prepayments, other receivables and other assets | | **610,979** | 215,069 |
| Increase in finance lease receivables | | **–** | (1,590) |
| Decrease/(increase) in pledged bank deposits | | **432,244** | (305,970) |
| Decrease in cash in transit | | **13,301** | 12,185 |
| (Decrease)/increase in trade and bills payables | | **(2,101,025)** | 675,944 |
| Increase/(decrease) in other payables and accruals | | **274,684** | (923,630) |
| | | **290,470** | 603,121 |
| Income taxes paid | | **(51,935)** | (171,903) |
| **Net cash flows generated from operating activities** | | **238,535** | 431,218 |
| **Investing activities** | | | |
| Purchase of items of property, plant and equipment | | **(243,629)** | (237,590) |
| Proceeds from disposal of items of property, plant and equipment | | **173,768** | 206,573 |
| Proceeds from disposal of subsidiaries | 32 | **200,484** | 7,297 |
| Acquisition of subsidiaries | | **–** | 13,980 |
| Purchase of intangible assets | | **(1,705)** | (356) |
| Interest received | | **38,614** | 29,554 |
| Proceeds from disposal of an available-for-sale investment | | **–** | 81,120 |
| Purchase of available-for-sale investment | | **–** | (4,000) |
| Refund/(Prepayment) for potential acquisitions, net | | **300,000** | (300,000) |
| **Net cash flows generated from/(used in) investing activities** | | **467,532** | (203,422) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| **Financing activities** | | | |
| Proceeds from interest-bearing bank and other borrowings | | **10,302,023** | 17,016,497 |
| Repayment of interest-bearing bank and other borrowings | | **(11,731,762)** | (17,003,743) |
| Interest paid | 7 | **(531,119)** | (393,438) |
| Advance from a substantial shareholder | 32/38 | **155,839** | 57,575 |
| (Decrease)/increase in other payable | 27 | **(427,200)** | 427,200 |
| Decrease/(Increase) in pledged bank deposits | | **1,178,972** | (356,681) |
| **Net cash flows used in financing activities** | | **(1,053,247)** | (252,590) |
| Net decrease in cash and cash equivalents | | **(347,180)** | (24,794) |
| Net foreign exchange differences | | **(5,011)** | 3,973 |
| Cash and cash equivalents at beginning of year | | **1,218,141** | 1,238,962 |
| **Cash and cash equivalents at end of year** | 25 | **865,950** | 1,218,141 |
| **Analysis of balances of cash and cash equivalents** | | | |
| Cash and bank balances | 25 | **865,950** | 1,218,141 |
| Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows | | **865,950** | 1,218,141 |

## 1. CORPORATE AND GROUP INFORMATION

The Company was incorporated on 15 January 2014 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 12 August 2014.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "**Group**") were principally engaged in the sale and service of motor vehicles in Mainland China.

On 27 January 2017, the Company changed its registered name from China Greenland Rundong Auto Group Limited (中國綠地潤東汽車集團有限公司) to China Rundong Auto Group Limited (中國潤東汽車集團有限公司).

## 2.1 BASIS OF PRESENTATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income, which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

The Group recorded net current liabilities of RMB2,495,583,000 as at 31 December 2018. The Directors believe that the Group has sufficient cash flows from the operations and current available banking facilities to meet its liabilities as and when they fall due. Therefore, the financial statements are prepared on a going concern basis.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018.

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

## 2.1 BASIS OF PRESENTATION *(Continued)*

### Basis of consolidation *(Continued)*

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to HKFRS 2 | *Classification and Measurement of Share-based Payment Transactions* |
| Amendments to HKFRS 4 | *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts* |
| HKFRS 9 | *Financial Instruments* |
| HKFRS 15 | *Revenue from Contracts with Customer* |
| Amendments to HKFRS 15 | *Clarifications to HKFRS 15 Revenue from Contracts with Customers* |
| Amendments to HKAS 40 | *Transfers of Investment Property* |
| HK (IFRIC)-Int 22 | *Foreign Currency Transactions and Advance Consideration* |
| Annual Improvements 2014-2016 Cycle | *Amendments to HKFRS 1 and HKAS 28* |

The nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(b) HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

Based on the assessment by the Group, there was no significant cumulative effect of the initial application of HKFRS 9 at 1 January 2018 in accordance with the transition requirement. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

**Classification and measurement**

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position. A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

| | | HKAS 39 measurement | | Re- | | | HKFRS 9 measurement | |
|---|---|---|---|---|---|---|---|---|
| | | Category | Amount | classification | ECL | Other | Amount | Category |
| | *Note* | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | |
| Financial assets | | | | | | | | |
| Equity investments designated at fair value through other comprehensive income | *(i)* | N/A | – | 59,680 | – | (2,450) | 57,230 | FVOCI[1] (equity) |
| From: Available-for-sale investments | *(i)* | | | 59,680 | – | – | | |
| Available-for-sale investments | *(i)* | AFS[2] | 59,680 | (59,680) | – | – | – | N/A |
| To: Equity investments designated at fair value through other comprehensive income | *(i)* | | | (59,680) | – | – | | |
| Trade receivables | | L&R[3] | 413,904 | – | – | – | 413,904 | AC[4] |
| Financial assets included in prepayments, other receivables and other assets | | L&R | 4,197,784 | – | – | – | 4,197,784 | AC |
| Cash in transit | | L&R | 23,144 | – | – | – | 23,144 | AC |
| Pledged deposits | | L&R | 3,016,625 | – | – | – | 3,016,625 | AC |
| Cash and cash equivalents | | L&R | 1,218,141 | – | – | – | 1,218,141 | AC |
| Total assets | | | 8,929,278 | – | – | (2,450) | 8,926,828 | |

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(b) *(Continued)*

**Classification and measurement** *(Continued)*

| | | HKAS 39 measurement | | Re- | | | HKFRS 9 measurement | |
|---|---|---|---|---|---|---|---|---|
| | | Category | Amount | classification | ECL | Other | Amount | Category |
| | Note | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| Financial liabilities | | | | | | | | |
| Trade and bills payables | | AC | 4,294,374 | – | – | – | 4,294,374 | AC |
| Financial liabilities included in other payables and accruals | | AC | 2,338,919 | – | – | – | 2,338,919 | AC |
| Interest-bearing bank and other borrowings | | AC | 7,489,781 | – | – | – | 7,489,781 | AC |
| Amount due to a related party | | AC | 226,397 | – | – | – | 226,397 | AC |
| | | | 14,349,741 | – | – | – | 14,349,741 | |
| Other liabilities | | | | | | | | |
| Deferred tax liabilities | | | 201,511 | – | – | 1,481 | 202,992 | |
| Total liabilities | | | 14,551,252 | – | – | 1,481 | 14,552,733 | |

[1] FVOCI: Financial assets at fair value through other comprehensive income

[2] AFS: Available-for-sale investments

[3] L&R: Loans and receivables

[4] AC: Financial assets or financial liabilities at amortised cost

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(b) *(Continued)*

**Impairment**

HKFRS 9 replaces the "**incurred loss**" model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "**incurred loss**" accounting model in HKAS 39. The Group applies the new ECL model to the financial assets measured at amortised cost. The aggregate opening impairment allowances had no significant financial effect under HKAS 39 to the ECL allowances under HKFRS 9.

**Impact on reserves**

The impact of transition to HKFRS 9 on reserves is as follows:

| | **Reserves**<br>*RMB'000* |
|---|---|
| Fair value reserve under HKFRS 9 (available-for-sale investment revaluation reserve under HKAS 39) | |
| Balance as at 31 December 2017 under HKAS 39 | – |
| Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under HKAS 39 | (2,450) |
| Deferred tax in relation to the above | (1,481) |
| Balance as at 1 January 2018 under HKFRS 9 | (3,931) |

(c) HKFRS 15 and its amendments replace HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract liability account balances between periods and key judgements and estimates. The disclosures are included in notes 3 and 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(c) *(Continued)*

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

| | **Increase/ (decrease)** *RMB'000* |
|---|---|
| **Liabilities** | |
| Contract liabilities | 910,987 |
| Advances from customers | (910,987) |
| | – |

HKFRS 15 requires separate presentation of contract liabilities. Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15 and, accordingly, advances received from customers were reclassified from advances from customers under other payables and accruals to contract liabilities. Taking into account the impact disclosed above, the Group considers that the adoption of HKFRS 15 did not have significant impact on our financial position and performance during the year.

Consolidated statement of financial position as at 31 December 2018:

| | **Amounts prepared under** | | |
|---|---|---|---|
| | **HKFRS 15** *RMB'000* | **Previous HKFRS** *RMB'000* | **Increase/ (decrease)** *RMB'000* |
| Contract liabilities | 801,812 | – | 801,812 |

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(d) Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) HK (IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| Amendments to HKFRS 3 | *Definition of a Business*[2] |
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation*[1] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| HKFRS 16 | *Leases*[1] |
| HKFRS 17 | *Insurance Contracts*[3] |
| Amendments to HKAS 1 and HKAS 8 | *Definition of Material*[2] |
| Amendments to HKAS 19 | *Plan Amendment, Curtailment or Settlement*[1] |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures*[1] |
| HK (IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments*[1] |
| Annual Improvements 2015-2017 Cycle | *Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23*[1] |

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 16 replaces HKAS 17 Leases, HK (IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK (SIC)-Int 15 Operating Leases – Incentives and HK (SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of RMB371,828,000 and lease liabilities of RMB371,828,000 will be recognised at 1 January 2019.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

HK (IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (1) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (1) Business combinations and goodwill *(Continued)*

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (1) Business combinations and goodwill *(Continued)*

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

### (2) Fair value measurement

The Group measures its equity investments at fair value at the end of this reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (3) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

### (4) Related parties

A party is considered to be related to the Group if:

**(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (4) Related parties *(Continued)*

**(b) the party is an entity where any of the following conditions applies:**

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

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

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

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

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

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

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

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

### (5) Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (5) Property, plant and equipment and depreciation *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| Category | Estimated useful life | Estimated residual value |
|---|---|---|
| Buildings | 15-25 years | 3% |
| Leasehold improvements | Over the shorter of the lease terms and 5 years | – |
| Plant and machinery | 10 years | 3% |
| Furniture and fixtures | 3-5 years | 3% |
| Motor vehicles | 6 years | 3% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (6) Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

| Category | Estimated useful life |
|---|---|
| Software | 5 years |
| Dealership relationship | 15-20 years |
| Customer relationship | 15 years |
| Insurance licence | 15 years |

### (7) Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

**The Group as lessor**

Amounts due from lessees under finance leases of passenger vehicles are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (8) Land use rights

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the rights to use certain land and the considerations paid for such rights are recorded as land use rights, which are amortised over the lease terms ranging from 20 to 50 years using the straight-line method.

### (9) Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

**Initial recognition and measurement**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "**Revenue recognition (applicable from 1 January 2018)**" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

**Subsequent measurement**

The subsequent measurement of financial assets depends on their classification as follows:

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (9) Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(Continued)*

**Subsequent measurement** *(Continued)*

*Financial assets designated at fair value through other comprehensive income (equity investments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

### (10) Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

**Initial recognition and measurement**

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

**Subsequent measurement**

The subsequent measurement of financial assets depends on their classification as follows:

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (10) Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) *(Continued)*

**Subsequent measurement** *(Continued)*

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

*Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (10) Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) *(Continued)*

**Subsequent measurement** *(Continued)*

*Available-for-sale financial investments (Continued)*

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

### (11) Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "**pass-through**" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (11) Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) *(Continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

### (12) Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

**General approach**

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (12) Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(Continued)*

**General approach** *(Continued)*

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for financial assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (12) Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(Continued)*

**Simplified approach**

For financial assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For financial assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

### (13) Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

**Financial assets carried at amortised cost**

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (13) Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) *(Continued)*

**Financial assets carried at amortised cost** *(Continued)*

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

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

**Assets carried at cost**

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

**Available-for-sale financial investments**

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (13) Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) *(Continued)*

**Available-for-sale financial investments** *(Continued)*

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "**Significant**" is evaluated against the original cost of the investment and "**prolonged**" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

### (14) Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

**Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals, interest-bearing bank and other borrowings.

**Subsequent measurement**

The subsequent measurement of financial liabilities depends on their classification as follows:

**Loans and borrowings**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (14) Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) *(Continued)*

**Financial guarantee contracts (policies under HKFRS 9 applicable from 1 January 2018)**

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "**Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)**"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

### (15) Financial guarantee contracts (policies under HKAS 39 applicable before 1 January 2018)

A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

### (16) Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

### (17) Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (18) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated on a specific identification 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 of completion and the estimated costs necessary to make the sale.

### (19) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits with initial terms of three months or less, which are not restricted as to use.

### (20) Income tax

Income tax comprises current and deferred income tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

(i) Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (20) Income tax *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

(i) when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (21) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

### (22) Revenue recognition (applicable from 1 January 2018)

**Revenue from contracts with customers**

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (22) Revenue recognition (applicable from 1 January 2018) *(Continued)*

**(a) Sale of motor vehicles**

Revenue from the sale of motor vehicles is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the motor vehicles.

**(b) After-sales services**

Revenue from the after-sales services are recognized at the point in time when services are completed, generally on confirmation of completion of after-sale services by the customer.

**Revenue from other sources**

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

**Other income**

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

### (23) Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when the services are completed;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (23) Revenue recognition (applicable before 1 January 2018) *(Continued)*

(e) dividend income, when the shareholders' right to receive payment has been established; and

(f) finance lease income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the net investment of the finance lease or a shorter period, when appropriate, to the net carrying amount of the net investment of the finance lease.

