中升集團控股有限公司
ZHONGSHENG GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 881

Annual Report **2018**

Zhongsheng Group
LIFETIME PARTNER
中升集團 · 終生夥伴

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Huang Yi *(Chairman)*
Mr. Li Guoqiang *(President and CEO)*
Mr. Du Qingshan
Mr. Yu Guangming
Mr. Si Wei
Mr. Zhang Zhicheng

NON-EXECUTIVE DIRECTORS

Mr. Pang Yiu Kai
Mr. Cheah Kim Teck

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Shen Jinjun
Mr. Lin Yong
Mr. Ying Wei
Mr. Chin Siu Wa Alfred (appointed on 10 August 2018)
Mr. Shoichi Ota (retired on 11 June 2018)

CORPORATE HEADQUARTERS

No. 20 Hequ Street
Shahekou District
Dalian
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1803–09
18th Floor, Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong

REGISTERED OFFICE

P.O. Box 10008
Willow House, Cricket Square
Grand Cayman KY1-1001
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Services (Cayman Islands) Limited
P.O. Box 10008
Willow House, Cricket Square
Grand Cayman KY1-1001
Cayman Islands

LEGAL ADVISERS AS TO HONG KONG LAW

White & Case
9th Floor, Central Tower
28 Queen's Road Central
Central, Hong Kong

JOINT COMPANY SECRETARIES

Ms. Kam Mei Ha Wendy (resigned on 1 April 2019)
Ms. Mak Sze Man
Ms. Yao Zhenchao (appointed on 1 April 2019)

AUTHORIZED REPRESENTATIVES

Mr. Huang Yi
Ms. Kam Mei Ha Wendy (resigned on 1 April 2019)
Ms. Yao Zhenchao (appointed on 1 April 2019)

AUDIT COMMITTEE

Mr. Ying Wei *(Chairman)*
Mr. Shen Jinjun
Mr. Lin Yong

REMUNERATION COMMITTEE

Mr. Lin Yong *(Chairman)*
Mr. Li Guoqiang
Mr. Shen Jinjun

NOMINATION COMMITTEE

Mr. Shen Jinjun *(Chairman)*
Mr. Huang Yi
Mr. Lin Yong

COMPLIANCE COMMITTEE

Mr. Du Qingshan *(Chairman)*
Mr. Huang Yi
Mr. Li Guoqiang

RISK COMMITTEE

Mr. Yu Guangming *(Chairman)*
Mr. Si Wei

BRANCH SHARE REGISTRAR IN HONG KONG

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

STOCK CODE

881

AUDITORS

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

CHAIRMAN'S STATEMENT

Huang Yi
Chairman

Dear Honourable Shareholders,

On behalf of the board of directors (the "**Board**") of Zhongsheng Group Holdings Limited ("**Zhongsheng Group**" or the "**Company**"), I am very pleased to present the annual report of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2018 (the "**Reporting Period**").

The global external economic environment was in turmoil in 2018, however, China's national economy has progressed with stability. In 2018, China's annual gross domestic product had exceeded RMB90 trillion for the first time with a 6.6% increase as compared to the previous year, and achieved its expected development target set out in the beginning of the year. When calculated at the average exchange rate, the total economic output reached US$13.6 trillion and ranked second in the world. Apart from the total economic output, China's quality in development has also achieved breakthroughs as many targets were met and some even exceeded expectations. The added value of tertiary production industry amounted to RMB46.9575 trillion, representing an increase of 7.6% year-on-year. These demonstrated that China is still the most powerful "generator" for the global economic growth against the backdrop of the international economy slowdown.

In terms of the global automobile markets distribution, China continued to maintain its leading position and ranked number one with its 30% market share. According to the latest statistics released by the China Association of Automobile Manufacturers, China's 2018 automobile production and sales volume were 27.8092 million units and 28.0806 million units respectively, a decrease of 4.16% and 2.76% respectively as compared to the previous year. Among them, the production and sales volume of passenger vehicles were 23.5294 million units and 23.7098 million units respectively, a decrease of 5.15% and 4.08% respectively as compared to the previous year. In 2018, the overall performance of the automobile industry was stable. However, as affected by the fluctuations in the international markets as well as the macro economies, the production and sales volume were slightly lower than expected in the beginning of the year. The total sales of automobiles in the Chinese market has experienced its first drop since 1995, but the majority are one-time re-adjustment after many years of rapid growth. At the same time, development differentiations of various automobile brands have gradually emerged, and luxury brands have also experienced significant growth with the aid of their brand advantages and product competitiveness. According to the data disclosed by the China Automobile Dealers Association, the total retail sales volume of the twelve main luxury brands such as Mercedes-Benz, Audi, BMW, Lexus and Volvo has reached 2.87 million units for the entire year of 2018, a year-on-year increase of 10.7%. After an active growth era, the market is gradually entering into maturity.

In 2018, the Group has continued to pursue its pace for innovation and experienced a steady development in all business segments. As at 31 December 2018, the Group has recorded a revenue of RMB107,735.7 million and achieved a breakthrough of RMB100 billion for the first time, representing an increase of 24.9% as compared to RMB86,290.3 million for the corresponding period in 2017. In particular, the revenue generated from the new automobile sales business amounted to RMB93,221.6 million, representing an increase of 24.8% as compared to RMB74,696.3 million for the corresponding period in 2017. Further, the revenue generated from after-sales and accessories business has increased from RMB11,593.9 million in 2017 to RMB14,514.0 million, representing an increase of 25.2%. During the reporting period, profit attributable to owners of the Group's parent company was RMB3,636.6 million, representing an increase of 8.5% as compared to RMB3,350.4 million for the corresponding period in 2017. The earnings per share were RMB1.60 (the corresponding period in 2017: RMB1.52).

2018 was a crucial year for the transformational upgrade of the Chinese automobile market. The Group continued to lead the market trends as it actively participated in market integration, constantly improved its development strategies, continuously optimised its brand portfolio and strengthened its regional advantages, expanded its network layout and improved its management efficiency, where the Group's core competitiveness was fully consolidated and strengthened. As at 31 December 2018, the Group had 318 4S dealerships, covering 24 provincial regions and over 90 cities across China, of which 175 are luxury brand dealerships.

In 2018, the Group continued to focus on innovations and its development has gained a wider recognition from the community and various international and domestic circles. In May, the Group once again topped the list in the "2017 Top 100 Automobile Dealers in the Automobile Dealers Industry of China" issued by China Automobile Dealers Association in respect of to its comprehensive abilities. In July, the Group was again selected as one of the Fortune China 500, an internationally renowned ranking, and ranked 90th. In November, the Group proudly won the 2018 China's Automobile Distribution Industry's "Best Influential Brand Enterprise" Award.

The automobile industry has grown and became one of the pillar industries of the national economy, and China's automobile industry is still at the stage full of strategic developmental opportunities. In view of its growth rate, it would seem that the industry has entered into a new stability. However, given the maturing nature of automobile industry, the gradual improvement in research and development capabilities, the annual release of rigid needs, the increased replacement demands, tremendous production and sales backup, the automobile market is full of unlimited potential business opportunities going forward.

Looking into the future, although China's automobile industry will face challenges and difficulties, there are still opportunities and rooms for development. We will remain firm in our principles and pursue for our original intentions. We will stand by our corporate motto of "Zhongsheng Group — Lifetime Partner" — to strengthen innovation, seize market opportunities, build the Group's corporate culture, improve service quality, optimise management systems and business processes, broaden sales channels, consolidate competitive advantages, and take professional automobile brand services as the cornerstone of our corporate development strategy to help the sustainable development of China's automobile industry, thereby creating higher values to the Group's shareholders, employees and the society.

Facing the competitions and challenges, the Group managed to achieve our achievements today our heartfelt thanks to the loyalty, dedication and contributions of our staff from all departments as well as the trust, support and encouragement from business partners and all shareholders. On behalf of the Board, I would like to express our sincere gratitude to all of you for your valuable contributions to the Group's outstanding development.

Huang Yi
Chairman
Hong Kong, 22 March 2019

CHIEF EXECUTIVE OFFICER'S STATEMENT

Li Guoqiang
President and Chief Executive Officer

MARKET REVIEW

In 2018, as affected by uncertainties such as geopolitical risks, Brexit and Federal Reserve monetary policy, the global economy was slackened with downward pressure. Against the backdrop of both complicated international and domestic environments, China's further deepening reform and opening-up also entered into its critical year. According to the information published by National Bureau of Statistics, for the first time, China's annual gross domestic product ("**GDP**") in 2018 had exceeded RMB90 trillion, registering another record high in terms of economic output and ranked second among the world. The overall economic performance achieved a stable, solid and high-quality progress. In 2018, the number of new urban employment in China reached 13.61 million and remained its over 13 million mark for six consecutive years. The added-value of tertiary industry for the year accounted for 52.2% of GDP, contributing 76.2% to GDP, which further demonstrated that consumption is the main driver of the economy.

As a global major automobile maker and seller, China has been the world's number one for nine consecutive years. In 2018, the national car production and sales volume dropped by 4.2% and 2.8% respectively as compared to the same period in 2017, which was resulted from multiple impacts such as macro-environment and policy. Total sales volume of the leading first and second-tier luxury brands still maintained a double-digit growth despite a decline in overall production and sales volume in 2018, among which the retail sales volume of Mercedes-Benz (including Smart and commercial vehicle) reached approximately 700,000 units, representing an increase of 11% year-on-year. The annual sales volume of BMW (including Mini) and Audi amounted to approximately 660,000 units and 659,000 units respectively, representing an increase of 13.7% and 10% year-on-year respectively. By benefiting from the cut in automobile import tariffs, the 2018 annual sales volume of Lexus, our fully imported automobile brand, went beyond 160,000 units, representing a significant increase of 21% year-on-year. All of these reflected the strong demand brought by improved resident consumption capability. It is expected that the trend in consumption upgrading for automobile replacement will continue. At present, the sales volume of luxury brands accounted for approximately 12.5% of the overall sales volume of passenger vehicles, which is way below the matured markets. However, it will provide a tremendous development potential for the continuous growth in luxury brands. We believe that the product competitiveness of superior brands will continue to manifest in the future.

On 22 May 2018, the Tariff Policy Committee of the Chinese State Council announced the reduction of automobile import tariffs to 3%–15% from their original rates. China's initiative to lower the automobile import tariffs was to respond to the needs of further expansion in reform and opening-up, which will be beneficial to increasing imports and promoting the high-quality development of automobile industry under a more open environment. Cutting down automobile import tariffs will further stimulate domestic demand to meet the needs of consumption upgrading, thereby bringing more vitality and dynamics to its economic development.

According to the 2018 National Automobile Ownership statistics released by Ministry of Public Security of China, there were 31.72 million newly registered motor vehicles nationwide in 2018. The national automobile ownership reached 240 million units, representing an increase of 22.85 million units, or 10.51%, over the same period in 2017. In terms of vehicle types, private cars (private small-to-mini-sized passenger vehicles) continued to grow rapidly. In 2018, non-automobile ownership reached 189 million units, representing an average increase of 19.52 million units over the past 5 years, constituting an important part of the automobile ownership growth.

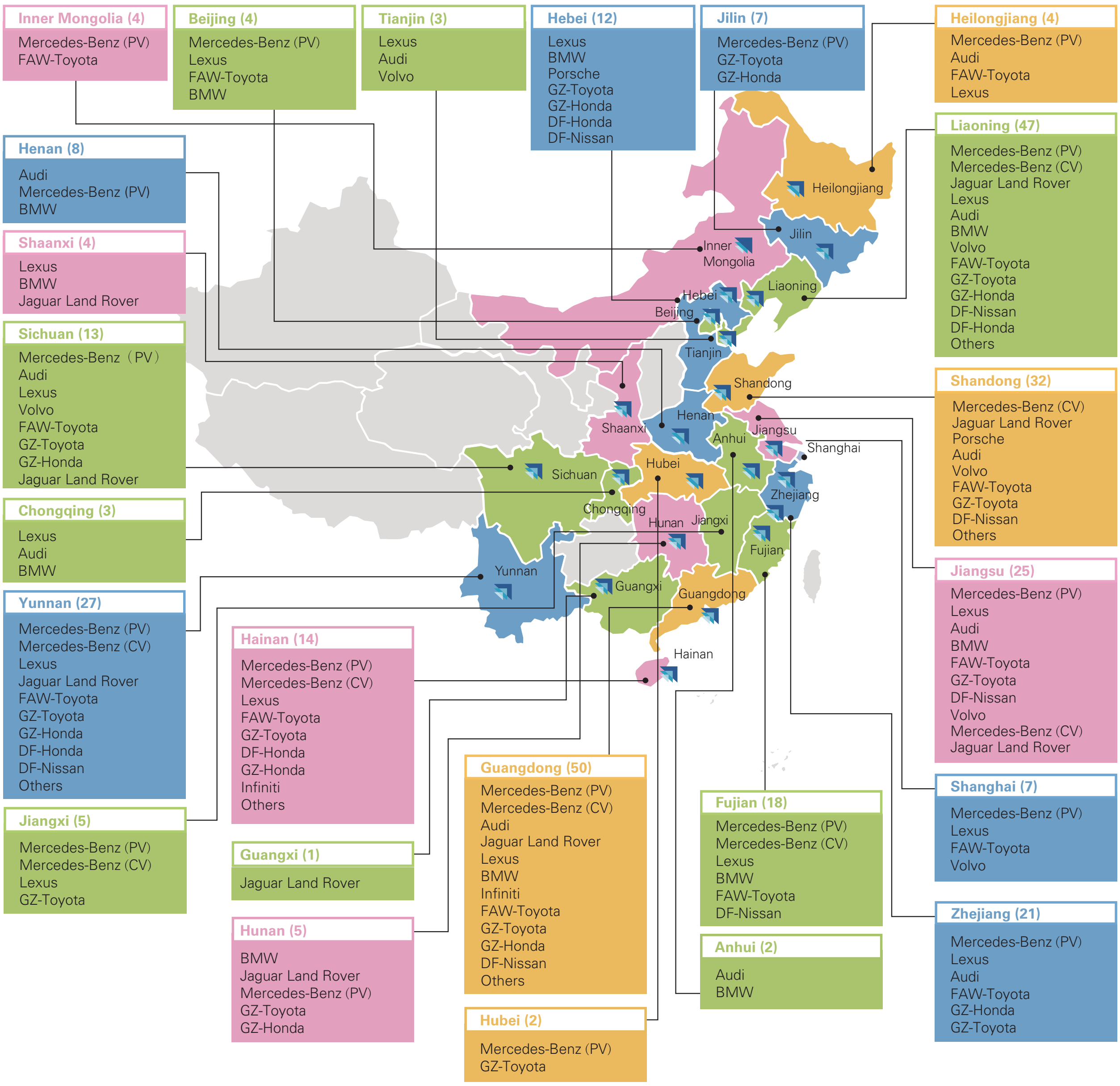
On the other hand, transactions in second-hand automobile market were flourishing. The statistics showed that the total transactions in second-hand automobile nationwide reached 13.8219 million units, representing an increase of 11.5% year-on-year. The development of second-hand automobile market in China would further hit new highs if supported by better and faster industry policy introduction and implementation in the future.

BUSINESS REVIEW

FURTHER PUSH FORWARD THE PORTFOLIO STRATEGY OF "BRAND PLUS REGION" AND IMPROVE NETWORK LAYOUT

By looking at the automobile ownership distribution in 2018, the number of automobile ownership in 61 cities had exceeded 1 million, among which 27 cities having automobile ownership of over 2 million units. 8 cities including Beijing, Chengdu, Chongqing, Shanghai, Suzhou, Zhengzhou, Shenzhen and Xi'an whose number of automobile ownership exceeded 3 million units, while Tianjin, Wuhan and Dongguan, nearly reached 3 million units.

The Group has always been adhering to the strategy of "Brand plus Region", strongly optimizing its current brand portfolio, and continuing to expand new regions based on our enlarged inherent regional advantages at the same time. As of 31 December 2018, the total number of dealerships of the Group increased to 318, including 175 luxury brand dealerships and 143 mid-to-high-end brand dealerships, covering 24 provinces, municipalities and regions, and nearly 90 cities across China. The coverage of the Group's dealerships as of 31 December 2018 was as follows:



	Luxury brands	Mid-to-high-end brands	Total
Northeastern and Northern China regions	31	46	**77**
Eastern and Central China regions	63	31	**94**
Southern China region	46	36	**82**
Southwestern and Northwestern mainland regions	35	30	**65**
Total	175	143	**318**

Currently, the Group's brand portfolio covers luxury brands such as Mercedes-Benz, Lexus, Audi, BMW, Volvo, Jaguar Land Rover and Porsche, as well as mid-to-high-end brands such as Toyota, Nissan and Honda.

CONTINUOUS DEVELOPMENT IN VARIOUS BUSINESSES WITH STABLE INCREASE IN PROFITABILITY

Leveraging on our favourable brand portfolio and regional distribution, in 2018, the Group's new automobile sales volume has achieved 412,017 units, representing a year-on-year increase of 20.7%. Among which, luxury brand sales volume achieved 192,557 units, accounting for 46.7% of the Group's total sales volume, representing a further increase over the same period in 2017 and the continuous optimization of the Group's products structure. The annual revenue from new automobile sales amounted to RMB93,221.6 million, representing a year-on-year increase of 24.8%.

The development of the automobile after-sales market is closely related to the growth of automobile ownerships, as the rapid growth of ownerships will spur the fast development of the automobile after-sales market in China. With the outburst of automobile after-sales market, automobile users are becoming more mature, and the tendency of increasing professionalism and branding in automobile after-sales market is becoming more apparent, so as to satisfy the personal, exquisite and differentiated needs of customers. In 2018, revenue from after-sales and accessories business of the Group reached RMB14,514.0 million, representing a year-on-year increase of 25.2% and accounted for 13.5% of the Group's total revenue.

In 2018, the Group remained its growth in the value-added service sector including car insurance, car finance and second-hand automobiles, achieved an income from value-added service of RMB2,404.4 million for the year, representing an increase of 34.4% year-on-year. The trade volume of second-hand automobiles reached 54,924 units during the year, representing a year-on-year increase of 42.7%. In the fourth quarter of 2018, our financial penetration had exceeded 50%, which demonstrated an enormous development potential in the future.

FUTURE STRATEGIES AND OUTLOOK

Despite a decline in national automobile sales volume in 2018 and the fact that the market has encountered various challenges and difficulties, our population, economic scale and resident income will, however, remain their growth and urbanization would continue to speed up in the medium-to-long term. The ratio of automobile ownerships is around 170 units per 1,000 people at present, which is still far below than developed countries. Therefore, total automobile consumption volume and scale still has tremendous potential for improvement since rigid demands from customers still exist. In the future, the competence of industry participants will be challenged not only in respect to their production capacity and volume, but the inclination to the integration of technologies and services as well as more intensive management and effective operation.

The Group will uphold the people-oriented and customer-first principles, and enhance deep cooperation with industry chain participants to continuously improve customer satisfaction as a goal; strengthen operation and management efficiency and per capita effectiveness; propel refined management and improve distribution networks. Moreover, we will be market-oriented to consider the tremendous development potential of the after-sales market in a bid to maintaining the long-term development potentials and competitive edges of the Company.

All employees, business partners, as well as investors and shareholders of the Group who have been supporting us are our motivators and drive to move forward. In the days to come, all the staff in the Group will unite as one to consolidate our leading industry dealership position, actively prepare for and embrace the upcoming challenges and opportunities, and bring even more satisfying results to all.