### (24) Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

### (25) Vendor rebate

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

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

### (26) Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 34 to the financial statements.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (26) Share-based payments *(Continued)*

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (27) Other employee benefits

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentages of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

### (28) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 8.00% and 8.97% has been applied to the expenditure on the individual assets.

### (29) Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### (30) Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (30) Foreign currencies *(Continued)*

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of the Company and certain overseas subsidiaries are currencies other than RMB. The functional currency of Mainland China subsidiaries is RMB. As the Group mainly operates in Mainland China, RMB is used as the presentation currency of the Group. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period, and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries and the Company are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and the Company which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

**Impairment of goodwill**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount, which is the higher of its fair value less costs to sell and its value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was RMB869,107,000 (2017: RMB1,358,066,000). Further details are given in note 18.

**Impairment of non-financial assets (other than goodwill)**

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

**Accrual of vendor rebate**

The Group reviews the accruals of vendor rebate at the end of each reporting period by reference to the rebates receivables in accordance with the applicable terms and conditions of the suppliers' agreements. The accruals of vendor rebates involve management estimation and the extent of rebates entitlement under the respective categories of vendor rebates. Specific factors that management consider include the recent historical sales volume patterns, the rebate rates applied and any other available information concerning the creditworthiness of suppliers.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

### Estimation uncertainty *(Continued)*

**Useful lives of property, plant and equipment**

The intangible assets are depreciated on the straight-line basis by taking into account the residual value. The Group reviews the estimated useful lives periodically to determine the related amortisation charges for its intangible assets. The estimation is based on the historical experience of the actual useful lives of intangible assets of similar nature and functions, with consideration of market condition. The Group will increase the amortisation charges when useful lives become shorter than previously estimated.

**Useful lives of intangible assets**

The Group determines the estimated useful lives and the related depreciation charge for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods.

**Provision for expected credit losses on financial assets**

The Group uses a provision matrix to calculate ECLs for financial assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

### Estimation uncertainty *(Continued)*

**Deferred tax assets**

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying values of deferred tax assets were RMB1,510,000 and RMB1,510,000 as at 31 December 2018 and 2017, respectively. Further details are contained in note 29 to the financial statements.

**Provision for inventories**

The Group reviews the carrying amounts of the inventories at the end of each reporting period to determine whether the inventories are carried at lower of cost and net realisable value. The net realisable value is estimated based on current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories written-down or the related reversals of write-down and affect the Group's financial position.

## 4. SEGMENT INFORMATION

The Group's principal business is the sale and service of motor vehicles. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the sale of motor vehicles and the provision of related services.

No operating segments have been aggregated to form the above reportable operating segment.

### Information about geographical areas

Since all of the Group's revenue was generated from the sale and service of motor vehicles in Mainland China and all of the Group's non-current assets were located in Mainland China, no further geographical information is presented.

### Information about major customers

Since no revenue from the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the years ended 31 December 2018 and 2017, no information about major customers is presented.

## 5. REVENUE, OTHER INCOME AND GAINS, NET

### (a) Revenue

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **Revenue from contracts with customers** | | |
| Disaggregated revenue information | | |
| **Type of goods or service** | | |
| Revenue from the sale of motor vehicles | **10,948,391** | 16,914,692 |
| Revenue from after-sales services | **1,764,239** | 2,196,392 |
| Total revenue from contracts with customers | **12,712,630** | 19,111,084 |
| **Timing of revenue recognition** | | |
| At a point in time | **12,712,630** | 19,111,084 |

### (b) Other income and gains

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Commission income | **276,430** | 387,773 |
| Interest income | **39,212** | 30,169 |
| Investment income | **–** | 28,120 |
| Rental income | **6,249** | 9,720 |
| Government grants | **5,188** | 5,428 |
| Gain on disposal of items of property, plant and equipment | **–** | 2,765 |
| Gain on disposal of subsidiaries *(note 32)* | **227,881** | – |
| Others | **4,173** | 7,165 |
| | **559,133** | 471,140 |

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| (a) Employee benefit expense (excluding directors' and chief executive's remuneration *(note 9)*): | | |
| Wages and salaries | **264,725** | 281,514 |
| Equity-settled share option expense | **25** | 290 |
| Other welfare | **103,226** | 87,882 |
| | **367,976** | 369,686 |
| (b) Cost of sales and services: | | |
| Cost of sales of motor vehicles | **11,038,986** | 16,491,055 |
| Cost of after-sales services | **1,261,485** | 1,326,829 |
| | **12,300,471** | 17,817,884 |
| (c) Other expenses: | | |
| Impairment of goodwill | **488,959** | – |
| Impairment of items of property, plant and equipment | **169,917** | – |
| Impairment allowance of prepayments, other receivables and other assets | **102,183** | – |
| Impairment of intangible assets | **42,797** | – |
| Loss on disposal of items of property, plant and equipment | **6,289** | – |
| Exchange (gain)/loss | **(143)** | 174 |
| Others | **13,867** | 8,358 |
| | **823,869** | 8,532 |
| (d) Other items: | | |
| Depreciation of items of property, plant and equipment | **257,076** | 236,394 |
| Lease expenses | **64,642** | 50,234 |
| Advertisement and business promotion expenses | **55,672** | 67,240 |
| Amortisation of intangible assets | **42,190** | 33,185 |
| Write-down/(Write back) of inventories to net realisable value | **26,102** | (3,732) |
| Amortisation of land use rights | **21,248** | 13,422 |
| Bank charges | **10,229** | 13,945 |
| Auditor's remuneration | **4,950** | 6,050 |
| Loss on disposal of a subsidiary *(note 32)* | **–** | 1,545 |

## 7. FINANCE COSTS

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Interest expense on bank borrowings wholly repayable within five years | **413,973** | 316,858 |
| Interest expense on other borrowings | **117,442** | 76,689 |
| Less: interest capitalised | **(296)** | (109) |
| | **531,119** | 393,438 |

## 8. TAX

### (a) Tax in the consolidated statement of profit or loss represents:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Current: | | |
| Mainland China corporate income tax | **76,563** | 119,299 |
| Deferred tax *(note 29)* | **(12,516)** | (2,767) |
| | **64,047** | 116,532 |

Pursuant to Section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gain or appreciation shall apply to the Company or its operations.

The subsidiary incorporated in the British Virgin Islands ("**BVI**") is not subject to income tax as this subsidiary does not have a place of business (other than a registered office only) or carry on any business in the BVI.

The subsidiaries incorporated in Hong Kong were subject to profits tax at the rate of 16.5% during the years ended 31 December 2018 and 2017. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the years ended 31 December 2018 and 2017.

According to the Corporate Income Tax Law of the People's Republic of China (the ''CIT Law''), the income tax rate is 25%.

## 8. TAX *(Continued)*

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

A reconciliation of the tax expense applicable to profit before tax using the applicable rate for the region in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

| | 2018<br>*RMB'000* | 2017<br>*RMB'000* |
|---|---|---|
| Profit before tax | **(1,454,239)** | 376,734 |
| Tax at the applicable tax rate (25%) | **(363,560)** | 94,183 |
| Adjustments in respect of current tax of previous years | **3,099** | (1,419) |
| Expenses not deductible for tax | **188,475** | 25,555 |
| Tax losses utilised from previous years | **(2,634)** | (9,153) |
| Tax losses not recognised | **238,667** | 7,366 |
| Tax charge at the Group's effective rate | **64,047** | 116,532 |

## 9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

| | **Year ended 31 December 2018** | | | | |
|---|---|---|---|---|---|
| | **Directors' fees**<br>*RMB'000* | **Salaries, allowances and other benefits**<br>*RMB'000* | **Pension scheme contributions**<br>*RMB'000* | **Equity-settled share option expense**<br>*RMB'000* | **Total**<br>*RMB'000* |
| Executive directors: | | | | | |
| Mr. Yang Peng* | **–** | **1,291** | **50** | **–** | **1,341** |
| Mr. Zhao Zhongjie** | **–** | **533** | **33** | **–** | **566** |
| Mr. Liu Jian** | **–** | **101** | **12** | **–** | **113** |
| Non-executive directors: | | | | | |
| Mr. Xiao Zhengsan | **220** | **–** | **–** | **–** | **220** |
| Mr. Mei Jianping | **220** | **–** | **–** | **–** | **220** |
| Mr. Li Xin | **220** | **–** | **–** | **–** | **220** |
| Mr. Lee Conway Kong Wai | **220** | **–** | **–** | **–** | **220** |
| | **880** | **1,925** | **95** | **–** | **2,900** |

* Mr. Yang Peng who acted as an executive director of the Company was also chief executive officer of the Company for the year ended 31 December 2018.

** On 28 March 2018, Mr. Liu Jian resigned as executive director of the Company. On 30 August 2018, Mr. Zhao Zhongjie resigned as executive director of the Company.

## 9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

| | Year ended 31 December 2017 | | | | |
|---|---|---|---|---|---|
| | Directors' fees *RMB'000* | Salaries, allowances and other benefits *RMB'000* | Pension scheme contributions *RMB'000* | Equity-settled share option expense *RMB'000* | Total *RMB'000* |
| Executive directors: | | | | | |
| Mr. Yang Peng* | – | 1,340 | 46 | – | 1,386 |
| Mr. Liu Dongli** | – | 918 | 30 | – | 948 |
| Mr. Zhao Zhongjie | – | 807 | 46 | – | 853 |
| Mr. Shen Mingming** | – | 446 | – | – | 446 |
| Mr. Liu Jian | – | 628 | 46 | – | 674 |
| Non-executive directors: | | | | | |
| Mr. Yan Sujian** | – | 165 | – | – | 165 |
| Mr. Xiao Zhengsan | 220 | – | – | – | 220 |
| Mr. Mei Jianping | 220 | – | – | – | 220 |
| Mr. Lee Conway Kong Wai | 220 | – | – | – | 220 |
| Mr. Li Xin** | 123 | – | – | – | 123 |
| Mr. Peng Zhenhuai ** | 98 | – | – | – | 98 |
| | 881 | 4,304 | 168 | – | 5,353 |

* Mr. Yang Peng who acted as an executive director of the Company was also chief executive officer of the Company for the year ended 31 December 2017.

** On 8 June 2017, Mr. Shen Mingming was appointed as executive director of the Company, and Mr. Li Xin was appointed as independent non-executive director of the Company. On 8 June 2017, Mr. Peng Zhenhuai retired as independent non-executive director of the Company and Mr. Yan Sujian retired as non-executive directors of the Company. On 4 December 2017, Mr. Liu Dongli and Mr. Shen Mingming resigned as executive directors of the Company.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2018 and 2017.

## 10. FIVE HIGHEST PAID EMPLOYEES

The five individuals whose emoluments were the highest for the years ended 31 December 2018 and 2017 include two and four directors respectively, whose emoluments are reflected in the analysis presented in note 9 above.

Details of the remuneration for the year of the three (2017: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

| | **2018**<br>***RMB'000*** | 2017<br>*RMB'000* |
|---|---|---|
| Salaries, bonuses, allowances and benefits in kind | **970** | 529 |
| Pension scheme contributions | **150** | 30 |
| Equity-settled share option expense | **–** | – |
| | **1,120** | 559 |

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

| | **2018** | 2017 |
|---|---|---|
| Nil to RMB1,000,000 | **3** | 1 |
| RMB1,000,001 to RMB1,500,000 | **–** | – |
| RMB1,500,001 to RMB2,000,000 | **–** | – |
| | **3** | 1 |

## 11. DIVIDENDS

The board of the directors does not recommend the payment of any dividend to the ordinary equity holders of the Company for the year ended 31 December 2018 (2017: Nil).