Li Guoqiang
President and Chief Executive Officer
Hong Kong, 22 March 2019


EXPERIENCE AMAZING
UX260h
Q7 e-t
quattr
Audi Q7 e-tron
M LA 2686
XF
S90

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

REVENUE

Revenue for the year ended 31 December 2018 was RMB107,735.7 million, representing an increase of RMB21,445.4 million or 24.9% as compared to the corresponding period in 2017, among which, revenue from new automobile sales amounted to RMB93,221.6 million, representing an increase of RMB18,525.3 million or 24.8% as compared to the corresponding period in 2017. Revenue from after-sales and accessories business amounted to RMB14,514.0 million, representing an increase of RMB2,920.1 million or 25.2% as compared to the corresponding period in 2017. The revenue from new automobile sales business accounted for 86.5% of our total revenue in 2018 (2017: 86.6%), and the portion of revenue from after-sales and accessories business was 13.5% in the year of 2018 (2017: 13.4%).

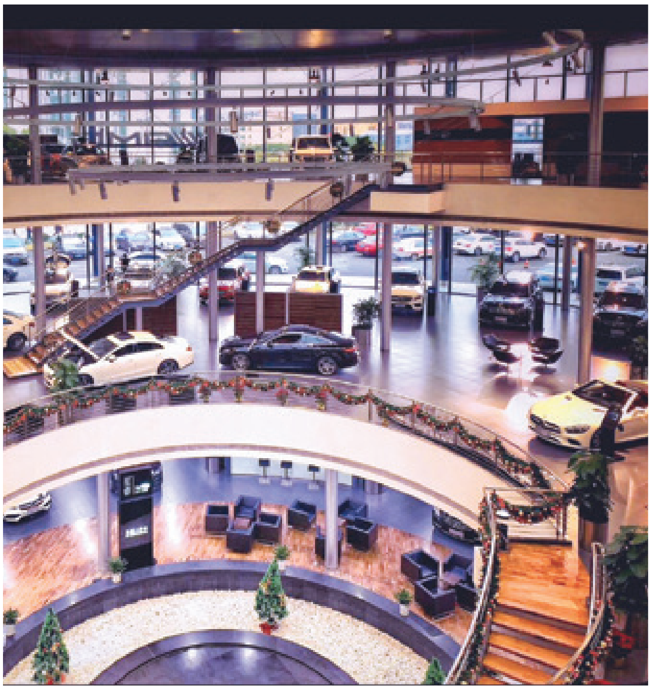
In terms of new automobile sales revenue in 2018, Mercedes-Benz is our top-selling brand, representing approximately 29.7% of our total new automobile sales revenue (2017: 30.6%).

COST OF SALES AND SERVICES

Cost of sales and services for the year ended 31 December 2018 amounted to RMB97,812.5 million, representing an increase of RMB20,206.2 million or 26.0% as compared to the corresponding period in 2017. Cost attributable to our new automobile sales business amounted to RMB90,359.8 million for the year ended 31 December 2018, representing an increase of RMB18,675.2 million or 26.1% as compared to the corresponding period in 2017. Cost attributable to our after-sales and accessories business amounted to RMB7,452.7 million for the year ended 31 December 2018, representing an increase of RMB1,531.1 million or 25.9% as compared to the same period of 2017.

GROSS PROFIT

Gross profit for the year ended 31 December 2018 amounted to RMB9,923.1 million, representing an increase of RMB1,239.1 million or 14.3% as compared to the corresponding period in 2017, of which the gross profit from new automobile sales business amounted to RMB2,861.8 million, representing a decrease of RMB149.9 million or 5.0% as compared to the corresponding period in 2017. Gross profit from after-sales and accessories business was RMB7,061.3 million, representing an increase of RMB1,389.0 million or 24.5% as compared to the corresponding



period of 2017. For the year ended 31 December 2018, the gross profit from after-sales and accessories business accounted for 71.2% of the total gross profit (2017: 65.3%). Our gross profit margin for the year ended 31 December 2018 was 9.2% (2017: 10.1%), of which the gross profit margin of new automobile sales business was 3.1% (2017: 4.0%). Gross profit margin of after-sales and accessories business was 48.7% (2017: 48.9%).

OTHER NET INCOME AND GAINS

The other net income and gains, for the year ended 31 December 2018 amounted to RMB2,561.2 million, representing an increase of RMB718.3 million or 39.0% as compared to the corresponding period in 2017. These mainly consisted of service income from automobile insurance and automobile financing services, gains from second-hand automobile trading business, rental income and interest income, etc.

PROFIT FROM OPERATIONS

Profit from operations for the year ended 31 December 2018 amounted to RMB6,428.4 million, representing an increase of RMB542.9 million or 9.2% as compared to the corresponding period in 2017. Our operating profit margin for the year ended 31 December 2018 was 6.0% (2017: 6.8%).

PROFIT FOR THE YEAR

Our profit for the year ended 31 December 2018 amounted to RMB3,695.3 million, representing an increase of RMB219.4 million or 6.3% as compared to the corresponding period in 2017. Our net profit margin for the year ended 31 December 2018 was 3.4% (2017: 4.0%).

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

Our profit attributable to owners of the parent for the year ended 31 December 2018 was RMB3,636.6 million, representing an increase of RMB286.2 million or 8.5% as compared to the corresponding period in 2017.

NON-HKFRSs MEASURES — ADJUSTED PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

In addition to our consolidated financial statements which are presented in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"), we also provide further information based on the adjusted net profit attributable to owners of the parent as an additional financial measure. We present this financial measure because it is used by our management to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of our business performance. We also believe that these non-HKFRSs measures provide additional information to investors and others, helping them to understand and evaluate our consolidated results of operations in the same manner as our management and to compare financial results across accounting periods and with those of our peer companies.

We define adjusted net profit attributable to owners of the parent as net income or loss attributable to owners of the parent excluding the interest expense of convertible bonds recognised under HKFRSs and using the effective interest rate method, excluding the equity-settled share option expense and adding back the interest expense of convertible bonds calculated based on coupon interest rate for the years ended 31 December 2017 and 2018.

	2018 **RMB'000**	2017 RMB'000
Profit for the year attributable to owners of the parent	**3,636,636**	3,350,413
Add:		
Interest expense of convertible bonds recognised under HKFRSs using the effective interest rate method	**129,413**	68,065
Equity-settled share option expense	**33,367**	—
Less:		
Interest expense of convertible bonds calculated based on coupon interest rate	**—**	24,674
Adjusted profit attributable to owners of the parent	**3,799,416**	3,393,804

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW

Our cash is primarily used to pay for the purchase of new automobiles, spare parts and automobile accessories; repay our indebtedness; fund our working capital and normal operating expenses; establish new dealerships and acquire other dealerships. We finance our liquidity requirements through a combination of cash flows generated from our operating activities and financing activities.

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period under review.

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 markets from time to time in the future.

CASH FLOW GENERATED FROM OPERATING ACTIVITIES

For the year ended 31 December 2018, our net cash generated from operating activities was RMB2,318.0 million, arising from operating profit of RMB7,627.9 million before working capital movement, deducting a net increase in working capital of RMB3,868.8 million and deducting payment of tax of RMB1,441.2 million.

CASH FLOW USED IN INVESTING ACTIVITIES

For the year ended 31 December 2018, our net cash used in investing activities was RMB4,233.1 million, consisting primarily of purchases of property, plant and equipment of RMB2,275.9 million, purchases of land use rights of RMB284.6 million and acquisition of subsidiaries of RMB1,778.0 million, partially offset by proceeds from disposal of items of property, plant and equipment of RMB584.5 million.

CASH FLOW GENERATED FROM FINANCING ACTIVITIES

For the year ended 31 December 2018, our net cash generated from financing activities was RMB3,002.7 million, consisting primarily of proceeds from bank loans and other borrowings of RMB78,577.5 million, net proceeds from issuance of convertible bonds of RMB3,778.8 million and increase in notes payable of RMB439.6 million, partially offset by repayment of bank loans and other borrowings of RMB75,627.6 million, redemption of convertible bonds of RMB2,204.0 million, interest paid for bank loans and other borrowings of RMB1,201.4 million.

NET CURRENT ASSETS

As at 31 December 2018, we had net current assets of RMB3,861.0 million, representing an increase of RMB6,552.9 million from our net current liabilities as at 31 December 2017.

CAPITAL EXPENDITURE AND INVESTMENT

Our capital expenditures comprise expenditures on property, plant and equipment, land use rights and business combinations. For the year ended 31 December 2018, our total capital expenditures were RMB3,781.4 million.

There were no significant investments held as at 31 December 2018. The Group did not have other plans for material investment and capital assets as at 31 December 2018.

INVENTORY ANALYSIS

Our inventories primarily consist of new automobiles, spare parts and automobile accessories. Generally, each of our dealerships independently manages the orders for new automobiles and part of the after-sales products. We also coordinate and aggregate orders for automobile accessories and other automobile-related products across our dealership network. We manage our quotas and inventory levels through our ERP system. Our inventories increased by 46.2% from RMB7,509.8 million as at 31 December 2017 to RMB10,980.5 million as at 31 December 2018. The increase of our inventory balance was primarily due to the expansion of the business scale as well as the preparation for the coming sales peak season before the Chinese Spring Festival in February 2019.

The following table sets forth our average inventory turnover days for the periods indicated:

	Year ended 31 December	
	2018	2017
Average inventory turnover days	**31.2**	29.8

Our average inventory turnover days in 2018 increased to 31.2 days from 29.8 days in 2017, which was normal fluctuation within reasonable inventory level.

ORDER BOOK AND PROSPECT FOR NEW BUSINESS

Due to its business nature, the Group does not maintain an order book as at 31 December 2018. The Group has no planned new services to be introduced to the market.

BANK LOANS AND OTHER BORROWINGS

Our bank loans and other borrowings as at 31 December 2018 were RMB22,648.2 million, and our convertible bonds liability portion amounted to RMB4,046.7 million. The increase in our bank loans and other borrowings and convertible bonds liability during the year was primarily due to the funding for further expansion in the business scale which enabled the Company to develop sustainably in the long-term perspective.

INTEREST RATE RISK AND FOREIGN EXCHANGE RATE RISK

The Group's interest rate risk arises from its borrowings. Borrowings at variable rates expose the Group to the risk of changes on 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 rates relates primarily to the Group's debt obligations with a floating interest rate.