## 12. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 946,476,000 (2017: 946,476,000) in issue during the year.

The calculation of the diluted (loss)/earnings per share amount is based on the (loss)/profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic (loss)/earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted (loss)/earnings per share are based on:

| | **2018**<br>***RMB'000*** | 2017<br>*RMB'000* |
|---|---|---|
| **(Loss)/Earnings** | | |
| (Loss)/Profit attributable to ordinary equity holders of the parent, used in the (loss)/earnings per share calculation: | **(1,513,797)** | 261,000 |

| | **2018** | 2017 |
|---|---|---|
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation | **946,476,000** | 946,476,000 |
| Effect of dilution weighted average number of ordinary shares: | | |
| Conversion preference shares | **–** | 664,268,747 |
| Share options | **–** | 1,544,092 |
| | **946,476,000*** | 1,612,288,839 |

* Because the Group is loss-making for the year ended 31 December 2018, the conversion preference shares and share options have no dilutive impact.

| | **2018** | 2017 |
|---|---|---|
| **(Loss)/Earnings per share** | | |
| Basic (RMB) | **(1.60)** | 0.28 |
| Diluted (RMB) | **(1.60)** | 0.16 |

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Leasehold improvements RMB'000 | Plant and machinery RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| At 1 January 2018 | 3,007,046 | 698,945 | 257,166 | 232,742 | 367,786 | 281,044 | 4,844,729 |
| Additions | – | 9,121 | 7,898 | 7,678 | 153,533 | 64,908 | 243,138 |
| Transfers | 57,024 | 21,578 | 316 | 289 | – | (79,207) | – |
| Disposals | (2,125) | – | (775) | (2,421) | (221,873) | – | (227,194) |
| Disposal of subsidiaries *(note 32)* | (147,858) | (105) | (4,169) | (9,196) | (4,972) | – | (166,300) |
| At 31 December 2018 | 2,914,087 | 729,539 | 260,436 | 229,092 | 294,474 | 266,745 | 4,694,373 |
| **Accumulated depreciation and impairment:** | | | | | | | |
| At 1 January 2018 | (473,757) | (148,251) | (105,391) | (159,959) | (128,882) | – | (1,016,240) |
| Depreciation and impairment provided during the year | (263,808) | (55,900) | (39,476) | (26,902) | (40,907) | – | (426,993) |
| Disposals | 1,763 | – | 559 | 2,381 | 42,434 | – | 47,137 |
| Disposal of subsidiaries *(note 32)* | 32,895 | 27 | 2,321 | 7,106 | 1,932 | – | 44,281 |
| At 31 December 2018 | (702,907) | (204,124) | (141,987) | (177,374) | (125,423) | – | (1,351,815) |
| **Net book value:** | | | | | | | |
| At 31 December 2017 | 2,533,289 | 550,694 | 151,775 | 72,783 | 238,904 | 281,044 | 3,828,489 |
| At 31 December 2018 | 2,211,180 | 525,415 | 118,449 | 51,718 | 169,051 | 266,745 | 3,342,558 |

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

| | Buildings *RMB'000* | Leasehold improvements *RMB'000* | Plant and machinery *RMB'000* | Furniture and fixtures *RMB'000* | Motor vehicles *RMB'000* | Construction in progress *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| At 1 January 2017 | 2,437,299 | 662,981 | 228,604 | 210,463 | 376,461 | 143,038 | 4,058,846 |
| Additions | 3,815 | 6,061 | 6,463 | 8,585 | 204,236 | 90,643 | 319,803 |
| Acquisition of subsidiaries | 563,876 | 25,739 | 23,642 | 17,650 | 45,537 | 76,426 | 752,870 |
| Transfers | 24,006 | 4,506 | – | – | – | (28,512) | – |
| Disposals | (8,166) | (46) | (65) | (3,012) | (252,556) | (551) | (264,396) |
| Disposal of a subsidiary *(note 32)* | (13,784) | (296) | (1,478) | (944) | (5,892) | – | (22,394) |
| At 31 December 2017 | 3,007,046 | 698,945 | 257,166 | 232,742 | 367,786 | 281,044 | 4,844,729 |
| **Accumulated depreciation and impairment:** | | | | | | | |
| At 1 January 2017 | (389,436) | (94,545) | (86,452) | (136,274) | (142,150) | – | (848,857) |
| Depreciation and impairment provided during the year | (88,379) | (53,731) | (20,334) | (24,714) | (49,237) | – | (236,395) |
| Disposals | 386 | – | 218 | 240 | 59,745 | – | 60,589 |
| Disposal of a subsidiary *(note 32)* | 3,672 | 25 | 1,177 | 789 | 2,760 | – | 8,423 |
| At 31 December 2017 | (473,757) | (148,251) | (105,391) | (159,959) | (128,882) | – | (1,016,240) |
| **Net book value:** | | | | | | | |
| At 31 December 2016 | 2,047,863 | 568,436 | 142,152 | 74,189 | 234,311 | 143,038 | 3,209,989 |
| At 31 December 2017 | 2,533,289 | 550,694 | 151,775 | 72,783 | 238,904 | 281,044 | 3,828,489 |

The application for the property ownership certificates for certain buildings with net book values of approximately RMB276,140,000 (2017:RMB297,650,000), as at 31 December 2018 was still in progress.

Certain of the Group's buildings with aggregate net book values of approximately RMB654,877,000 (2017:RMB682,249,000), as at 31 December 2018 were pledged as security for the Group's interest-bearing bank and other borrowings (note 28).

Certain of the Group's buildings with aggregate net book values of RMB29,051,000 (2017:RMB30,458,000), as at 31 December 2018 did not have building ownership certificates because they were built on land where the Group did not have the land use right certificates. Notwithstanding this, the directors are of the opinion that the Group owned the beneficial titles to these buildings as at 31 December 2018.

## 14. LAND USE RIGHTS

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **Cost** | | |
| At the beginning of the year | **838,335** | 539,476 |
| Acquisition of subsidiaries | **–** | 311,500 |
| Disposal of subsidiaries *(note 32)* | **(29,249)** | (12,641) |
| At the end of the year | **809,086** | 838,335 |
| **Accumulated amortisation** | | |
| At the beginning of the year | **(82,915)** | (72,319) |
| Charge for the year | **(21,248)** | (13,422) |
| Disposal of subsidiaries *(note 32)* | **5,086** | 2,826 |
| At the end of the year | **(99,077)** | (82,915) |
| **Net book value:** | | |
| At the end of the year | **710,009** | 755,420 |

The Group's land use rights are related to land located in Mainland China. The remaining periods of the land use rights of the Group are from 10 to 46 years.

Certain of the Group's land use rights with aggregate net book values of approximately RMB235,916,000 (2017: RMB269,331,000), as at 31 December 2018 were pledged as security for the Group's interest-bearing bank and other borrowings (note 28).

The Group had not obtained the land use right certificates to certain of the Group's land use rights with aggregate net book values of RMB24,164,000 (2017:RMB25,131,000), as at 31 December 2018. Notwithstanding this, the directors are of the opinion that the Group owned the beneficial titles to these land use rights as at 31 December 2018.

Included in the Group's land use rights are rights to some parcels of land, with aggregate net book values of RMB66,988,000 (2017: RMB69,662,000), as at 31 December 2018, which the Group did not use for their designated usage. Under applicable PRC laws and regulations, government approval is required for land use rights holders to change the designated usage for the land. Notwithstanding this, the directors are of the opinion that the Group owned the beneficial titles to these land use rights as at 31 December 2018.

## 15. INTANGIBLE ASSETS

| | Software *RMB'000* | Dealership relationship *RMB'000* | Customer relationship *RMB'000* | Insurance license *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2018 | **23,652** | **463,000** | **179,349** | **26,500** | **692,501** |
| Additions | **1,705** | **–** | **–** | **–** | **1,705** |
| Disposal of subsidiaries *(note 32)* | **(635)** | **–** | **–** | **–** | **(635)** |
| At 31 December 2018 | **24,722** | **463,000** | **179,349** | **26,500** | **693,571** |
| **Accumulated amortisation** | | | | | |
| At 1 January 2018 | **(18,980)** | **(61,842)** | **(29,684)** | **(8,441)** | **(118,947)** |
| Charge for the year | **(2,904)** | **(25,097)** | **(11,957)** | **(2,232)** | **(42,190)** |
| Disposal of subsidiaries *(note 32)* | **525** | **–** | **–** | **–** | **525** |
| At 31 December 2018 | **(21,359)** | **(86,939)** | **(41,641)** | **(10,673)** | **(160,612)** |
| **Accumulated impairment** | | | | | |
| At 1 January 2018 | **–** | **–** | **–** | **–** | **–** |
| Impairment during the year | **–** | **(31,322)** | **(11,475)** | **–** | **(42,797)** |
| At 31 December 2018 | **–** | **(31,322)** | **(11,475)** | **–** | **(42,797)** |
| **Net book value** | | | | | |
| At 31 December 2018 | **3,363** | **344,739** | **126,233** | **15,827** | **490,162** |
| **Cost** | | | | | |
| At 1 January 2017 | 23,392 | 353,900 | 133,849 | 26,500 | 537,641 |
| Additions | 356 | – | – | – | 356 |
| Acquisition of subsidiaries | 272 | 109,100 | 45,500 | – | 154,872 |
| Disposal of a subsidiary | (368) | – | – | – | (368) |
| At 31 December 2017 | 23,652 | 463,000 | 179,349 | 26,500 | 692,501 |
| **Accumulated amortisation** | | | | | |
| At 1 January 2017 | (16,173) | (43,052) | (20,628) | (6,209) | (86,062) |
| Charge for the year | (3,107) | (18,790) | (9,056) | (2,232) | (33,185) |
| Disposal of a subsidiary | 300 | – | – | – | 300 |
| At 31 December 2017 | (18,980) | (61,842) | (29,684) | (8,441) | (118,947) |
| **Net book value** | | | | | |
| At 31 December 2017 | 4,672 | 401,158 | 149,665 | 18,059 | 573,554 |

## 16. PREPAYMENTS

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Prepayments for potential acquisitions *(i)* | – | 300,000 |
| Prepayments for land use rights | – | 9,209 |
| | – | 309,209 |

(i) Prepayment of RMB300 million was in relation to proposed acquisitions entered in the year of 2017. During the year ended 31 December 2018, with the expiry of the proposed acquisitions framework agreements, the Group and the respective target parties reached consensus in accordance with framework agreements to terminate the proposed acquisitions and the prepayments were fully refunded as at 31 December 2018.

## 17. FINANCE LEASE RECEIVABLES

Certain motor vehicles of the Group are leased out under finance leases. All interest rates inherent in the leases are fixed at the contract date over the lease terms.

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Analysed as: | | |
| Current | **2,587** | 5,138 |
| Non-current | **13** | 779 |
| | **2,600** | 5,917 |

**Finance lease receivables comprise:**

| | Minimum lease receivables 2018 RMB'000 | Present value of minimum lease receivables 2018 RMB'000 |
|---|---|---|
| Analysed as: | | |
| Within one year | **3,004** | **2,587** |
| In the second to fifth years, inclusive | **15** | **13** |
| | **3,019** | **2,600** |
| Less: unearned finance income | **419** | **–** |
| Present value of minimum lease receivables | **2,600** | **2,600** |

## 18. GOODWILL

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Cost: | | |
| At the beginning of the year | **1,358,066** | 700,724 |
| Acquisitions of subsidiaries | **–** | 657,342 |
| Impairment during the year | **(488,959)** | – |
| At 31 December 2018 | **869,107** | 1,358,066 |
| Cost | **1,358,066** | 1,358,066 |
| Accumulated impairment | **(488,959)** | – |
| Net carrying amount | **869,107** | 1,358,066 |

### Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the respective cash-generating units for impairment testing.

The recoverable amounts of the cash-generating units have been determined based on the higher of its fair value less costs and its value in use of each of the CGU or group of CGUs to which the goodwill is assigned to. The value in use calculation using cash flow projections is based on financial budgets covering a five-year period approved by senior management. The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period from the end of the reporting period is 3% (2017: 3%) for all years. The pre-tax discount rate applied to the cash flow projections is 15.0% (2017: 17.0%).

The carrying amount of goodwill allocated to each of the cash-generating units of the operation of 4S dealership business that are not individually material to the Group is as follows:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| 4S dealership business | **869,107** | 1,358,066 |

Key assumptions used in the value in use calculation:

The following describes the key assumptions of the cash flow projections.

Revenue from the sale and service of motor vehicles — the bases used to determine the future earnings from the sale and service of motor vehicles are historical sales and the growth rate of similar 4S stores of the Group over the last two years.

## 18. GOODWILL *(Continued)*

Operating expenses — the bases used to determine the values assigned are cost of inventories, staff costs, depreciation, amortisation and other operating expenses. The values assigned to the key assumptions reflect past experience and management's commitment to maintain its operating expenses at an acceptable level.

## 19. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

| | **2018**<br>***RMB'000*** | 2017<br>*RMB'000* |
|---|---|---|
| **Equity investments designated at fair value through other comprehensive income** | | |
| Unlisted equity investments, at fair value | | |
| Xuzhou Huaihai Nongcun Commercial Bank Company Limited | **34,600** | – |
| Tongshanxian Nongcun Credit Cooperation Association | **9,800** | – |
| Gaojing Internet Technology Company | **1,419** | – |
| Yangzhou Nongcun Commercial Bank Company Limited | **9,900** | – |
| | **55,719** | – |
| **Available-for-sale investments** | | |
| Unlisted equity investments, at cost | **–** | 59,680 |
| | **55,719** | 59,680 |

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

## 20. INVENTORIES

| | 2018<br>*RMB'000* | 2017<br>*RMB'000* |
|---|---|---|
| Motor vehicles | **1,244,175** | 2,377,114 |
| Spare parts and accessories | **274,797** | 279,681 |
| | **1,518,972** | 2,656,795 |
| Less: Provision for inventories | **38,211** | 12,109 |
| | **1,480,761** | 2,644,686 |

Certain of the Group's inventories with carrying amounts of RMB728,451,000 (2017: RMB1,381,669,000) as at 31 December 2018 were pledged as security for the Group's bills payable.

Certain of the Group's inventories with aggregate net book values of approximately RMB745,408,000 (2017:RMB784,668,000) as at 31 December 2018 were pledged as security for the Group's interest-bearing bank and other borrowings (note 28).

## 21. TRADE RECEIVABLES

| | 2018<br>*RMB'000* | 2017<br>*RMB'000* |
|---|---|---|
| Trade receivables | **311,029** | 413,904 |
| Impairment | **–** | – |
| | **311,029** | 413,904 |

The Group's trading terms with its customers are mainly on cash, except for some transactions which are traded on credit. The credit period is generally three months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

## 21. TRADE RECEIVABLES *(Continued)*

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, and net of loss allowances is as follows:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Within 3 months | **281,244** | 376,097 |
| 3 to 12 months | **29,156** | 37,544 |
| Over 12 months | **629** | 263 |
| | **311,029** | 413,904 |

The ageing analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Neither past due nor impaired | **281,244** | 376,097 |
| Less than 3 months past due | **29,156** | 37,544 |
| 3 to 12 months past due | **629** | 263 |
| | **311,029** | 413,904 |

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable.

## 22. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

| | **2018**<br>***RMB'000*** | 2017<br>*RMB'000* |
|---|---|---|
| Prepayments to suppliers | **1,457,612** | 1,509,255 |
| Rebate receivables | **1,337,670** | 1,401,452 |
| Other receivables *(i)* | **996,672** | 1,121,753 |
| Consideration receivable *(note 32)(ii)* | **54,419** | – |
| VAT recoverable | **38,562** | 66,765 |
| Prepaid expense | **22,872** | 14,685 |
| Others | **101,407** | 83,874 |
| | **4,009,214** | 4,197,784 |
| Impairment allowance | **(102,183)** | – |
| | **3,907,031** | 4,197,784 |

(i) Included in other receivables is an amount of RMB956,000,000 (2017: RMB964,000,000) represents the amount due from former shareholders of certain subsidiaries arose from the acquisition of Yangzhou Huawei Automobile Investment Management Company Limited and subsidiaries (collectively as "**Huawei entities**") in the year of 2017. The receivable amount is interest free with no fixed terms of repayment and secured by guarantee and pledge of buildings and land use rights.

(ii) As disclosed in Note 32, in May 2018, the Group entered into equity transfer agreements with three independent third parties respectively to dispose of three subsidiaries in the PRC with a total consideration of RMB255,000,000. As at 31 December 2018, RMB200,581,000 of the total consideration was received and the remaining balance of RMB54,419,000 will be settled within the next twelve months as stipulated in the terms of the agreement.

## 23. CASH IN TRANSIT

| | **2018**<br>***RMB'000*** | 2017<br>*RMB'000* |
|---|---|---|
| Cash in transit | **9,821** | 23,144 |

Cash in transit represents the sales proceeds settled by credit cards, which have yet to be credited to the Group by the banks.

## 24. PLEDGED BANK DEPOSITS

| | **2018**<br>***RMB'000*** | 2017<br>*RMB'000* |
|---|---|---|
| Deposits pledged with banks as collateral against: | | |
| – Bills payable granted by the banks | **1,147,680** | 1,588,874 |
| – Credit facilities granted by the banks | **238,951** | 1,427,751 |
| | **1,386,631** | 3,016,625 |

The pledged bank deposits, which are all denominated in RMB as at 31 December 2018 and 2017, earn interest at interest rates stipulated by the respective financial institutions.

## 25. CASH AND CASH EQUIVALENTS

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Cash and bank balances | **865,950** | 1,218,141 |

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

The Group's cash and bank balances as at 31 December 2018 and 2017 are denominated in the following currencies:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Denominated in: | | |
| – RMB | **858,191** | 1,200,372 |
| – USD | **7,639** | 17,640 |
| – HKD | **120** | 129 |
| | **865,950** | 1,218,141 |

## 26. TRADE AND BILLS PAYABLES

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Bills payable | **1,632,521** | 3,766,837 |
| Trade payables | **518,179** | 527,537 |
| Trade and bills payables | **2,150,700** | 4,294,374 |

An aged analysis of the trade and bills payables as at 31 December 2018 and 2017, based on the invoice date, is as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Within 3 months | **1,654,327** | 3,359,850 |
| 3 to 6 months | **355,776** | 705,565 |
| 6 to 12 months | **131,774** | 224,706 |
| Over 12 months | **8,823** | 4,253 |
| | **2,150,700** | 4,294,374 |

The trade payables are non-interest-bearing and are normally settled on terms from 3 to 6 months.

## 27. OTHER PAYABLES AND ACCRUALS

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Advances from customers | – | 910,987 |
| Contract liabilities *(i)* | **801,812** | – |
| Payables for purchase of items of property, plant and equipment and land use rights | **379,313** | 379,804 |
| Taxes payable (other than income tax) | **253,888** | 196,126 |
| Unsettled consideration for business combinations | **73,154** | 73,154 |
| Accrued expenses | **196,953** | 90,092 |
| Dividend payable | **13,320** | 13,320 |
| Advancements from former shareholders and employees arising from acquisitions | **34,316** | 59,821 |
| Other payables *(ii)* | – | 427,200 |
| Others | **245,993** | 188,415 |
| | **1,998,749** | 2,338,919 |

(i) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

| | 31 December 2018 RMB'000 | 1 January 2018 RMB'000 |
|---|---|---|
| *Short-term advances received from customers* | | |
| Sales of motor vehicles | **801,812** | 910,987 |
| Total contract liabilities | **801,812** | 910,987 |

Contract liabilities are short-term advances received for the purchases of motor vehicles.

(ii) Other payables represented the capital funding from the independent third parties pursuant to the prevailing terms as stipulated in the agreement of the limited liability partnership fund between the Group and the two parties. In January 2018, the Group and the two parties reached consensus that the limited liability partnership is to be dissolved, and the applicable dissolution procedures are in the process of obtaining approvals from the relevant authorities, and the amount has been settled during the period.

## 28. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | | 2018 Effective interest rate (%) | 2018 RMB'000 | 2017 Effective interest rate (%) | 2017 RMB'000 |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Bank loans | | **3.05-8.70** | **4,368,895** | 3.05-10.00 | 5,861,916 |
| Other borrowings | | **3.68-15.00** | **1,333,371** | 3.68-11.00 | 979,912 |
| | | | **5,702,266** | | 6,841,828 |
| **Non-current** | | | | | |
| Bank loans | | **4.28-7.00** | **215,280** | 7.35-8.32 | 109,900 |
| Other borrowings | | **4.28-7.00** | **464,696** | 8.00-12.50 | 538,053 |
| | | | **679,976** | | 647,953 |
| | | | **6,382,242** | | 7,489,781 |
| **Bank loans and other borrowings representing:** | | | | | |
| – secured | *(a)* | | **704,519** | | 757,145 |
| – guaranteed | *(b)* | | **1,735,755** | | 3,062,496 |
| – secured and guaranteed | *(a)(b)* | | **2,947,953** | | 3,589,875 |
| – unsecured | *(c)* | | **994,015** | | 80,265 |
| | | | **6,382,242** | | 7,489,781 |
| **Analysed into:** | | | | | |
| **Bank loans repayable:** | | | | | |
| Within one year | | | **4,368,895** | | 5,861,916 |
| In the second year | | | **203,280** | | 20,300 |
| In the third to fifth years, inclusive | | | **12,000** | | 89,600 |
| | | | **4,584,175** | | 5,971,816 |
| **Other borrowings repayable:** | | | | | |
| Within one year | | | **1,333,371** | | 979,912 |
| In the second year | | | **464,696** | | 406,266 |
| In the third to fifth years, inclusive | | | **–** | | 131,787 |
| | | | **1,798,067** | | 1,517,965 |
| | | | **6,382,242** | | 7,489,781 |

## 28. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

(a) Certain of the Group's bank loans are secured by:

(1) mortgages over the Group's buildings, which had aggregate net book values of approximately RMB654,877,000 and RMB682,249,000, respectively, as at 31 December 2018 and 2017 (note 13);

(2) mortgages over the Group's land use rights situated in Mainland China, which had aggregate net book values of approximately RMB235,916,000 and RMB269,331,000, respectively, as at 31 December 2018 and 2017 (note 14);

(3) mortgages over the Group's inventories, which had aggregate net book values of approximately RMB745,408,000 and RMB784,668,000, respectively, as at 31 December 2018 and 2017 (note 20); and

(4) mortgages over 2,428,960,000 shares and 1,856,400,000 shares of the Group's subsidiaries, respectively, as at 31 December 2018 and 2017.

(b) Details of the guaranteed bank loans are as follows:

(1) certain of the Group's bank loans amounting to RMB1,573,355,000 and RMB2,421,371,000, respectively were guaranteed by the subsidiaries of the Group as at 31 December 2018 and 2017; and

(2) certain of the Group's bank loans amounting to RMB162,400,000 and RMB161,283,000, respectively were guaranteed jointly by the subsidiaries of the Group, Mr. Yang Peng and the third parties with no additional expenditure as at 31 December 2018 and 2017.

(c) The Group entered into facility agreements with independent third parties. The facilities were unsecured and the facility period were for terms from 12 months to 36 months and interest rates were 4.28-15.00 per annum.

## 29. DEFERRED TAX

### Deferred tax assets

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements for the years ended 31 December 2018 and 2017 are as follows:

| | Accrued payroll *RMB'000* | Losses available for offsetting against future taxable profits *RMB'000* | Provisions *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| At 1 January 2017 | 210 | 6,732 | 852 | 7,794 |
| Deferred tax credited/ (charged) to the statement of profit or loss during the year *(note 8)* | 65 | (6,732) | 383 | (6,284) |
| At 31 December 2017 and 1 January 2018 | 275 | – | 1,235 | 1,510 |
| Gross deferred tax assets at 31 December 2018 | **275** | **–** | **1,235** | **1,510** |

Deferred tax assets have not been recognised in respect of the following item:

| | **2018** ***RMB'000*** | 2017 *RMB'000* |
|---|---|---|
| Tax losses | **1,212,739** | 268,607 |

The above tax losses arising in Mainland China are subject to an expiry period of five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

## 29. DEFERRED TAX *(Continued)*

### Deferred tax liabilities

| | Fair value adjustments arising from acquisition of subsidiaries *RMB'000* | Fair value adjustments of equity investments at fair value through other comprehensive income *RMB'000* | Deferred tax liabilities arising from change in fair value of available-for-sale financial assets *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| At 1 January 2017 | 140,561 | – | 10,825 | 151,386 |
| Deferred tax liabilities charged to the consolidated statement of financial position | 70,001 | – | – | 70,001 |
| Deferred tax charged to the consolidated statement of comprehensive income | – | – | (10,825) | (10,825) |
| Deferred tax credited to the Statement of profit or loss during the year *(note 8)* | (9,051) | – | – | (9,051) |
| At 31 December 2017 | 201,511 | – | – | 201,511 |
| Effect of adoption of HKFRS 9 | – | 1,481 | – | 1,481 |
| At 1 January 2018 (restated) | 201,511 | 1,481 | – | 202,992 |
| Deferred tax charged to the consolidated statement of comprehensive income | – | 324 | – | 324 |
| Deferred tax credited to the statement of profit or loss during the year *(note 8)* | (12,516) | – | – | (12,516) |
| Gross deferred tax liabilities at 31 December 2018 | **188,995** | **1,805** | **–** | **190,800** |

## 29. DEFERRED TAX *(Continued)*

### Deferred tax liabilities *(Continued)*

Pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings generated after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The applicable tax rate of the Group is 10%. At 31 December 2018, deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such remaining earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised was RMB408,250,000 at 31 December 2018 (2017: RMB552,488,000). There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 30. SHARE CAPITAL

### Shares

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| Issued and fully paid: | | |
| 946,476,000 (2017: 946,476,000) ordinary shares of US$0.0000005 each | **3** | 3 |
| 664,268,747 (2017: 664,268,747) convertible preference shares of US$0.0000005 each | **2** | 2 |
| | **5** | 5 |

A summary of the movements in the Company's share capital is as follows:

| | **Number of shares in issue** | **Share capital** RMB'000 | **Share premium account** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|
| At 1 January 2017 | 1,610,744,747 | 5 | 2,026,648 | 2,026,653 |
| Issue of new shares | – | – | – | – |
| At 31 December 2017 and 1 January 2018 | 1,610,744,747 | 5 | 2,026,648 | 2,026,653 |
| Issue of new shares | – | – | – | – |
| At 31 December 2018 | **1,610,744,747** | **5** | **2,026,648** | **2,026,653** |

## 31. RESERVES

### (i) Merger reserve

The merger reserve of the Group represents the capital contributions from the then equity holders of the Company. The additions during the year represent the injection of additional paid-up capital by the equity holders of the subsidiaries to the respective companies, which were consolidated from the earliest date presented or since the date when the subsidiaries first came under the common control. The deductions during the year represent the decrease in the Group's net assets resulted from the distribution to equity holders of the Company and acquisition of interests in subsidiaries for business combinations under common control.

### (ii) Statutory reserve

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC as mentioned in note 42 to the financial statements are required to transfer no less than 10% of their profits after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

### (iii) Other reserve

The other reserve of the Group represents the excess of the carrying amount of the non-controlling interests acquired over the consideration.

### (iv) Available-for-sale investment revaluation/fair value reserve

The available-for-sale investment revaluation/fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities/equity investments designated at fair value through other comprehensive income held at the end of the reporting period.

### (v) Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

## 32. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2017, the Group entered into an equity transfer agreement with an independent third party to dispose of a subsidiary in the PRC with a disposal consideration of RMB8,301,000. The consideration was fully settled as at 31 December 2017.

In May 2018, the Group entered into equity transfer agreements with three independent third parties respectively to dispose of three subsidiaries in the PRC with a total consideration of RMB255,000,000. As at 31 December 2018, RMB200,581,000 of the total consideration was settled and the remaining balance of RMB54,419,000 will be settled within the next twelve months.