Most of the Group's assets and liabilities were denominated in RMB, except for certain cash and cash equivalents, bank loans and other borrowings and the liability component of convertible bonds denominated in Hong Kong dollars, United States dollars and Japanese Yen.

The Group's assets and liabilities denominated in Hong Kong dollars, United States dollars and Japanese Yen were mainly held by certain subsidiaries incorporated outside the Mainland China who used the Hong Kong dollars as their functional currency and the Group did not have material foreign currency transactions in the Mainland China during the year. Therefore, the Group had immaterial foreign currency risk.

The Group does not use any long-term contracts, currency borrowings or other means to hedge its foreign currency exposure.

PLEDGE OF THE GROUP'S ASSETS

The Group pledged its group assets as securities for bank loans and other borrowings and banking facilities which were used to finance our daily business operation. As at 31 December 2018, the pledged group assets amounted to approximately RMB7.3 billion (2017: RMB7.2 billion).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

As at 31 December 2018, the Group did not have any material acquisitions nor disposals of subsidiaries and associated companies.

FUTURE PLANS AND EXPECTED FUNDING

Going forward, the Company will continue to expand its business in the luxury and mid-to-high end passenger vehicle market by capitalizing on the opportunities arising from the market and exploring developing potential. We aim to expand our distribution network through new store establishment and appropriate mergers and acquisitions in the future. We plan to fund our future capital expenditure through cash flows generated from our operating activities and various resources including but not limited to internal funds and borrowings from financial institution. We currently have sufficient credit facilities granted by banks for our planned activities.

CONTINGENT LIABILITIES

As at 31 December 2018, neither the Company nor any member of the Group had any significant contingent liabilities.

GEARING RATIO

As at 31 December 2018, the gearing ratio of our Group was 58.5% (2017: 55.8%), which was calculated from net debt divided by the sum of net debt and total equity.

EMPLOYEES' REMUNERATION POLICIES AND TRAINING

As at 31 December 2018, the Group had a total of 26,969 employees (2017: 25,577). During the year of 2018, the total staff costs (including directors' remunerations) amounted to approximately RMB3,677.2 million.

The remuneration we paid to our staff mainly comprised wages, commissions, discretionary bonuses and contributions to defined contribution welfare schemes (including pension funds). The management determines the remuneration of the employees with reference to performance, experiences and industry practice.

In the future, we plan to provide various internal and external trainings for our senior management, general managers of our subsidiary 4S dealerships, middle-level executives as well as other employees, so as to improve the management capability and quality throughout the Group, nurturing more "quality" employees into "outstanding" ones.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We are pleased to present this environmental, social and governance ("**ESG**") report in the annual report of the Group for the year ended 31 December 2018. This report is compiled and prepared in accordance with the requirements of the ESG Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") and has complied with the "comply or explain" provisions set out therein.

ENVIRONMENTAL

Our environmental policies focused on promoting waste reduction in our operation process, comprising the following aspects:

- fully implementing the Environmental Protection Law of the People's Republic of China promulgated by the state within the Group, promoting energy conservation and emission reduction, enhancing environmental protection construction of operating facilities, and minimizing the impacts of daily operation on environment; and

- optimising the contingency plan for environmental pollution emergencies of dealerships and improving emergency drills.

It is the policy of the Company to promote green culture, carry out environmental communication, establish a green supply chain, launch green offices, promote environmental protection projects for public welfare, implement sustainable development and put into practice the new concept of environmental protection for corporate citizens.

During the year ended 31 December 2018, our Group has been fully in compliance with all applicable environmental and related laws and regulations which have a significant impact on the operation of our Group, including Environmental Protection Law of the People's Republic of China (《中華人民共和國環保法》), Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》) and Standards for Pollution Control on Hazardous Waste Storage (《危險廢物貯存污染控制標準》).

EMISSIONS OF GREENHOUSE GAS AND EXHAUST GAS

I. EMISSIONS

The Group is principally engaged in the business of automobile sales services and other automobile-related services and as a result does not have significant air emissions nor produce a significant amount of hazardous waste. The major emissions of the Group are greenhouse gas emissions generated from our office operations, including fuel consumed by the Group's vehicles and electricity for our offices and daily business operations.

During the year ended 31 December 2018, the Group adopted the following measures to mitigate the emissions from daily operations, including:

- undertaking an environmental impact assessment, inspection and rectification of the paint spray booth and improving emission monitoring equipment so as to reduce exhaust emission;
- undertaking standardized construction of environmental protection facilities and conducting sewage treatment improvement works within the Group;
- arranging a scientific test drive and test ride so as to reduce exhaust emission;
- equipping a dry grinder for dust produced in the paint spraying and polishing process, and a vacuum cleaner for poisonous gas produced in the welding process;
- reducing pollutant emissions for environmental protection and energy conservation while safeguarding employee health at the same time;
- encouraging employees to replace business travel and long-distance face-to-face meetings with telephone or video conferences where practicable, in order to reduce carbon emissions from transportation; and
- encouraging employees to use public transportation to reduce exhaust gas and greenhouse gas emissions from private cars.

During the year ended 31 December 2018, the Group did not generate significant air and greenhouse gas emissions and thus does not maintain records of such data.

WASTE MANAGEMENT

The Group is committed to minimizing the adverse impact that its operations may have on the environment. During the year ended 31 December 2018, the Group has continued to improve its environmental management practices to reduce energy and other resources, minimize waste and increase recycling. We undertook waste treatment in accordance with the relevant government requirements and fully implemented the Hazardous Waste Management Requirements of Motor Vehicle Maintenance Industry. We collected and stored major hazardous wastes and general solid waste by category during the operation process of our dealerships workshops, used machine oil was regularly handled by units holding environment protection qualifications for disposal purposes.

During the Reporting Period, the waste discharge of the Group was as follows:

Waste Category	Unit	Emissions in total	Emissions per Unit
Hazardous waste	tonnes	2,372	6.5
Non-hazardous Waste	tonnes	3,467	9.5

Table 1 — Total Waste Produced in the Reporting Period

During the year ended 31 December 2018, the Group implemented the following measures to handle hazardous and non-hazardous waste:

— cooperating with qualified waste recycling companies to handle hazardous waste treatment and recycling;

— carrying out prioritised treatment and recycling of non-hazardous waste;

— establishing and improving accountability system on pollution prevention and control;

— adopting measures to prevent industrial solid waste from polluting the environment; and

— clearly identifying management responsibilities at different levels to handle hazardous and non-hazardous waste.

The Group continues to strive to formulate concrete short-term and long-term goals to make progressive improvement on the handling and reduction of hazardous and non-hazardous waste produced.

II. USE OF RESOURCES

The Group is highly focused on the efficiency of resource utilisation and has continuously explored methods to best use the natural resources while guaranteeing service quality. The Group has established management regulations on electricity saving and water usage, such as seasonal air-conditioning use management regulations, lighting management regulations, water-saving and emission reduction management regulations, etc., to ensure best use of natural resources.

The Group is principally engaged in the business of automobile sales services and other automobile-related services. As a result, power consumption is primarily in the form of lighting and air conditioning for the Group's offices and day-to-day operations.

Resources	Unit	Consumption Quantity	Intensity (Consumption/ employee)
Electricity	kWh	91,550,000	3,347
Fuel oil	L	5,620,000	205
Water	m^3	3,120,000	110

Table 2 — Total Resources Consumption in the Reporting Period

The Group has sourced water that is fit for purpose. The water efficiency initiatives the Group adopted include encouraging water-saving; stopping water supply if cash wash services are suspended; installing motion-sensor water tap and recycling water resources under suitable conditions. As a result, water efficiency has improved by 4% as compared to the corresponding period in 2017.

The Group has no control over the packaging of automobiles sold, as these are directly supplied by the manufacturer.

The Group is continuously improving its environmental management practices to reduce energy and other resources, minimize waste and increase recycling. During the year ended 31 December 2018, the Group has implemented energy use efficiency initiatives to reduce our energy consumption for our day-to-day operations, including:

- using A8 office management software to conduct on-line approval for all the Group's documents that are submitted for approval; new bullet promoting energy conservation and emission reduction to fully achieve paperless office for the Group;
- gradually achieving activated carbon coverage in the spray paint booth and turning from burning diesel fuel to electricity;
- reasonable use of air-conditioning;
- using electronic versions for document circulation, notification and announcement;
- recycling of used papers in office and double-sided printing; and
- ensuring power switches of all electrical appliances are switched off before holidays.

As a result of these measures, the amount of energy saved amounted to 366,200 KWH.

III. THE ENVIRONMENT AND NATURAL RESOURCES

The Group has established a comprehensive environmental pollution prevention and control system, adopted measures against industrial solid waste to prevent environmental pollution and clarified management responsibility.

The Group had no activities that had a significant impact on the environment and natural resources or given our business nature and activities, the impact of the Group on the environment and natural resources is not significant.

In addition to the measures implemented to reduce the use of resources and disposal of waste (see the sections headed "Waste Management" and "Use of Resources" above), the Group has taken actions to manage its activities and minimise its impact on the environment and natural resources, such as implementing applicable systems and policies to monitor use of natural resources and circulating notices and emails regarding on how to save energy and resources.

In addition, we will continue to assess the environmental risks of our business, review the environmental practices and adopt preventive measures as necessary to reduce the risks and ensure compliance with relevant laws and regulations as applied to the Group's emissions and the use of resources.

SOCIAL

EMPLOYMENT AND LABOUR PRACTICES

I. EMPLOYMENT

As at 31 December 2018, our Group had a total of 26,969 employees, all of which are full-time employees. We are committed to ensure that the employees are treated fairly and equally, and that their rights and interests are protected.