Net assets disposed of:

| | **2018**<br>***RMB'000*** | 2017<br>*RMB'000* |
|---|---|---|
| Property, plant and equipment | **122,019** | 13,970 |
| Land use right | **24,163** | 9,816 |
| Intangible assets | **110** | 68 |
| Inventories | **41,374** | 16,420 |
| Trade receivables | **3,427** | 2,396 |
| Prepayments, other receivables and other assets | **83,719** | 52,319 |
| Pledged bank deposits | **18,778** | 36,182 |
| Cash in transit | **22** | 191 |
| Cash and cash equivalents | **97** | 1,004 |
| Trade and bills payables | **(42,648)** | (55,160) |
| Other payables and accruals | **(187,164)** | (14,391) |
| Dividend payables | **–** | (11,805) |
| Amount due to a related party | **(20,820)** | – |
| Interest-bearing bank and other borrowings | **(14,202)** | (8,000) |
| Tax payable | **(1,756)** | (5,987) |
| Non-controlling interests | **–** | (27,177) |
| | **27,119** | 9,846 |
| Gain/(Loss) on disposal of subsidiaries | **227,881** | (1,545) |
| Consideration satisfied by cash | **255,000** | 8,301 |

## 32. DISPOSAL OF SUBSIDIARIES *(Continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

| | **2018** *RMB'000* | 2017 *RMB'000* |
|---|---|---|
| Cash consideration | **255,000** | 8,301 |
| Consideration receivable *(note 22)* | **(54,419)** | – |
| Cash and cash equivalents disposed | **(97)** | (1,004) |
| Net cash inflow in respect of the disposal of subsidiaries | **200,484** | 7,297 |

## 33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Changes in liabilities arising from financing activities:

| | Bank and other loans *RMB'000* | Other payable *RMB'000* | Advance from a substantial shareholder *RMB'000* |
|---|---|---|---|
| At 1 January 2018 | **7,489,781** | **427,200** | **226,397** |
| Changes from financing cash flows | **(1,093,337)** | **(427,200)** | **155,839** |
| Liabilities reducing from disposal of subsidiaries | **(14,202)** | **–** | **(20,820)** |
| At 31 December 2018 | **6,382,242** | **–** | **361,416** |

## 34. SHARE OPTION SCHEME

(a) Before the incorporation of the Company, China Rundong Auto Holding Ltd. (the "**Former Listing Vehicle**") operates a share option scheme (the "**Pre-IPO Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. In order to operate the Pre-IPO Scheme, the Former Listing Vehicle established a trust (the "**Employee Pre-IPO Trust**") under a trust deed in September 2011. Eligible participants of the Pre-IPO Scheme will be nominated as beneficiaries of the Employee Pre-IPO Trust. Eligible participants include the Company's directors, including independent non-executive directors, and other employees of the Group and its subsidiaries. The Pre-IPO Scheme became effective on 15 November 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date with a fixed exercise price of US$0.3573 per share.

The Former Listing Vehicle offered the share options to subscribe for a total of 40,000,000 shares upon their exercise, representing 5% of the then issued share capital of the Former Listing Vehicle, to Runda (PTC) Limited ("**Runda**"), acting as the trustee to the Employee Pre-IPO Trust. Runda holds the share options for the benefit of the eligible participants when they are granted with the share options. Share options were offered to each eligible participant in various batches from 2 January 2012 to 31 December 2013.

## 34. SHARE OPTION SCHEME *(Continued)*

(a) *(Continued)*

Each of the eligible participants has entered into a share option agreement (the "**Pre-IPO Share Option Agreement**") with the Former Listing Vehicle and Runda under which the Former Listing Vehicle nominated eligible participants as a beneficiary of the Employee Pre-IPO Trust. The offer of a grant of options may be accepted within seven days from the date of offer. The exercise period of the share options granted is dependent on the Company's qualified IPO listing and commences after a vesting period of one to five years and ends on the expiry date of the Pre-IPO Scheme.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 24 March 2014, 14 eligible participants (the "**Relevant Grantees**") entered into supplemental agreements (each, the "**Supplemental Agreement**") to their respective Pre-IPO Share Option Agreements with the Former Listing Vehicle and Runda to modify the original vesting conditions and periods and be entitled to fully vest their share options on the date of modification. The share options would be exercisable upon the completion of the IPO. Pursuant to the Supplemental Agreement, the Former Listing Vehicle agreed to (a) procure Runda to exercise the share options to which each of these Relevant Grantees was entitled to; and (b) upon such exercise, issue 30,700,000 shares in the Former Listing Vehicle to Runda as unpaid shares for the Relevant Grantees as beneficiaries of those shares. The incremental fair value of share options during the three months ended 31 March 2014 was estimated as at the date of modification, using a binomial model, taking into account the terms and conditions upon which the options were modified. The incremental fair value was measured as the difference between the fair value of the original award and that of the modified award and was recognised as a share option expense.

Upon the Company's public listing, the Former Listing Vehicle, the Company, Runda and eligible participants entered into share option agreements to carry forward its former share options, other than those early exercised, to the Company without any change in terms and conditions.

The following share options were outstanding under the Pre-IPO Scheme during the years ended 31 December 2018 and 2017:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Exercise price** ***US$*** *per share* | **Number of options** ***'000*** | Exercise price *US$* *per share* | Number of options *'000* |
| At the beginning of the year | **0.3573** | **4,702** | 0.3573 | 5,200 |
| Granted during the year | **0.3573** | **20** | 0.3573 | 114 |
| Forfeited during the year | **0.3573** | **(907)** | 0.3573 | (612) |
| Exercised during the year | **0.3573** | **–** | 0.3573 | – |
| At the end of the year | **0.3573** | **3,815** | 0.3573 | 4,702 |

## 34. SHARE OPTION SCHEME *(Continued)*

(a) *(Continued)*

The weighted average fair values of the share options granted during the years ended 31 December 2018 and 2017 were US$0.1616 (RMB1.0559) and US$0.1684 (RMB1.1682) per option. The Group recognised equity-settled share option expenses of RMB25,000 and RMB290,000 during the years ended 31 December 2018 and 2017, respectively.

The fair value of the share options granted during the years ended 31 December 2018 and 2017 was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | **2018** | 2017 |
|---|---|---|
| Dividend yield (%) | **–** | – |
| Expected volatility (%) | **46.0-47.0** | 49.0-50.0 |
| Risk-free interest rate (%) | **2.07-2.24** | 1.91-2.22 |
| Expected life of options (year) | **10** | 10 |
| Weighted average share price (US$ per share) | **0.4364** | 0.4190 |

The expected life of the options is based on the Pre-IPO Scheme which became effective on 15 November 2011 and will remain in force for 10 years until 15 November 2021. The expected volatility reflects the assumption that the historical volatility of other similar listed companies is indicative of future trend of the Company, which may also not necessarily be the actual outcome. The weighted average share price reflects the assumption that the historical weighted average share price of other similar listed companies is indicative of future trend of the Company.

No other feature of the options granted was incorporated into the measurement of fair value.

At 31 December 2018 and 2017, 3,815,317 and 4,701,712 share options were outstanding under the Pre-IPO Scheme, respectively.

(b) Management Subscription Agreements with certain members of directors and senior management of the Group

On 16 May 2015, the Company entered into subscription agreements (the "**Management Subscription Agreements**") with certain members of directors and senior management of the Group (the "**Management Subscribers**"), pursuant to which the Company conditionally agreed to allot and issue and the Management Subscribers conditionally agreed to subscribe for, a total of 80,537,237 management subscription shares at the price of HK$2.89 per share pursuant to the terms and conditions of the Management Subscription Agreements, and such management subscription became effective until the completion of the Subscription.

The management subscription scheme will take place in four instalments. First batch of 24,161,171 shares, representing 30% of the aggregate number of management subscription shares, were granted in August 2015 when the Management Subscription Agreements were completed. The first batch management subscription shares were forfeited during the year, as the performance conditions were not met pursuant to the terms and conditions of the Management Subscription Agreements.

## 34. SHARE OPTION SCHEME *(Continued)*

(b) *(Continued)*

According to the announcement dated 3 July 2016 and the composite offer dated 27 July 2016, each of the Management Subscribers served a Management Subscribers Irrevocable Undertaking to Rundong Fortune and the Company, pursuant to which none of the Management Subscribers would accept an offer in respect of the cancellation of the Management Subscription Shares if one were to be made to any of them. In other words, the Management Subscription was still effective as at 31 December 2016 and onwards.

24,508,951 Management Subscription Shares were forfeited during the year 2016. During the year 2017, 18,718,644 Management Subscription Shares were forfeited. During the year 2018, 10,714,011 Management Subscription Shares were forfeited. As at 31 December 2018, none Management Subscription Shares remained outstanding, conferring rights on the Management Subscribers to subscribe for ordinary shares.

## 35. CONTINGENT LIABILITIES

In the opinion of the directors of the Company, as at 31 December 2018, neither the Group nor the Company had any significant contingent liabilities.

## 36. COMMITMENTS

### a. Capital commitments

Capital commitments of the Group in respect of property, plant and equipment outstanding as at 31 December 2018 not provided for in the financial statements were as follows:

| | **2018**<br>***RMB'000*** | 2017<br>*RMB'000* |
|---|---|---|
| Contracted, but not provided for land use rights and buildings | **187,565** | 210,080 |

### b. Operating lease commitments

The Group leases certain of its office properties and land under operating lease arrangements. Leases for properties and land are negotiated for terms ranging from 1 to 20 years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases with its tenants falling due as follows:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Properties**<br>***RMB'000*** | **Land use right**<br>***RMB'000*** | Properties<br>*RMB'000* | Land use right<br>*RMB'000* |
| Within one year | **32,111** | **19,974** | 44,450 | 19,537 |
| In the second to fifth years, inclusive | **122,738** | **88,008** | 166,995 | 71,580 |
| After five years | **65,044** | **159,030** | 144,606 | 116,412 |
| | **219,893** | **267,012** | 356,051 | 207,529 |

## 37. PLEDGE OF ASSETS

Details of the Group's assets pledged for its interest-bearing bank and other borrowings and bills payable are disclosed in notes 13, 14, 20, 24 and 28 to the financial statements.

## 38. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

In addition to the transactions and balances disclosed elsewhere in the financial statements, the Group had the following material transactions with related parties during the years ended 31 December 2018 and 2017:

Mr. Yang Peng is the chairman and a substantial shareholder of the Group and is considered to be a related party of the Group.

### (a) The Group had the following transaction with a related party during the years ended 31 December 2018 and 2017:

| | **2018** *RMB'000* | 2017 *RMB'000* |
|---|---|---|
| Advance from a substantial shareholder: | | |
| Mr. Yang Peng | **135,019** | 57,575 |

The above transactions were conducted in accordance with the terms mutually agreed between the parties.

### (b) The Group had the following significant balance with its related party during the year:

| | **2018** *RMB'000* | 2017 *RMB'000* |
|---|---|---|
| Due to a substantial shareholder: | | |
| Mr. Yang Peng | **361,416** | 226,397 |

The amount due to the related party was unsecured, interest-free, with no fixed terms of repayment and non-trade in nature.

### (c) Compensation of key management personnel of the Group:

| | **2018** *RMB'000* | 2017 *RMB'000* |
|---|---|---|
| Short term employee benefits | **2,805** | 6,511 |
| Pension scheme contributions | **95** | 229 |
| Equity-settled share option expense | **–** | – |
| Total compensation paid to key management personnel | **2,900** | 6,740 |

Further details of directors' emoluments are included in note 9 to the financial statements.

## 39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

### As at 31 December 2018

**Financial assets**

| | Financial assets at fair value through other comprehensive income Equity investments *RMB'000* | Financial assets at amortised cost *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| Equity investments at fair value through other comprehensive income *(note 19)* | **55,719** | **–** | **55,719** |
| Trade receivables *(note 21)* | **–** | **311,029** | **311,029** |
| Finance lease receivables *(note 17)* | **–** | **2,600** | **2,600** |
| Financial assets included in prepayments, other receivables and other assets *(note 22)* | **–** | **3,907,031** | **3,907,031** |
| Cash in transit *(note 23)* | **–** | **9,821** | **9,821** |
| Pledged deposits *(note 24)* | **–** | **1,386,631** | **1,386,631** |
| Cash and cash equivalents *(note 25)* | **–** | **865,950** | **865,950** |
| | **55,719** | **6,483,062** | **6,538,781** |

**Financial liabilities**

| | Financial liabilities at amortised cost *RMB'000* |
|---|---|
| Trade and bills payables *(note 26)* | **2,150,700** |
| Financial liabilities included in other payables and accruals *(note 27)* | **1,998,749** |
| Amount due to a related party *(note 38)* | **361,416** |
| Interest-bearing bank and other borrowings *(note 28)* | **6,382,242** |
| | **10,893,107** |

## 39. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

### As at 31 December 2017

**Financial assets**

| | Available-for-sale financial assets *RMB'000* | Loans and receivables *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| Available-for-sale investments *(note 19)* | 59,680 | – | 59,680 |
| Trade receivables *(note 21)* | – | 413,904 | 413,904 |
| Finance lease receivables *(note 17)* | – | 5,917 | 5,917 |
| Financial assets included in prepayments, other receivables and other assets *(note 22)* | – | 4,197,784 | 4,197,784 |
| Cash in transit *(note 23)* | – | 23,144 | 23,144 |
| Pledged deposits *(note 24)* | – | 3,016,625 | 3,016,625 |
| Cash and cash equivalents *(note 25)* | – | 1,218,141 | 1,218,141 |
| | 59,680 | 8,875,515 | 8,935,195 |

**Financial liabilities**

| | Financial liabilities at amortised cost *RMB'000* |
|---|---|
| Trade and bills payables *(note 26)* | 4,294,374 |
| Financial liabilities included in other payables and accruals *(note 27)* | 2,338,919 |
| Amount due to a related party *(note 38)* | 226,397 |
| Interest-bearing bank and other borrowings *(note 28)* | 7,489,781 |
| | 14,349,471 |

## 40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2018 (RMB'000)** | 2017 (RMB'000) | **2018 (RMB'000)** | 2017 (RMB'000) |
| **Financial assets** | | | | |
| Equity investments designated at fair value through other comprehensive income | **55,719** | – | **55,719** | – |
| Available-for-sale investments | **–** | 59,680 | **–** | – |
| | **55,719** | 59,680 | **55,719** | – |

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2018 (RMB'000)** | 2017 (RMB'000) | **2018 (RMB'000)** | 2017 (RMB'000) |
| **Financial liabilities** | | | | |
| Interest-bearing bank and other borrowings | **6,382,242** | 7,489,781 | **6,382,242** | 7,489,781 |
| | **6,382,242** | 7,489,781 | **6,382,242** | 7,489,781 |

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, amount due to a related party, current portion of interest bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

## 40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

The fair values of the non-current portion of finance lease receivables and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values have been assessed to be approximate to their carrying amounts. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2018 was assessed to be insignificant.

For the fair value of the unlisted equity investments at fair value through other comprehensive income, which were previously classified as available-for-sale equity investments, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

### Assets measured at fair value:

**As at 31 December 2018**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) *RMB'000* | Significant observable inputs (Level 2) *RMB'000* | Significant unobservable inputs (Level 3) *RMB'000* | Total *RMB'000* |
| Equity investments designated at fair value through other comprehensive income | – | – | 55,719 | 55,719 |
| | – | – | 55,719 | 55,719 |

The movements in fair value measurements within Level 3 during the year are as follows:

| | 2018 *RMB'000* | 2017 *RMB'000* |
|---|---|---|
| Equity investments at fair value through other comprehensive income – unlisted: | | |
| At 1 January | 59,680 | – |
| Effect of adoption of HKFRS 9 | (2,450) | – |
| Total losses recognised in other comprehensive income | (1,511) | – |
| Addition | – | – |
| Disposal | – | – |
| At 31 December | 55,719 | – |

The Company did not have any financial liabilities measured at fair value as at 31 December 2017 and 2018.

## 40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

**Liabilities for which fair values are disclosed:**

**As at 31 December 2018**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) *RMB'000* | Significant observable inputs (Level 2) *RMB'000* | Significant unobservable inputs (Level 3) *RMB'000* | Total *RMB'000* |
| Interest-bearing bank and other borrowings | – | 6,382,242 | – | 6,382,242 |
| | – | 6,382,242 | – | 6,382,242 |

**As at 31 December 2017**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) *RMB'000* | Significant observable inputs (Level 2) *RMB'000* | Significant unobservable inputs (Level 3) *RMB'000* | Total *RMB'000* |
| Interest-bearing bank and other borrowings | – | 7,489,781 | – | 7,489,781 |
| | – | 7,489,781 | – | 7,489,781 |

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, other interest-bearing borrowings, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Interest rate risk

The Group has no significant interest-bearing assets other than pledged bank deposits (note 24) and cash and cash equivalents (note 25).

The Group's interest rate risk arises from its interest-bearing bank and other borrowings, details of which are set out in note 28. Borrowings at floating rates expose the Group to the risk of changes in market interest rates.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The Group's exposure to the risk of changes in market interest rate relates primarily to the Group's debt obligations with floating interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax *RMB'000* | Increase/ (decrease) in equity* *RMB'000* |
|---|---|---|---|
| 2018 | | | |
| RMB | **50** | **(19,353)** | **(19,353)** |
| RMB | **(50)** | **19,353** | **19,353** |
| 2017 | | | |
| RMB | 50 | (5,156) | (5,156) |
| RMB | (50) | 5,156 | 5,156 |

* Excluding retained profits

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Foreign currency risk

The Group's business is located in Mainland China and all transactions are conducted in RMB. Most of the Group's assets and liabilities were denominated in RMB, except for certain bank balances denominated in HK$ and US$ as disclosed in note 25.

The Group's assets and liabilities denominated in HK$ and US$ were mainly held by certain subsidiaries incorporated outside Mainland China which had HK$ and US$ as their functional currencies.

The Group did not have material foreign currency transactions in Mainland China during the years ended 31 December 2018 and 2017.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK$ and US$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of forward currency contracts).

| | Increase/ (decrease) in HK$ rate % | Increase/ (decrease) in profit before tax *RMB'000* | Increase/ (decrease) in equity *RMB'000* |
|---|---|---|---|
| 2018 | | | |
| If RMB weakens against HK$ | **5** | **126** | **126** |
| If RMB strengthens against HK$ | **(5)** | **(126)** | **(126)** |

| | Increase/ (decrease) in US$ rate % | Increase/ (decrease) in profit before tax *RMB'000* | Increase/ (decrease) in equity *RMB'000* |
|---|---|---|---|
| 2018 | | | |
| If RMB weakens against US$ | **5** | **8,021** | **8,021** |
| If RMB strengthens against US$ | **(5)** | **(8,021)** | **(8,021)** |

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Foreign currency risk *(Continued)*

| | Increase/ (decrease) in HK$ rate % | Increase/ (decrease) in profit before tax *RMB'000* | Increase/ (decrease) in equity *RMB'000* |
|---|---|---|---|
| 2017 | | | |
| If RMB weakens against HK$ | 5 | 108 | 108 |
| If RMB strengthens against HK$ | (5) | (108) | (108) |

| | Increase/ (decrease) in US$ rate % | Increase/ (decrease) in profit before tax *RMB'000* | Increase/ (decrease) in equity *RMB'000* |
|---|---|---|---|
| 2017 | | | |
| If RMB weakens against US$ | 5 | 2,680 | 2,680 |
| If RMB strengthens against US$ | (5) | (2,680) | (2,680) |

### Credit risk

The Group has no significant concentration of credit risk. The carrying amounts of pledged bank deposits, cash in transit, cash and cash equivalents, trade receivables, deposits and other receivables included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2018 and 2017, all pledged bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

### Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Maximum exposure and year-end staging as at 31 December 2018** *(Continued)*

| | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Simplified approach | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables | 311,029 | – | – | – | 311,029 |
| Financial assets included in prepayments, other receivables and other assets | | | | | |
| – Normal** | – | – | – | 3,907,031 | 3,907,031 |
| – Doubtful** | – | – | – | – | – |
| Pledged deposits | | | | | |
| – Not yet past due | 1,386,631 | – | – | – | 1,386,631 |
| Cash and cash equivalents | | | | | |
| – Not yet past due | 865,950 | – | – | – | 865,950 |
| Cash in transit | 9,821 | – | – | – | 9,821 |
| | 2,573,431 | – | – | 3,907,031 | 6,480,462 |

* For prepayments, other receivables and other assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 22 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "**normal**" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "**doubtful**".

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from associates and joint ventures, other receivables and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 21 to the financial statements.

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Liquidity risk

The Group monitors its exposure to a shortage of funds by considering the maturity of both its financial liabilities and financial assets and projected cash flows from operations.

The maturity profile of the Group's financial liabilities at the end of each reporting period, based on the contractual undiscounted payments, is as follows:

| **31 December 2018** | **Less than 3 months** *RMB'000* | **3 to 12 months** *RMB'000* | **1 to 5 years** *RMB'000* | **Beyond 5 years** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|---|---|
| Trade and bills payables | **496,373** | **–** | **–** | **–** | **496,373** |
| Interest-bearing bank and other borrowings | **1,636,028** | **4,314,769** | **708,226** | **–** | **6,659,023** |
| Due to a controlling shareholder | **–** | **361,416** | **–** | **–** | **361,416** |
| | **2,132,401** | **4,676,185** | **708,226** | **–** | **7,516,812** |

| 31 December 2017 | Less than 3 months *RMB'000* | 3 to 12 months *RMB'000* | 1 to 5 years *RMB'000* | Beyond 5 years *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| Trade and bills payables | 589,369 | 209,887 | – | – | 799,256 |
| Interest-bearing bank and other borrowings | 1,445,683 | 5,505,663 | 800,296 | – | 7,751,642 |
| Due to a controlling shareholder | – | 226,397 | – | – | 226,397 |
| | 2,035,052 | 5,941,947 | 800,296 | – | 8,777,295 |

### Capital management

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, an amount due to a related party, trade and bills payables, other payables and accruals (excluding contract liabilities/advances from customers), less cash and cash equivalents. The gearing ratios as at the end of the reporting periods are as follows:

| | **2018** *RMB'000* | 2017 *RMB'000* |
|---|---|---|
| Trade and bills payables | **2,150,700** | 4,294,374 |
| Interest-bearing bank and other borrowings | **6,382,242** | 7,489,781 |
| Other payables and accruals | **1,196,937** | 1,427,932 |
| Amount due to a related party | **361,416** | 226,397 |
| Less: cash and cash equivalents | **(865,950)** | (1,218,141) |
| Net debt | **9,225,345** | 12,220,343 |
| Equity attributable to owners of the parent | **2,097,155** | 3,621,704 |
| Capital and net debt | **11,322,500** | 15,842,047 |
| Gearing ratio | **81%** | 77% |

## 42. INVESTMENTS IN SUBSIDIARIES

Particulars of the Company's subsidiaries are as follows:

| Name | Place and date of incorporation/ registration and place of operations | Registered capital | Percentage of ownership interest Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| Schnell International Ltd. | British Virgin Islands 14 September 2010 | Registered capital of US$5 | 100 | – | Investment holding |
| Schnell Holding Ltd. | Hong Kong, the PRC 29 October 2010 | Registered capital of HK$10,000 | – | 100 | Investment holding |
| Allegro Auto International Ltd. | British Virgin Islands 14 September 2010 | Registered capital of US$5 | 100 | – | Investment holding |
| Spring Oasis Investments Limited | Hong Kong, the PRC 13 September 2010 | Registered capital of HK$10,000 | – | 100 | Investment holding |
| Spring Oasis Investments Holding Limited | Cayman Islands 28 October 2011 | Registered capital of US$50,000 | – | 100 | Investment holding |
| Fresca International Ltd. | British Virgin Islands 14 September 2010 | Registered capital of US$5 | 100 | – | Investment holding |
| Stay Success Limited | Hong Kong, the PRC 13 September 2010 | Registered capital of HK10,000 | – | 100 | Investment holding |
| Presto Auto International Ltd. | British Virgin Islands 14 September 2010 | Registered capital of US$5 | 100 | – | Investment holding |
| Treasure Path Holdings Limited | Hong Kong, the PRC 13 September 2010 | Registered capital of HK$10,000 | – | 100 | Investment holding |
| Vivace Auto International Ltd. | British Virgin Islands 14 September 2010 | Registered capital of US$5 | 100 | – | Investment holding |
| True Worth Investments Limited | Hong Kong, the PRC 13 September 2010 | Registered capital of HK$10,000 | – | 100 | Investment holding |

## 42. INVESTMENTS IN SUBSIDIARIES *(Continued)*

| Name | Place and date of incorporation/ registration and place of operations | Registered capital | Percentage of ownership interest Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| Rundong Automobile Group Co., Ltd. 潤東汽車集團有限公司 | Xuzhou, the PRC 3 March 1998 | Registered capital of RMB1,791,999,800 | – | 100 | Investment holding |
| Xuzhou Rundong Jiaoguang Automobile Sales and Services Company Limited 徐州潤東交廣汽車營銷管理有限公司 | Xuzhou, the PRC 10 June 2008 | Registered capital of RMB107,150,000 | – | 100 | Investment holding |
| Xuzhou Rundong Automobile Sales Management Company Limited 徐州潤東汽車營銷管理有限公司 | Xuzhou, the PRC 20 June 2003 | Registered capital of RMB204,090,000 | – | 100 | Investment holding |
| Xuzhou Yuemei Automobile Sales Management Company Limited 徐州悅美汽車營銷管理有限公司 | Xuzhou, the PRC 20 September 2010 | Registered capital of RMB50,000,000 | – | 100 | Investment holding |
| Shanghai Baojing Automobile Sales and Services Company Limited. 上海寶景汽車銷售服務有限公司 | Shanghai, the PRC 6 July 2010 | Registered capital of RMB20,000,000 | – | 100 | Sale and service of motor vehicles |
| Shanghai Baojing Xingcheng Automobile Sales and Services Company Limited 上海寶景星誠汽車銷售服務有限公司 | Shanghai, the PRC 26 November 2010 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Shanghai Baojing Yuejie Automobile Services Company Limited 上海寶景悅捷汽車服務有限公司 | Shanghai, the PRC 13 December 2011 | Registered capital of RMB500,000 | – | 100 | Service of motor vehicles |
| Shanghai Jierun Automobile Sales and Services Company Limited 上海捷潤汽車銷售服務有限公司 | Shanghai, the PRC 19 September 2011 | Registered capital of RMB40,000,000 | – | 100 | Sale and service of motor vehicles |
| Xuzhou Baojing Automobile Sales Services Company Limited 徐州寶景汽車銷售服務有限公司 | Xuzhou, the PRC 6 March 2007 | Registered capital of RMB20,000,000 | – | 100 | Sale and service of motor vehicles |