Breakdown of employees during the Reporting Period by gender, age group, employee type and geographical region:

	Number of employees	Percentage of total (%)
By gender		
Male	16,990	63%
Female	9,979	37%
Total	26,969	100%
By age group		
Below 25	5,933	22%
25–34	16,181	60%
35–44	3,776	14%
45–54	809	3%
55–64	270	1%
Total	26,969	100%
By employee type		
Senior management	539	2%
Middle management	1,348	5%
Supervisor	2,427	9%
General employee	22,655	85%
Total	26,969	100%
By geographical region		
Northeastern and Northern China regions	8,900	34%
Eastern and Central China regions	5,933	22%
Southern China region	7,821	29%
Southwestern and Northwestern mainland regions	4,315	16%
Total	26,969	100%

Table 3 — Breakdown of Employees by Gender, Age Group, Employee Type and Geographical Region.

Breakdown of employee turnover rate during the Reporting Period by gender, age group, and employee category:

	Number of employees	Percentage of total (%)
By gender		
Male	4,469	61%
Female	2,892	39%
Total	7,361	100%
By age group		
Below 25	1,994	27%
25–34	4,354	59%
35–44	793	11%
45–54	168	2%
55–64	50	1%
Total	7,359	100%
By geographical region		
Northeastern and Northern China regions	2,305	31%
Eastern and Central China regions	1,387	19%
Southern China region	2,294	31%
Southwestern and Northwestern mainland regions	1,375	19%
Total	7,361	100%

Table 4 — Breakdown of Employee Turnover Rate by Gender, Age Group and Geographical Region.

Our employees are critical to our success. We have invested, and will continue to invest substantially in our employees in order to recruit, integrate and retain the best personnel for our business. As a result of our large scale operations, we have been able to implement a systematic approach to foster capable and experienced managers. One of our corporate policies is to promote capable personnel within the Group's operations and provide a clear career path to those personnel, thus forming a large pool of motivated and experienced employees to support our business expansion plans.

By leveraging our strong operational expertise accumulated throughout our national store network, we frequently apprentice new recruits to our best performing 4S dealerships for training, before rotating them to 4S dealerships in other locations. We believe this ensures best practice sharing and the accumulated business expertise in our best-performing 4S dealerships can be replicated at all of our 4S dealerships. In addition, as a leading national automobile dealership group in China with a diversified portfolio of automobile brands, we are able to offer our employees a clear career path encompassing a variety of opportunities to work with different automobile brands as well as work in other regions in China, and we believe this would increase our employee retention rates in the face of intense competition for human resources.

The Group is committed to improving its corporate rules and regulations, abolishing rules dictated by people, replacing orders with system and achieving management by data. The Group shall abide by the principles of fairness, equality and openness in implementing different rules and regulations to make employees feel respected by the Company, enhance management transparency and foster to establish a harmonious working environment. Efforts are also made to clarify the employee vocational development plan and conduct training on management and lifelong career development simultaneously. In doing so, we hope employees will feel pride and a sense of belonging while working for the Group.

We have different employee incentives every month, including staff commendation conferences, commendation for being advanced, and awards. For team building, we have annual meetings, anniversary celebrations, outreach activities, fun sports gala, ball games, etc. For staff care, we hold birthday parties, holidays and festivals celebrations, provide employee physical check-ups, family day activities, festive greetings, etc. Through different ways of expressing our care, we aim to make employees feeling cared for and enhance their sense of belonging.

We advocate performance-linked remuneration packages, keep improving our corporate performance evaluation mechanism, individual performance appraisal measures and employee promotion system, and formulate remuneration and performance policies that are both incentive and market oriented.

The Group has an employee handbook which provides detailed policies in employee recruitment, dismissal, working hours, rest time, welfare system and other aspects. Recruitment, dismissal, working and rest time are strictly implemented in accordance with national labour laws and regulations.

The Group adhered strictly to national and local regulations for recruiting and hiring. During the Reporting Period, the Group has been fully in compliance with all applicable labour laws and related regulations of the PRC, including inter alia, Labour Law of the People's Republic of China, Labour Contract Law of the People's Republic of China and Special Rules on the Labour Protection of Female Employees. Timely and full contributions to various social insurances were made in accordance with the requirements of national and provincial laws and regulations on labour and social security to safeguard the interests of employees to further protect and safeguard their interests and health in addition to those required by policies and regulations.

II. HEALTH AND SAFETY

The Group is committed to providing and maintaining a safe and healthy environment for all staff.

The Group's dedicated safety council, led by three of the Group's executive Directors, which analyzes, directs and coordinates safety procedures and plans in the short, medium and long-term, for the entire Group. Each of our subsidiaries has established a safety committee and appointed safety representatives or supervisors to report to the safety council, who meets four times a year.

The Group's safety inquiry commission, also led by three of the Group's executive Directors, conducts bi-annual surveys of our Group's operations to identify potential safety or occupational hazards. The Group's emergency incident commission is responsible for directing rescue operations in the event of an accident. The emergency incident commission is also in charge of providing detailed reports and recommendations for improvement.

We have also issued detailed safety regulations which emphasize the importance of safety education and training for all employees, and strict compliance with applicable PRC safety laws, rules, regulations and standards. Our safety regulations provide guidance on a variety of matters, and authorize the suspension of operations in the event of a serious incident.

The Group adhered to the guidelines of "safety first with focus on prevention and comprehensive control" and the corporate development principles of "people-oriented and safe development"; implemented the accountability system for production safety, enhanced target management responsibilities; improved the emergency rescue system for production safety accidents; carried out the propaganda and training of safety production and handling of potential accident hazards, actively and practically enhanced the cultural construction of safety.

The Group is dedicated to providing a safe, efficient and amiable working environment and take pride in this. The Group attaches great importance to the health and benefits of its employees, and implements the following measures to safeguard the safety and health of employees:

1) setting up a safety committee in every store where the general manager is the key person responsible for production safety who signs a letter of responsibility with the Group on production safety target management;

2) new employees must go through a three-tier (company, workshop and team) education programme on production safety to enhance production safety training;

3) providing employees with necessary labour protection gear and train them how to use it properly. An occupational disease check-up will be conducted annually for staff engaging in paint spraying works;

4) conducting regular examination, maintenance and renewal of special protective gear. The requirements of "Three Simultaneities" must be met in construction, re-construction and expansion of projects as well as safety and labour protection facilities;

5) fire drills, safety knowledge lectures and trainings were regularly organised on a quarterly basis; and

6) implementing certain pest control measures, such as enhancing the hygiene of the environment, and conducting regular and focused pollutants treatment to effectively reduce the breeding of pests; placing mouse clips, mousetraps and other deratization equipment.

During the Reporting Period, there were no work-related fatalities or work injuries in the Group.

In 2018, the Group has fully complied with all applicable labour relevant laws and related regulations of the PRC, including Production Safety Law of the People's Republic of China (《中華人民共和國安全生產法》), Fire Control Law (《消防法》), Law on the Prevention and Control of Occupational Diseases (《職業病防治法》), etc.

III. DEVELOPMENT AND TRAINING

We have a deep bench of high-caliber store managers. We have devised and successfully implemented an in-house program to train and develop our store managers, who are crucial to the success of our 4S dealerships. Many of our store managers have completed a training program at our best-performing 4S dealerships. We also rotate each trainee manager, including deputy-store manager, sales director, service director and finance director, to different positions in a 4S dealership to ensure that our store managers are familiar with all operational aspects of a 4S dealership. We provide systematic training courses to our customer-facing employees such as our sales personnel, and motivate our employees by granting bonuses and awards to encourage our 4S dealerships to achieve high customer satisfaction rankings.

We work together with the automakers and local educational institutions to train automotive engineers and technicians. For instance, we draw engineering talent from Toyota's numerous automotive training schools in China. We have also participated in a joint initiative with Dalian Vocational Technical College, where we provide financial support and assist with the curriculum design for automotive engineering classes. We are a preferred recruiter at Dalian Vocational Technical College, and it has been a vital and reliable source of technical personnel for our repair, maintenance and detailing business.

We are also able to achieve a high rate of retention for our employees in the face of intense competition for human resources, as our corporate policy is to promote capable personnel from within our Group's operations, and thus motivating our employees. Furthermore, our large scale of operations enables us to offer our employees a variety of opportunities to work with different automobile brands in several regions in China, as well as several other incentives and competitive remuneration packages.

The Group is committed to facilitating the professional and personal development and growth of all employees and considers training and development a critical continuous process. In 2018, training was closely centered around the work priorities of the Group, mainly focusing on continuing to conduct different levels and kinds of special trainings in different professional segments. For on-line training, we have Zhongsheng Network Institute. For off-line training, we organize trainings for different teams and positions under the Group and also to the stores. For specific teams, we conduct specific training, competition for management job positions and excellent internal trainers selection. Through training, the professional and managerial competencies of our employees are improved, and the talent echelon construction is achieved.

During the Reporting Period, a total of 26,969 employees of the Group completed various trainings, representing 720 training hours.

The breakdown is as follows:

	Number of employees	Percentage of employees trained (%)	Average training hours completed per employee
By gender			
Male	16,990	100%	360
Female	9,979	100%	360
Total	26,969	100%	720
By employee category			
Senior management	539	100%	120
Middle management	1,348	100%	216
Supervisor	2,427	100%	192
General employee	22,655	100%	192
Total	26,969	100%	720

Table 5 — Training Rates of Employees and average training hours completed per employee during the Reporting Period by Gender and Employee Category

IV. LABOUR STANDARDS

PROHIBITION OF THE USE OF CHILD LABOUR AND FORCED LABOUR

During the Reporting Period, the Group has fully complied with all applicable relevant laws and related regulations of the PRC in relation to the prevention of child and forced labours. The Group's human resources team affirms applicants' age by checking valid identification during interviews and hires a third party to conduct reference checks on all applicants. Regular inspection will also be conducted to ensure no forced or child labor is employed. Individuals under 16 years of age are disqualified from employment at the Group.

The Group also strictly follows relevant PRC labor regulations relating to working hours, rest and holidays to ensure the physical and mental health of all employees. Employees are not forced to work overtime. Employees are entitled to overtime pay if they obtain prior approval from their senior manager. The Group also has implemented policies relevant to holidays, under which employees are entitled to paid days off from work for national public holidays and company holidays, as well as, for example, annual vacation leave, compassionate leave, marriage leave, maternity leave, sick leave, etc.