## 42. INVESTMENTS IN SUBSIDIARIES *(Continued)*

| Name | Place and date of incorporation/ registration and place of operations | Registered capital | Percentage of ownership interest Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| Xuzhou Baojing Runbao Automobile Sales and Services Company Limited 徐州寶景潤寶汽車銷售服務有限公司 | Xuzhou, the PRC 12 April 2011 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Xuzhou Rundong Ruijing Automobile Sales and Services Company Limited 徐州潤東瑞景汽車銷售服務有限公司 | Xuzhou, the PRC 24 November 2004 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Xuzhou Rongchuang Automobile Services Company Limited 徐州融創車業服務有限公司 | Xuzhou, the PRC 16 March 2010 | Registered capital of RMB1,000,000 | – | 100 | Service of motor vehicles |
| Xuzhou Rundong Huijing Automobile Sales & Services Co., Ltd. 徐州潤東匯景汽車銷售服務有限公司 | Xuzhou, the PRC 26 September 2002 | Registered capital of RMB5,000,000 | – | 100 | Sale and service of motor vehicles |
| Xuzhou Rundong Pre-owned Automobiles Trading Company Limited 徐州潤東二手車交易市場有限公司 | Xuzhou, the PRC 19 June 2009 | Registered capital of RMB3,000,000 | – | 100 | Service of motor vehicles |
| Xuzhou Dongchen Automobile Sales Services Company Limited 徐州東辰汽車銷售服務有限公司 | Xuzhou, the PRC 13 September 2002 | Registered capital of RMB13,000,000 | – | 100 | Sale and service of motor vehicles |
| Xuzhou Rundong Huitong Automobile Sales Services Company Limited 徐州潤東匯通汽車銷售服務有限公司 | Xuzhou, the PRC 12 June 2003 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Xuzhou Rundong Fengtian Automobile Sales Services Company Limited 徐州潤東豐田汽車銷售服務有限公司 | Xuzhou, the PRC 14 April 2006 | Registered capital of RMB15,000,000 | – | 100 | Sale and service of motor vehicles |

## 42. INVESTMENTS IN SUBSIDIARIES *(Continued)*

| Name | Place and date of incorporation/ registration and place of operations | Registered capital | Percentage of ownership interest Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| Xuzhou Rundong Zhitian Automobile Sales and Services Company Limited 徐州潤東之田汽車銷售服務有限公司 | Xuzhou, the PRC 4 December 2005 | Registered capital of RMB15,000,000 | – | 100 | Sale and service of motor vehicles |
| Xuzhou Rundong Zhouji Automobile Sales Services Company Limited 徐州潤東洲際汽車銷售服務有限公司 | Xuzhou, the PRC 29 March 2004 | Registered capital of RMB12,000,000 | – | 100 | Sale and service of motor vehicles |
| Xuzhou Rundong Jiahua Automobile Sales and Services Company Limited 徐州潤東嘉華汽車銷售服務有限公司 | Xuzhou, the PRC 25 May 2004 | Registered capital of RMB12,000,000 | – | 100 | Sale and service of motor vehicles |
| Xuzhou Rundong Automobile Trading Company Limited 徐州潤東汽車貿易有限公司 | Xuzhou, the PRC 13 July 2001 | Registered capital of RMB13,000,000 | – | 100 | Sale and service of motor vehicles |
| Xuzhou Huifeng Lexus Automobile Sales and Services Company Limited 徐州匯豐雷克薩斯汽車銷售服務有限公司 | Xuzhou, the PRC 28 February 2006 | Registered capital of RMB30,000,000 | – | 100 | Sale and service of motor vehicles |
| Xuzhou Jierun Automobile Sales and Services Company Limited 徐州捷潤汽車銷售服務有限公司 | Xuzhou, the PRC 27 July 2011 | Registered capital of RMB16,000,000 | – | 100 | Sale and service of motor vehicles |
| Maanshan City Baojing Automobile Sales and Services Company Limited 馬鞍山市寶景汽車銷售服務有限公司 | Maanshan, the PRC 10 December 2010 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Nantong Runbaohang Automobile Sales and Services Company Limited 南通潤寶行汽車銷售服務有限公司 | Nantong, the PRC 28 June 2010 | Registered capital of RMB12,000,000 | – | 100 | Sale and service of motor vehicles |

## 42. INVESTMENTS IN SUBSIDIARIES *(Continued)*

| Name | Place and date of incorporation/ registration and place of operations | Registered capital | Percentage of ownership interest Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| Huzhou Runzhiyi Automobile Sales and Services Company Limited 湖州潤之翼汽車銷售服務有限公司 | Huzhou, the PRC 9 June 2011 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Huzhou Baojing Automobile Sales and Services Company Limited 湖州寶景汽車銷售服務有限公司 | Huzhou, the PRC 28 May 2010 | Registered capital of RMB30,000,000 | – | 100 | Sale and service of motor vehicles |
| Huaian Baotielong Automobile Sales and Services Company Limited 淮安寶鐵龍汽車銷售有限公司 | Huaian, the PRC 25 February 2011 | Registered capital of RMB15,000,000 | – | 100 | Sale and service of motor vehicles |
| Huaian Rundong Zhifu Automobile Sales and Services Company Limited 淮安潤東之福汽車銷售服務有限公司 | Huaian, the PRC 6 April 2006 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Huaian Rundong Huifeng Automobile Sales Services Company Limited 淮安潤東匯豐汽車銷售服務有限公司 | Huaian, the PRC 24 September 2007 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Huaian Rundong Renheng Automobile Sales and Services Company Limited 淮安潤東仁恆汽車銷售服務有限公司 | Huaian, the PRC 29 March 2007 | Registered capital of RMB13,000,000 | – | 100 | Sale and service of motor vehicles |
| Huaian Baojing Automobile Sales and Services Company Limited 淮安寶景汽車銷售服務有限公司 | Huaian, the PRC 20 January 2010 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Lianyungang Tianlan Automobile Sales and Services Company Limited 連雲港天瀾汽車銷售服務有限公司 | Lianyungang, the PRC 1 July 2004 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Lianyungang Tianlan Fengtian Automobile Sales and Services Company Limited 連雲港天瀾豐田汽車銷售服務有限公司 | Lianyungang, the PRC 25 April 2006 | Registered capital of RMB12,000,000 | – | 100 | Sale and service of motor vehicles |

## 42. INVESTMENTS IN SUBSIDIARIES *(Continued)*

| Name | Place and date of incorporation/ registration and place of operations | Registered capital | Percentage of ownership interest Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| | | | % | % | |
| Lianyungang Rundong Tianyue Automobile Sales and Services Company Limited 連雲港潤東天裕汽車銷售服務有限公司 | Lianyungang, the PRC 10 January 2008 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Lianyungang Zhibao Automobile Sales and Services Company Limited 連雲港之寶汽車銷售服務有限公司 | Lianyungang, the PRC 22 April 2009 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Suqian Runkai Automobile Sales and Services Company Limited 宿遷潤凱汽車銷售服務有限公司 | Suqian, the PRC 15 August 2011 | Registered capital of RMB15,000,000 | – | 100 | Sale and service of motor vehicles |
| Yantai Runjie Automobile Sales and Services Company Limited 煙台潤捷汽車銷售服務有限公司 | Yantai, the PRC 16 September 2011 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Qingdao Baojing Automobile Sales and Services Company Limited 青島寶景汽車銷售服務有限公司 | Qingdao, the PRC 16 September 2011 | Registered capital of RMB20,000,000 | – | 100 | Sale and service of motor vehicles |
| Suzhou Baojing Automobile Sales and Services Company Limited 蘇州市寶景汽車銷售服務有限公司 | Suzhou, the PRC 24 November 2011 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Linyi Baojing Automobile Sales and Services Company Limited 臨沂寶景汽車銷售服務有限公司 | Linyi, the PRC 14 April 2011 | Registered capital of RMB30,000,000 | – | 100 | Sale and service of motor vehicles |
| Taizhou Baojing Automobile Sales and Services Company Limited 泰州寶景汽車銷售服務有限公司 | Taizhou, the PRC 1 March 2011 | Registered capital of RMB21,000,000 | – | 100 | Sale and service of motor vehicles |
| Zaozhuang Baojing Automobile Sales and Services Company Limited 棗莊寶景汽車銷售服務有限公司 | Zaozhuang, the PRC 14 April 2011 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |

## 42. INVESTMENTS IN SUBSIDIARIES *(Continued)*

| Name | Place and date of incorporation/ registration and place of operations | Registered capital | Percentage of ownership interest Direct % | Percentage of ownership interest Indirect % | Principal activities |
|---|---|---|---|---|---|
| Rizhao Baojing Automobile Sales Company Limited 日照寶景汽車銷售服務有限公司 | Rizhao, the PRC 12 March 2012 | Registered capital of RMB17,000,000 | – | 100 | Sale and service of motor vehicles |
| Lianyungang Runhe Automobile Sales and Services Company Limited 連雲港潤合汽車銷售有限公司 | Lianyungang, the PRC 10 August 2012 | Registered capital of RMB20,000,000 | – | 100 | Sale and service of motor vehicles |
| Nanjing Baojing Automobile Sales and Services Company Limited 南京寶景汽車銷售服務有限公司 | Nanjing, the PRC 25 May 2012 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Yancheng Baojing Automobile Sales and Services Company Limited 鹽城寶景汽車銷售服務有限公司 | Yancheng, the PRC 1 August 2012 | Registered capital of RMB20,000,000 | – | 100 | Sale and service of motor vehicles |
| Linyi Aofeng Automobile Sales and Services Company Limited 臨沂奧豐汽車銷售服務有限公司 | Linyi, the PRC 18 May 2011 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Linyi Jinhua Automobile Sales and Services Company Limited 臨沂金華汽車銷售服務有限公司 | Linyi, the PRC 29 November 2002 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Linyi Jialun Automobile Insurance Brokerage Co., Ltd. 臨沂佳輪汽車保險代理有限公司 | Linyi, the PRC 23 May 2012 | Registered capital of RMB3,000,000 | – | 100 | Brokerage of automobile insurance |
| Zaozhuang Aowei Automobile Sales and Services Company 棗莊奧威汽車銷售服務有限公司 | Zaozhuang, the PRC 5 May 2008 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Lianyungang Runjie Automobile Sales Company Limited 連雲港潤捷汽車銷售有限公司 | Lianyungang, the PRC 25 April 2013 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |

## 42. INVESTMENTS IN SUBSIDIARIES *(Continued)*

| Name | Place and date of incorporation/ registration and place of operations | Registered capital | Percentage of ownership interest Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| Xuzhou Runzhiyi Automobile Sales and Services Company Limited 徐州潤之意汽車銷售服務有限公司 | Xuzhou, the PRC 26 June 2013 | Registered capital of RMB20,000,000 | – | 100 | Sale and service of motor vehicles |
| Huai'an Runbaohang Automobile Sales and Services Company Limited 淮安潤寶行汽車銷售服務有限公司 | Huaian, the PRC 11 July 2013 | Registered capital of RMB20,000,000 | – | 100 | Sale and service of motor vehicles |
| Jinan Runzhiyi Automobile Sales and Services Company Limited 濟南潤之意汽車銷售服務有限公司 | Jinan, the PRC 23 July 2013 | Registered capital of RMB30,000,000 | – | 100 | Sale and service of motor vehicles |
| Hong Kong Gen-kun Investment Co., Limited | Hong Kong, the PRC 25 July 2011 | Registered capital of HK$10,000 | – | 100 | Investment holding |
| Huiyu (Shanghai) Financing and Leasing Company 匯譽(上海)融資租賃有限公司 | Shanghai, the PRC 30 September 2013 | Registered capital of US$30,000,000 | – | 100 | Automobile financing and leasing |
| Nanjing Runzhiyi Automobile Sales and Services Company Limited 南京潤之意汽車銷售服務有限公司 | Nanjing, the PRC 4 March 2014 | Registered capital of RMB50,000,000 | – | 100 | Sale and service of motor vehicles |
| Suzhou Runbaohang Automobile Services Company Limited 蘇州潤寶行汽車服務有限公司 | Suzhou, the PRC 27 February 2014 | Registered capital of RMB3,000,000 | – | 100 | Service of motor vehicles |
| Shanghai Jingbao Automobile Services Company Limited 上海景寶汽車服務有限公司 | Shanghai, the PRC 12 May 2014 | Registered capital of RMB5,000,000 | – | 100 | service of motor vehicles |
| Shanghai Zhilian Automobile Sales and Services Company Limited 上海智聯汽車銷售服務有限公司 | Shanghai, the PRC 3 June 2014 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |

## 42. INVESTMENTS IN SUBSIDIARIES *(Continued)*

| Name | Place and date of incorporation/ registration and place of operations | Registered capital | Percentage of ownership interest Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| Shanghai Puyuan Automobile Sales and Services Company Limited 上海浦源汽車銷售服務有限公司 | Shanghai, the PRC 7 November 2014 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Zhangjiagang Free Trade Zone Zhibao Automobile Sales and Services Company Limited 張家港保税區智寶汽車銷售服務有限公司 | Zhangjiagang, the PRC 7 November 2014 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Xuzhou Jingzhong Automobile Sales and Services Company Limited 徐州景眾汽車銷售服務有限公司 | Xuzhou, the PRC 28 November 2014 | Registered capital of RMB5,000,000 | – | 100 | Sale and service of motor vehicles |
| Xuzhou Zhixin Automobile Services Company Limited 徐州智信汽車服務有限公司 | Xuzhou, the PRC 2 February 2015 | Registered capital of RMB500,000 | – | 100 | Service of motor spare parts |
| Linyi Jialun Automobile Sales and Services Company Limited 臨沂佳輪汽車銷售服務有限公司 | Linyi, the PRC 25 October 1989 | Registered capital of RMB30,000,000 | – | 100 | Sale and service of motor vehicles |
| Linyi Fenghui Automobile Sales and Services Company Limited 臨沂豐匯汽車銷售服務有限公司 | Linyi, the PRC 18 August 2010 | Registered capital of RMB8,000,000 | – | 100 | Sale and service of motor vehicles |
| Linyi Jinyang Automobile Sales and Services Company Limited 臨沂金羊汽車銷售服務有限公司 | Linyi, the PRC 30 June 1999 | Registered capital of RMB8,000,000 | – | 100 | Sale and service of motor vehicles |
| Linyi Jinlun Automobile Sales and Services Company Limited 臨沂金倫汽車銷售服務有限公司 | Linyi, the PRC 22 October 2002 | Registered capital of RMB8,000,000 | – | 100 | Sale and service of motor vehicles |
| Nantong Runzhiyi Automobile Sales and Services Company Limited 南通潤之意汽車銷售服務有限公司 | Nantong, the PRC 3 July 2015 | Registered capital of RMB30,000,000 | – | 100 | Sale and service of motor vehicles |

## 42. INVESTMENTS IN SUBSIDIARIES *(Continued)*

| Name | Place and date of incorporation/ registration and place of operations | Registered capital | Percentage of ownership interest Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| Shanghai Puze Automobile Sales and Services Company Limited 上海浦澤汽車銷售服務有限公司 | Shanghai, the PRC 29 October 2015 | Registered capital of RMB2,000,000 | – | 100 | Sale and service of motor vehicles |
| Xuzhou Baozun Automobile Sales and Services Company Limited 徐州寶尊汽車銷售服務有限公司 | Xuzhou, the PRC 29 February 2012 | Registered capital of RMB25,500,000 | – | 100 | Sale and service of motor vehicles |
| Suqian Baozun Automobile Sales and Services Company Limited 宿遷寶尊汽車銷售服務有限公司 | Suqian, the PRC 25 November 2011 | Registered capital of RMB16,500,000 | – | 100 | Sale and service of motor vehicles |
| Xuzhou Kainuo Automobile Sales and Services Company Limited 徐州凱諾汽車銷售服務有限公司 | Xuzhou, the PRC 14 January 2013 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Xuzhou Weichen Shenlan Automobile Sales and Services Company Limited 徐州維辰深藍汽車銷售服務有限公司 | Xuzhou, the PRC 29 March 2013 | Registered capital of RMB25,000,000 | – | 100 | Sale and service of motor vehicles |
| Nanjing Zhihang Automobile Sales and Services Company Limited 南京智航汽車銷售服務有限公司 | Nanjing, the PRC 28 December 2015 | Registered capital of RMB1,000,000 | – | 100 | Sale and service of motor vehicles |
| Huainan Xin'ao Automobile Sales and Services Company Limited 淮南鑫澳汽車銷售服務有限公司 | Huainan, the PRC 22 December 2014 | Registered capital of RMB10,000,000 | – | 60 | Sale and service of motor vehicles |
| Chongqing Zhilan Automobile Sales and Services Company Limited 重慶智瀾汽車銷售服務有限公司 | Chongqing, the PRC 25 March 2016 | Registered capital of RMB100,000,000 | – | 100 | Sale and service of motor vehicles |
| Yangzhou Huawei Automobile Investment Management Company Limited 揚州華為汽車投資管理有限公司 | Yangzhou, the PRC 19 November 2013 | Registered capital of RMB733,000,000 | – | 100 | Sale and service of motor vehicles/I.C |

## 42. INVESTMENTS IN SUBSIDIARIES *(Continued)*

| Name | Place and date of incorporation/ registration and place of operations | Registered capital | Percentage of ownership interest Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| Jiangsu Jin'ao Automobile Sales and Services Company Limited 江蘇金澳汽車銷售服務有限公司 | Yangzhou, the PRC 4 August 2004 | Registered capital of RMB80,000,000 | – | 100 | Sale and service of motor vehicles |
| Yangzhou Jindi Automobile Sales and Services Company Limited 揚州金迪汽車銷售服務有限公司 | Yangzhou, the PRC 5 March 2014 | Registered capital of RMB70,000,000 | – | 100 | Sale and service of motor vehicles |
| Dalian Shenlan Automobile Sales and Services Company Limited 大連深藍汽車銷售服務有限公司 | Dalian, the PRC 9 September 2011 | Registered capital of RMB85,000,000 | – | 100 | Sale and service of motor vehicles |
| Zhenjiang Jin'ao Automobile Sales and Services Company Limited 鎮江金奧汽車銷售服務有限公司 | Zhenjiang, the PRC 2 April 2013 | Registered capital of RMB30,000,000 | – | 100 | Sale and service of motor vehicles |
| Jiangsu Jintaiyang Automobile Sales and Services Company Limited 江蘇金太陽汽車銷售服務有限公司 | Yangzhou, the PRC 20 September 2002 | Registered capital of RMB30,000,000 | – | 100 | Sale and service of motor vehicles |
| Jiangsu Jintaiyang Ruizhong Automobile Trading Company Limited 江蘇金太陽瑞眾汽車貿易有限公司 | Yangzhou, the PRC 14 January 2013 | Registered capital of RMB50,000,000 | – | 100 | Sale and service of motor vehicles |
| Yangzhou Jintong Automobile Sales and Services Company Limited 揚州金通汽車銷售服務有限公司 | Yangzhou, the PRC 13 April 2012 | Registered capital of RMB20,000,000 | – | 100 | Sale and service of motor vehicles |
| Yangzhou Jinhu Automobile Sales and Services Company Limited 揚州金滬汽車銷售服務有限公司 | Yangzhou, the PRC 15 November 2012 | Registered capital of RMB20,000,000 | – | 100 | Sale and service of motor vehicles |
| Yangzhou Jinmai Automobile Sales and Services Company Limited 揚州金邁汽車銷售服務有限公司 | Yangzhou, the PRC 15 November 2012 | Registered capital of RMB20,000,000 | – | 100 | Sale and service of motor vehicles |

## 42. INVESTMENTS IN SUBSIDIARIES *(Continued)*

| Name | Place and date of incorporation/ registration and place of operations | Registered capital | Percentage of ownership interest Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| Taizhou Jintaiyang Automobile Trading Company Limited 泰州金太陽汽車貿易有限公司 | Taizhou, the PRC 15 March 2010 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Taizhou Jinbang Automobile Sales and Services Company Limited 泰州金邦汽車銷售服務有限公司 | Taizhou, the PRC 10 December 2012 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Taizhou Jin'ao Automobile Sales and Services Company Limited 泰州金翺汽車銷售服務有限公司 | Taizhou, the PRC 21 February 2013 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Taizhou Jinkun Automobile Sales and Services Company Limited 泰州金坤汽車銷售服務有限公司 | Taizhou, the PRC 22 February 2013 | Registered capital of RMB30,000,000 | – | 85 | Sale and service of motor vehicles |
| Taizhou Jinpu Automobile Sales and Services Company Limited 泰州金浦汽車銷售服務有限公司 | Taizhou, the PRC 21 January 2013 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Zhenjiang Jinwei Automobile Sales and Services Company Limited 鎮江金煒汽車銷售服務有限公司 | Zhenjiang, the PRC 12 October 2013 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Yangzhou De'ao Automobile Services Company Limited 揚州德澳汽車服務有限公司 | Yangzhou, the PRC 22 March 2010 | Registered capital of RMB12,000,000 | – | 100 | Service of motor vehicles |
| Yangzhou Ruiao Automobile Sales and Services Company Limited 揚州瑞澳汽車銷售服務有限公司 | Yangzhou, the PRC 20 November 2014 | Registered capital of RMB10,000,000 | – | 100 | Sale and service of motor vehicles |
| Changzhou Ruida Automobile Sales and Services Company Limited 常州瑞達汽車銷售服務有限公司 | Changzhou, the PRC 26 May 2011 | Registered capital of RMB188,000,000 | – | 100 | Sale and service of motor vehicles |
| Changzhou Shangrui Kaidi Automobile Sales and Services Company Limited 常州上瑞凱迪汽車銷售服務有限公司 | Changzhou, the PRC 3 March 2010 | Registered capital of RMB321,320,000 | – | 100 | Sale and service of motor vehicles |

## 42. INVESTMENTS IN SUBSIDIARIES *(Continued)*

| Name | Place and date of incorporation/ registration and place of operations | Registered capital | Percentage of ownership interest Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| Changzhoushi Shangrui Automobile Sales and Services Company Limited 常州市上瑞汽車銷售服務有限公司 | Changzhou, the PRC 28 September 2009 | Registered capital of RMB74,000,000 | – | 100 | Sale and service of motor vehicles |
| Beijing Yizhibao Automobile Sales and Services Company Limited 北京易至寶汽車銷售服務有限公司 | Beijing, the PRC 14 June 2016 | Registered capital of RMB30,000,000 | – | 70 | Sale and service of motor vehicles/I.C |
| Shanghai Xingang Automobile Services Company Limited 上海新港汽車銷售服務有限公司 | Shanghai, the PRC 29 March 2006 | Registered capital of RMB18,180,000 | – | 100 | Sale and service of motor vehicles |
| Nanjing Wandeyou Automobile Services Company Limited 南京萬德友汽車銷售服務有限公司 | Nanjing, the PRC 19 October 2010 | Registered capital of RMB70,000,000 | – | 100 | Sale and service of motor vehicles |
| Nanjing Xingang Automobile Services Company Limited 南京新港汽車銷售服務有限公司 | Nanjing, the PRC 27 December 2000 | Registered capital of RMB24,150,000 | – | 100 | Sale and service of motor vehicles |
| Nanjing Changfu Xingang Automobile Services Company Limited 南京長福新港汽車銷售服務有限公司 | Nanjing, the PRC 02 June 2005 | Registered capital of RMB20,500,000 | – | 100 | Sale and service of motor vehicles |
| Nanjing Suifeng Xingang Automobile Services Company Limited 南京穗豐新港汽車銷售服務有限公司 | Nanjing, the PRC 23 December 2005 | Registered capital of RMB21,540,000 | – | 100 | Sale and service of motor vehicles |
| Linyi Runzhiyi Automobile Sales and Services Company Limited 臨沂潤之意汽車銷售服務有限公司 | Linyi, the PRC 28 September 2016 | Registered capital of RMB20,000,000 | – | 100 | Sale and service of motor vehicles |
| Shanghai Jierun Rongjie Automobile Sales and Service Company Limited 上海捷潤榮捷汽車銷售服務有限公司 | Shanghai, the PRC 17 July 2018 | Registered capital of RMB2,000,000 | – | 100 | Sale and service of motor vehicles |

## 42. INVESTMENTS IN SUBSIDIARIES *(Continued)*

| Name | Place and date of incorporation/ registration and place of operations | Registered capital | Percentage of ownership interest Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| Tengzhou Runbaohang Automobile Services Company Limited 滕州潤寶行汽車服務有限公司 | Tengzhou, the PRC 12 November 2015 | Registered capital of RMB5,000,000 | – | 100 | Service of motor spare parts |
| Yunnan Rundong Automobile Sales Management Company Limited 雲南潤東汽車營銷管理有限公司 | Yunnan, the PRC 5 December 2017 | Registered capital of RMB50,000,000 | – | 100 | Investment holding |
| Zaozhuang Baoyuan Automobile Sales Management Company Limited 棗莊寶源汽車銷售服務有限公司 | Zaozhuang, the PRC 19 November 2009 | Registered capital of RMB5,000,000 | – | 100 | Sales and service of motor vehicles |
| Weifang Runzhiyi Automobile Sales and Services Company Limited 濰坊潤之意汽車銷售服務有限公司 | Weifang, the PRC 16 May 2017 | Registered capital of RMB20,000,000 | – | 100 | Sale and service of motor vehicles |
| Yantai Runzhiyi Automobile Sales and Services Company Limited 煙台潤之意汽車銷售服務有限公司 | Yantai, the PRC 22 February 2017 | Registered capital of RMB20,000,000 | – | 100 | Sale and service of motor vehicles |

## 43. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the balance sheet date, the Company is in the discussion with an independent third party in relation to the Company's proposed disposal (the "**Proposed Disposal**") of its entire equity interests in certain subsidiaries (the "**Disposing Subsidiaries**"). The Disposing Subsidiaries mainly engaged in the operation of automobile dealerships stores located primarily in Shandong, Anhui, Jiangsu, Zhejiang and Shanghai in the PRC. If the Proposed Disposal proceeds, it is currently expected that the Proposed Disposal may constitute a very substantial disposal for the Company under Chapter 14 of the Listing Rules and the Company shall comply with the relevant disclosure and/or shareholders' approval requirements under the Listing Rules where appropriate. A further announcement will be made as and when appropriate.

## 44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Investments in subsidiaries | **4,329,049** | 4,329,021 |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | **4,714** | 7,359 |
| Due from subsidiaries | **330,761** | 322,975 |
| **Total current assets** | **335,475** | 330,334 |
| **TOTAL ASSETS** | **4,664,524** | 4,659,355 |
| **CURRENT LIABILITIES** | | |
| Other payables and accruals | **13,971** | 13,320 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | **4,650,553** | 4,646,035 |
| **NET ASSETS** | **4,650,553** | 4,646,035 |
| **EQUITY** | | |
| Share capital | **5** | 5 |
| Reserves *(note)* | **4,650,548** | 4,646,030 |
| **TOTAL EQUITY** | **4,650,553** | 4,646,035 |

Note:

A summary of the Company's reserves is as follows:

| | Share option reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|
| Balance at 1 January 2017 | 8,571 | 4,642,448 | 4,651,019 |
| Total comprehensive income for the year | – | (5,279) | (5,279) |
| Equity-settled share option arrangements | 290 | – | 290 |
| At 31 December 2017 and 1 January 2018 | 8,861 | 4,637,169 | 4,646,030 |
| Total comprehensive income for the year | **–** | **4,493** | **4,493** |
| Equity-settled share option arrangements | **25** | **–** | **25** |
| At 31 December 2018 | **8,886** | **4,641,662** | **4,650,548** |

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

## 45. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of the new and revised HKFRSs during the current year, the accounting treatment and presentation and disclosures of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and disclosures.

## 46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of the Directors on 28 March 2019.

CHINA RUNDONG AUTO GROUP LIMITED
中國潤東汽車集團有限公司