If any suspicious case of child labor or forced labor is identified, the Group will take immediate actions to contact and report to official departments, including the police, to protect the right and well-being of the affected persons. Internal investigation or discussion with employees involved will also be conducted to review and evaluate the situation.

During the Report Period, there was no incident of child labour or forced labour within the Group.

OPERATING PRACTICES

I. *SUPPLY CHAIN MANAGEMENT*

Due to the business nature of our Group, we depend significantly on the automakers and suppliers of automobile accessories. The Group follows the principles of openness, fairness and transparency in selecting suppliers and service providers, and has established a supplier assessment system in terms of price, quality and costs and after-sales service. The Group will carry out long-term quality monitoring and conduct regular reviews on all suppliers as well as casual examinations on different suppliers to ensure sustainable quality material supplies and services.

In 2018, the Group had a total of 33 key suppliers. During the year, the Group was not aware that any key suppliers had any significant actual and potential negative impact on the business ethics, environmental protection, human rights and labour practices, nor did any of them have any non-compliance incident in respect of human rights issues.

The number of suppliers broken down by region are:

	Number of Suppliers
By geographical region	
Northeastern and Northern China regions	14
Eastern and Central China regions	10
Southern China region	7
Southwestern and Northwestern mainland regions	2
Total	33

Table 6 — Number of Suppliers by Region

II. *PRODUCT RESPONSIBILITY*

Our primary corporate objective is customer satisfaction and our customer-first approach reflects our service-oriented principle. We pay close attention to customer interest as well as our good reputation. The procurement of the Group's vehicle accessories is in strict compliance with manufacturer's standards. Vehicles must undergo a three-level inspection before delivering to customers and a zero return-for-repair rate is achieved.

In 2018, the Group has fully complied with all laws and regulations related to product responsibility, including the Regulation concerning Management of Compulsive Product Certification (《強制性產品認證管理規定》), the Regulations of the People's Republic of China on Certification and Accreditation (《中華人民共和國認證認可條例》), the Announcement on the Issuing of the Catalogue of Descriptions and Table of Definitions for Compulsory Product Certification by the Certification Accreditation Administration of the People's Republic of China (No. 45, 2014) (《國家認監委關於印發強制性產品認證目錄描述與界定表的公告(2014年第45號)》) and the Catalogue of Descriptions and Table of Definitions for Compulsory Product Certification and the Reference Table for HS Code 2014 (《與2014年HS編碼參考表》).

Each of the Group's products goes through a quality assurance process and when necessary, the Group carries out the following recall procedures in strict accordance with requirements of the manufacturers if the Group's products are being recalled:

- manufacturer publishes announcement to recall products;
- identifying affected vehicles from EVA system;

- preparing preliminary spare parts inventory based on actual situation;
- identifying customers' mailing addresses for notice;
- delivering notices to customers by registered mail; and
- carrying out recall measures when the recalled vehicles arrive at the facilities.

(A) INTELLECTUAL PROPERTY RIGHTS

The Group has strictly complied with the intellectual property rights of the automobile manufacturers of different brands, including the requirements on trademark, logo and store name. The Group's marketing and promotional materials contain correct information about the Group's products and services.

(B) CUSTOMER INFORMATION PROTECTION AND PRIVACY POLICY

The Group also respects and protects consumer data protection and privacy and the Group has invested in highly secure information management systems in order to handle our customer's information securely. The Group has three or more data privacy policies. All employees of the Company shall sign employee confidentiality agreements to protect customer privacy, and suppliers are also required to sign confidentiality agreements. Only a few members of senior management have access to customer information and where possible the Group tries to ensure customer details are encrypted and secure. The Group's consumer data protection and privacy policies are restricted to only collecting necessary information for customers.

(C) CUSTOMER COMPLAINTS

The Company has a 24-hour customer service hotline and a WeChat platform for handling customer complaints, and the Company provides special training for employees to handle customer complaints.

ANTI-CORRUPTION

During the Reporting Period, the Group has fully complied with laws and regulations relating to bribery, extortion, fraud and money laundering, such as Law of The People's Republic of China against Unfair Competition. The Group defended and promoted fair competition to protect consumer interests as well as public interests, and did not monopolize or misappropriate operational resources.

The Group highly emphasizes business ethics and adheres to high-standard business principles. Employees are required to sign the Employee Undertaking and Personal Integrity Commitment.

During the Reporting Period, the Group did not identify any corruption incidents or any violation of relevant laws and regulations.

Aside from requiring employees to sign the Employee Undertaking and Personal Integrity Commitment, the Group also has several anti-corruption training programs and a whistle-blowing procedure in place. The Group has policies on the upper limit of gift giving to partners and government officials or dining reimbursement policies and has assigned personnel to be responsible for monitoring such policies.

COMMUNITY

I. *COMMUNITY INVESTMENT*

We are dedicated to serving the community and creating positive impacts. In our daily operations, our dealerships across the nation are connected to local communities and provide employment opportunities to the handicapped and underprivileged who meet the requirements. The Group has offered 123 number of positions within the Group to the handicapped. Moreover, during the Reporting Period, the Group made donations which amount to over RMB800,000 to support families in difficulties and students in poor mountainous regions and donated materials to mountainous regions, such as clothes, books, etc., arranged our employees to take their spare time to care for the elderlies and organised activities for the elderlies at nursing home and the disabled.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

In order to identify the most significant ESG aspects for the Group to report on for this ESG report, the interests and influences the Group places on different key stakeholders would be considered. The Group's stakeholders cover a diverse group of parties including but not limited to its employees, investors, shareholders, customers, suppliers and other governmental and community groups. Communication with stakeholders would normally be conducted via our day-to-day interaction with them or during the annual general meeting. Announcement and publications relevant to the Group would also be issued on the Company's or the Stock Exchange's websites.

STAKEHOLDERS' FEEDBACK

The Group welcomes stakeholders' feedback on our ESG approach and performance. Suggestions can be sent to us via e-mail at zhongsheng-hk@zs-group.com.cn.

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CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group is committed to achieve 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's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules.

The Company has applied the principles as set out in the CG Code.

The Board is of the view that throughout the year ended 31 December 2018, the Company has complied with the code provisions as set out in the CG Code. No incidents of deviation from the CG Code by the Company was noted for the year ended 31 December 2018.

A. THE BOARD

1. RESPONSIBILITIES

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance, and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The directors of the Company (the "**Directors**") make decisions objectively in the interests of the Company.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each director to perform his responsibilities to the Company.

2. DELEGATION OF MANAGEMENT FUNCTION

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company.

All Directors have full and timely access to all the information of the Company and advices from the company secretaries and senior management and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to entering into any significant transactions by the abovementioned officers.

3. BOARD COMPOSITION

The Board comprises the following Directors during the year ended 31 December 2018:

Executive Directors:	Mr. HUANG Yi *(Chairman)* Mr. LI Guoqiang *(President and chief executive officer)* Mr. DU Qingshan Mr. YU Guangming Mr. SI Wei Mr. ZHANG Zhicheng
Non-executive Directors:	Mr. PANG Yiu Kai Mr. CHEAH Kim Teck
Independent Non-executive Directors:	Mr. SHEN Jinjun Mr. LIN Yong Mr. YING Wei Mr. CHIN Siu Wa Alfred *(appointed on 10 August 2018)* Mr. Shoichi OTA *(retired on 11 June 2018)*

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 50 to 56 of the Annual Report for the year ended 31 December 2018.

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

4. INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2018, the Board endeavored to meet the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with one of whom possessing appropriate professional qualifications on accounting or related financial management expertise, and the audit committee must be chaired by an independent non-executive director, save for one exception: independent non-executive directors representing one-third of the Board.

Pursuant to Rules 3.10 and 3.10A of the Listing Rules, the board of a listed issuer must include at least three independent non-executive directors and the member of the independent non-executive directors must represent at least one-third of the board of the listed issuer.

After the retirement of Mr. Shoichi Ota as an independent non-executive Director on 11 June 2018, the composition of the Board fails to meet the requirements under the Listing Rules. In order to comply with the requirements, the Company appointed Mr. Chin Siu Wa Alfred as an independent non-executive Director on 10 August 2018.

5. NON-EXECUTIVE DIRECTORS AND RE-ELECTION OF DIRECTORS

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

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's articles of association (the "**Articles of Association**"). The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment of Directors and succession planning for Directors and assessing the independence of independent non-executive Directors.

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years with effect from their respective date of appointment unless terminated by not less than three months' written notice served by either the executive Directors or the Company. Each of the non-executive Directors and independent non-executive Directors has signed an appointment letter with the Company for a term of three years with effect from their respective date of appointment. The appointments are subject to the provisions of retirement and rotation of directors under the Articles of Association.

In accordance with the Articles of Association, at each annual general meeting one-third of the Directors shall retire from office by rotation provided that every Director are subject to retirement by rotation at an annual general meeting at least once every three years and any new director appointed to fill a causal vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment. Any director appointed as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

According to article 84 of the Articles of Association, Mr. Huang Yi, Mr. Si Wei, Mr. Shen Jinjun and Mr. Shoichi Ota retired at the annual general meeting held on 11 June 2018 whereas in accordance with Article 83(3) of the Articles of Association, Mr. Cheah Kim Teck (who was appointed by the Board on 12 June 2017) held office only until such annual general meeting. Mr. Huang Yi, Mr. Si Wei, Mr. Shen Jinjun and Mr. Cheah Kim Teck had offered themselves for re-election at the same annual general meeting. Meanwhile, the Directors to be retired from office by rotation at the forthcoming annual general meeting to be held on 10 June 2019 pursuant to the above article shall be eligible for re-election as directors at the same meeting.

6. CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

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

Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and appropriate. Internally-facilitated briefings for directors will be arranged and reading materials on relevant topics will be circulated to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2018, the following Directors attended in-house briefing(s), seminar(s) and training session(s) arranged by the Company or the following professional institution(s)/professional firm(s):

			Directors' Attendance												
Topic	Date	Name of Organizer	Huang Yi	Li Guo-qiang	Du Qing-shan	Yu Guang-ming	Si Wei	Zhang Zhi-cheng	Pang Yiu Kai	Cheah Kim Teck	Shen Jinjun	Lin Yong	Ying Wei	Chin Siu Wa Alfred[2]	Shoichi Ota[1]
Asia Outlook 2018	18 Jan 2018	HSBC							✔						
Training on Corporate Governance & Code of Listing Rules	18 Mar 2018	The Company	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔		✔
Joint Business Luncheon with The Financial Secretary of Hong Kong	28 Mar 2018	Hong Kong General Chamber of Commerce							✔						
Digby Memorial Lecture on Ageing Population	13 Apr 2018	The University of Hong Kong							✔						
Town Hall with Secretary for Transport & Housing	4 May 2018	Hong Kong General Chamber of Commerce							✔ (Moderator)						
Forum on Social Security Fund	31 May 2018	China International Capital Corporation										✔			
Forum on 40th Anniversary of China's Reform and Opening Up–A New Journey for a New Era–The Future of Hong Kong's Capital Market	1 Jun 2018	The Stock Exchange of Hong Kong Limited										✔ (Moderator)			
Town Hall with Secretary for the Environment	29 Jun 2018	Hong Kong General Chamber of Commerce							✔						
Risk Management–Cybersecurity Awareness	30 Aug 2018	Pricewaterhouse Coorpers												✔	
Hangzhou-Hong Kong-Macau economic and cultural exchange forum	17 Sept 2018	Grand Hyatt Hotel							✔						
Town Hall with Commissioner for Tourism	29 Oct 2018	Hong Kong General Chamber of Commerce							✔ (Moderator)						
Annual Conference 2018	1 Nov 2018	Hong Kong Management Association							✔						
Thematic Seminar On The 40th Anniversary Of Reform And Opening Up Of The Country	10 Dec 2018	The Government of HKSAR							✔						
Training on latest update on Corporate Governance Code and related Listing Rules	11 Dec 2018	Pricewaterhouse Coorpers												✔	

1 Retired on 11 June 2018

2 Appointed on 10 August 2018

In addition, Mr. Pang Yiu Kai, Mr. Cheah Kim Teck and Mr. Lin Yong have studied various relevant materials including business journals and financial magazines during the year.

7. ATTENDANCE RECORD OF DIRECTORS AND BOARD COMMITTEE MEMBERS

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

	Attendance/Number of Meetings						
Name of Director	Board	Nomination Committee	Remuneration Committee	Audit Committee	Compliance Committee	Risk Committee	Annual General Meeting
Huang Yi	7/7	2/2			1/1		1/1
Li Guoqiang	7/7		1/1		1/1		1/1
Du Qingshan	7/7				1/1		1/1
Yu Guangming	7/7					1/1	1/1
Si Wei	7/7					1/1	1/1
Zhang Zhicheng	7/7						1/1
Pang Yiu Kai	7/7						1/1
Cheah Kim Teck	7/7						1/1
Shen Jinjun	6/7	2/2	1/1	2/2			1/1
Lin Yong	7/7	2/2	1/1	2/2			1/1
Ying Wei	7/7			2/2			1/1
Chin Siu Wa Alfred (Appointed on 10 August 2018)	1/2						N/A
Shoichi Ota (Retired on 11 June 2018)	3/3						1/1

The attendance records of Mr. Shen Jinjun and Mr. Chin Siu Wa Alfred at the Board meeting by their alternates are set out below：

	Attendance/Number of Meetings						
Name of Director (Name of Alternate)	Board	Nomination Committee	Remuneration Committee	Audit Committee	Compliance Committee	Risk Committee	Annual General Meeting
Shen Jinjun (Huang Yi)	1/7						
Chin Siu Wa Alfred (Huang Yi)	1/2						

Apart from regular Board meetings, the chairman also held one meeting with the non-executive Directors (including independent non-executive Directors) without the presence of executive directors on 18 March 2018. All the relevant Directors attended this meeting.

B. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The chairman of the Board is Mr. Huang Yi, who provides leadership to the Board and is responsible for chairing the meetings, managing the operations of the Board and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner. He is also responsible for the strategic management of the Group and for formulating the Group's overall corporate direction and task. The chief executive officer is Mr. Li Guoqiang, who is responsible for the overall management and operations of the Group. He is also responsible for running the Company's businesses and implementing the Group's strategic plans and business goals.

To facilitate a timely discussion of all key and appropriate issues by the Board, the chairman co-ordinates with the senior management to provide adequate, complete and reliable information to all Directors for consideration and review.

C. BOARD COMMITTEES

The Board has established the Audit Committee, the Remuneration Committee, the Nomination Committee, the Compliance Committee and the Risk Committee to oversee particular aspects of the Company's affairs. The five 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 websites of Company and/or the Stock Exchange and are available to shareholders upon request.

The majority of the members of the Audit Committee, the Remuneration Committee and the Nomination Committee are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

1. AUDIT COMMITTEE

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control and risk management systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the year ended 31 December 2018, the Audit Committee held two meetings to review the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of internal control and risk management systems and internal audit function, appointment of external auditors and relevant scope of works and arrangements for employees to raise concerns about possible improprieties. The attendance records of the Audit Committee meetings are set out under "Attendance Record of Directors and Board Committee Members" on page 41.

The Audit Committee also met the external auditors twice without the presence of the executive Directors.

2. REMUNERATION COMMITTEE

The primary functions of the Remuneration Committee include establishing transparent procedures for developing remuneration policy and structure, ensuring that no director or any of his associates will participate in deciding his own remuneration, determining the remuneration policy and structure for all directors and senior management, assessing their performance and approving the terms of their service contracts, and making recommendations to the Board on the remuneration packages of individual executive directors and senior management.

Details of the amount of Directors' and chief executive officer's 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:

Band	Number of Individual
HK$2,000,001 to HK$2,500,000	1
HK$3,000,001 to HK$3,500,000	1

The Remuneration Committee met twice during the year ended 31 December 2018 to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management and other related matters. The attendance records of the Remuneration Committee meeting are set out under "Attendance Record of Directors and Board Committee Members" on page 41.

3. NOMINATION COMMITTEE

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

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.

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

The Nomination Committee met twice during the year ended 31 December 2018 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors, to consider the qualifications of the retiring Directors standing for election at the annual general meeting, and to consider and recommend to the Board on the appointment of Directors. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained. The attendance records of the Nomination Committee meeting are set out under "Attendance Record of Directors and Board Committee Members" on page 41.

BOARD DIVERSITY POLICY

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. 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.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience.

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.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives. The Nomination Committee will review the Board Diversity Policy, as 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 (18 years or above), 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 committee(s) 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.

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

4. COMPLIANCE COMMITTEE

The primary function of the Compliance Committee is to determine the policy for the corporate governance of the Company so as to ensure compliance on regulatory matters and corporate governance.

The Compliance Committee met once during the year ended 31 December 2018 to review the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report. The attendance records of the Compliance Committee meeting are set out under "Attendance Record of Directors and Board Committee Members" on page 41.

To discharge our corporate governance duties, the inside information disclosure policy was adopted and a shareholders' communication policy was devised.

5. RISK COMMITTEE

The primary functions of the Risk Committee are to determine the risk management strategies, review the risk management system of the Group as well as to assess the Group's risk profile and risk management capabilities so as to improve the Group's risk management and internal control systems.

The Risk Committee met once during the year ended 31 December 2018 to review the adequacy and effectiveness of the Group's risk management and internal control systems. The Company considers that it has effective and adequate risk management and internal control systems. The attendance records of the Risk Committee meeting are set out under "Attendance Record of Directors and Board Committee Members" on page 41.

D. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2018.

The Company's employees, who are likely to be in possession of unpublished inside information of the Group, are also subject to the Model Code for securities transactions. No incident of non-compliance of the Model Code by the employees was noted by the Company throughout the year ended 31 December 2018.

E. DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

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 a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The senior management has provided such explanation and information to the Board as necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company put to the Board for approval.

F. EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 73 to 77.

The external auditors of the Company attended the annual general meeting held on 11 June 2018 to answer questions about the conduct of the audit, the preparation and content of the auditors' report and auditor independence.

During the year, the remuneration paid or payable to the Company's external auditors in respect of audit services and non-audit services for the year ended 31 December 2018 amounted to RMB5,800,000 and HK$688,000 respectively. The main non-audit services provided by the external auditors include tax services.

The Audit Committee recommended to the Board that, subject to our shareholders' approval at the forthcoming annual general meeting (to be held on 10 June 2019), Ernst & Young be re-appointed as the external auditor of the Company.

G. RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness.

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems. Such systems are in place to provide reasonable, though not absolute, assurance against material misstatement or loss, and to manage rather than eliminate the risk of failure to achieve business objectives.

The Audit Committee and Risk Committee assist the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including project management, sales and leasing, financial reporting, human resources and information technology.

Risk management is our top priority. Our appraisal system further focuses on the effect of enhancement, while the continual improvement is the foundation, which ensures the implementation of internal control rectification. The Company's risk management and internal control features prevention beforehand rather than punishment afterwards, and the risk management is carried out in all aspects, pursuing the goal in overall efficiency maximization. In addition, the Company's risk management and internal control procedures are as follows: (i) regional brand projects unit will organize dealerships to complete self-check before 10th of each month and complete review before 25th of each month, sharing excellent internal control experiences; and (ii) the Group will carry out risk reminder, self-check counseling and whole process monitoring from time to time.

All departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each department.

The management, in coordination with department heads, assessed the likelihood of risk occurrence, provide treatment plans, and monitor the risk management progress, and reported to the Risk Committee and the Board on all findings and the effectiveness of the systems.

The management has confirmed to the Board and the Audit Committee and Risk Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2018.

The Internal Audit Department of the Group is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department of the Group examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee and Risk Committee.

The Board, as supported by the Audit Committee and Risk Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2018, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries in order to prohibit any unauthorized access and use of inside information.

The Company would appoint independent consultancy firm to conduct a thorough review of risk management and internal control systems of the Company and its subsidiaries on regular intervals basis when necessary.

H. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an ongoing dialogue with shareholders and in particular, through annual general meeting and other general meetings and regularly review this policy to ensure its effectiveness. The chairman of the Board, all other members of the Board including non-executive Directors, independent non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at the annual general meeting to meet shareholders and answer their enquiries.

The last shareholders' meeting was held on 11 June 2018 in Hong Kong, and the topics discussed included: the consideration of the financial statements and reports of the directors and of the auditors for the year ended 31 December 2017; approving the re-election of certain directors of the Company; approving the re-appointment of Ernst & Young as auditors and the declaration of dividend.

The forthcoming annual general meeting will be held on 10 June 2019.

During the year of 2018, the Company has not made any changes to the Articles of Association. A latest version of the Articles of Association is also available on the Company's website and the Stock Exchange's website.

To promote effective communication, the Company maintains a website at www.zs-group.com.cn, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

I. SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules, unless otherwise required by the Listing Rules and poll voting results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

(I) CONVENING AN EXTRAORDINARY GENERAL MEETING BY SHAREHOLDERS

Pursuant to article 58 of the Articles of Association, an extraordinary general meetings (the "**EGM**") may be convened by the Board on requisition of one or more shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such meeting shall be held within 2 months after the deposit of such requisition. If the Board fails to proceed to convene such EGM within 21 days of the deposit of the requisition, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) concerned as a result of the failure of the Board shall be reimbursed to the requisitionist(s) concerned by the Company.

The requisitionist(s) must state the objects clearly in the requisition, sign the requisition and deposit the same to the Board or the company secretary or the primary contact persons of the Company.

(II) PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2013 Revision) or the Articles of Association. However, shareholders who wish to put forward proposals at general meetings may achieve so by means of convening an extraordinary general meeting following the procedures set out in paragraph (I) above.

As regards the procedures for shareholders to propose a person for election as a Director, they are available on the Company's website at www.zs-group.com.cn.

(III) PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board, shareholders may send written enquires to the Company.

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

PRIMARY CONTACT PERSONS

Shareholders may send their requisitions, proposed resolutions or enquiries as mentioned in (I), (II) and (III) above to the primary contact person of the Company as set out below:

Name:	Ms. Yan Shezhen, Ms. Yao Zhenchao
Address:	Room 1803–09, 18th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong
Fax:	(+852) 2803 5676
Email:	yanshezhen@zs-group.com.cn, yaozhenchao@zs-group.com.cn

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

J. JOINT COMPANY SECRETARIES

Ms. Kam Mei Ha Wendy and Ms. Mak Sze Man of Tricor Services Limited, external service provider, have been engaged by the Company as its joint company secretaries. Both of them satisfied the training requirement for the year ended 31 December 2018 under Rule 3.29 of the Listing Rules.

With effect from 1 April 2019, Ms. Kam Mei Ha Wendy has resigned as a joint company secretary and Ms. Yao Zhenchao has been appointed as a joint company secretary.

Their primary contact person at the Company is Ms. Yan Shezhen, the head of investor relationship of the Company.

K. GOING CONCERN

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

L. SUBSEQUENT EVENT

There is no material subsequent event undertaken by the Company or by the Group after 31 December 2018.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of members of the Board of our Company:

Name	Age	Position
HUANG Yi	56	Chairman and executive Director
LI Guoqiang	55	President, executive Director and chief executive officer
DU Qingshan	56	Executive Director
YU Guangming	61	Executive Director
SI Wei	56	Executive Director
ZHANG Zhicheng	46	Executive Director
PANG Yiu Kai	58	Non-executive Director
CHEAH Kim Teck	67	Non-executive Director
SHEN Jinjun	61	Independent non-executive Director
LIN Yong	49	Independent non-executive Director
YING Wei	52	Independent non-executive Director
CHIN Siu Wa Alfred	61	Independent non-executive Director

EXECUTIVE DIRECTORS

HUANG Yi (黃毅), aged 56, is our Chairman and executive Director. Mr. Huang is one of the two founders, and has been Chairman of our Group since its inception in 1998. Mr. Huang has been serving as an executive Director since 23 June 2008 and he is also a director of the various companies in the Group. Mr. Huang is responsible for the strategic management of the Group and for formulating our overall corporate direction and focus. Prior to founding our Group, Mr. Huang was a director and deputy general manager at China Resources Machinery Co., Ltd. ("**China Resources Machinery**"), a state-owned enterprise engaged in importing and exporting automobiles and other machinery. Mr. Huang held numerous management positions in business administration, product procurement and sales operations in China Resources Machinery during his tenure between 1984 and 1994. In 1994, Mr. Huang joined China Automobile Company Limited ("**China Automobile**") as a director, and was responsible for China Automobile's procurement and sales divisions. In 1996, Mr. Huang invested in, and became a shareholder of, China Automobile. China Automobile, currently known as Hokuryo Holdings Company Limited, is presently an indirect wholly-owned subsidiary of our Group. Mr. Huang has served as the president of the second session of Mercedes-Benz Dealer Council since November 2014, the president of the third and fourth session of Lexus China Dealer Council since 2013, as well as the president of the Advisory Council of GZ Toyota since 2012. Mr. Huang has substantial senior management experience and more than 31 years' of experience and in-depth knowledge of the PRC automobile industry. He received a Bachelor's degree in Economics from Xiamen University in 1983 and was awarded the title of "Economist" by MOFCOM in 1990, a work-related qualification title usually awarded to the government officials or managerial staff in state-owned enterprises by the government in recognition of their relevant working experiences. Mr. Huang also served on a pro bono basis as a director of Pok Oi Hospital, a charitable organization providing medical and educational services in the New Territories in Hong Kong, between 1997 and 1999.

LI Guoqiang (李國強), aged 55, is the other founder of our Group, and has been serving as the Group's chief executive officer and president since 1998 and as an executive Director since 23 June 2008. He is also a director of the various companies in the Group. Mr. Li is responsible for the overall management and operations of the Group. Mr. Li has served as deputy chairman for the CADA since December 2009. In 1995, Mr. Li founded Dalian Aotong Automobile Repair & Assembly Factory ("**Aotong Repair & Assembly**"), a company engaged in automobile repair and maintenance services. Mr. Li served as the factory director and legal representative of Aotong Repair & Assembly, and he was responsible for its overall management and operations. From 1996 to 1998, Mr. Li served as the vice chairman of Dalian Toyota Maintenance & Service Co., Ltd. and general manager of Dalian Bonded Zone Toyota Automobile Sales Co., Ltd., and was responsible for the decisions of procurement and sales of automobiles as well as the management of the national distribution networks during his tenure. In 1998, Mr. Li founded Dalian Aotong Industry Co., Ltd. ("**Aotong Industry**"), a company engaged in distribution of automobiles. Aotong Industry is the predecessor of Zhongsheng (Dalian) Group Co., Ltd., which is presently an indirect wholly-owned subsidiary of our Group. Mr. Li has substantial senior management experience and more than 29 years' experience and in-depth knowledge of the PRC automobile industry. Mr. Li also received a Distinguished Lexus Dealer award in 2007 from Toyota Motor (China) Investment Co., Ltd., as part of the Lexus Certification Program.

DU Qingshan (杜青山), aged 56, has been serving as deputy general manager of the Group since 2007. Mr. Du has been an executive Director since 23 June 2008. He is responsible for the financial planning, strategy and management of the Group, and oversees all the financial matters of the Group. Prior to joining the Group in 2007, Mr. Du was appointed by the State-owned Assets Supervision and Administration Commission of Dalian Municipal Government to serve as the chief financial officer of a large-scale state-owned enterprise, Dalian DHI.DCW Group Co., Ltd. ("**Dalian DHI.DCW**") and was in charge of the general financial and accounting affairs of Dalian DHI.DCW. Mr. Du was primarily responsible for the financial operations of Dalian DHI.DCW, which contributed to his over 29 years' experience in the areas of accountancy and finance. Mr. Du received a Bachelor's degree in Economics from the Shanghai University of Finance and Economics in 1986 and a master's degree in Business Administration from Dongbei University of Finance and Economics in 2002.

YU Guangming (俞光明), aged 61, has been serving as deputy general manager of the Group since 2004. Mr. Yu has been an executive Director since 23 June 2008. He is responsible for the strategic business development of the Group as well as selecting and training middle-to-senior level managers of 4S dealerships of the Group. Since joining our Group in 2000,Mr. Yu has held numerous management positions in several of our principal subsidiaries, including Zhongsheng (Dalian) Group Co., Ltd., Dalian Aotong Dongfeng Honda Automobile Sales & Services Co., Ltd., Shanghai Guoxin Automobile Sales Co., Ltd. and Shanghai Zhongsheng Toyota Automobile Sales & Services Co., Ltd., primarily in charge of setting up, overseeing and improving the management teams of our subsidiaries, implementing the strategic decisions of the Group and liaising with the automakers and customers regarding business relationship building. Prior to joining the Group, Mr. Yu served as a manager of Shanghai Material Office of the PRC Ministry of Railways from 1975 to1994, and he was primarily responsible for the management of its business operations. From 1994 to 2000, Mr. Yu served as a deputy managing director of Hong Kong Union Park Company Limited, a Hong Kong subsidiary of China Railway Materials Commercial Corporation, a large-scale PRC state-owned enterprise, where he was in charge of its overall management and operations during his tenure. Mr. Yu has more than 19 years' relevant experience in the PRC automobile industry. Mr. Yu received a graduation certificate in respect of an associate degree in English from Shanghai International Studies University in 1985.

SI Wei (司衛), aged 56, has been an executive Director since 20 August 2012. Mr. Si joined the Group in June 2012 and since then has been responsible for the strategic development of the Group. Mr. Si has approximately 27 years' experience in the automobile industry. Mr. Si commenced his industry experience by working for automobile dealers from 1992 to 1999, during which period he was exposed to an array of automobile brands including Mitsubishi and Saab. In 1999, he joined the Audi Motor Department of Volkswagen (China) Investment Company Limited, where he was a sales manager responsible for sales of imported Audi automobiles and management and development of dealership network about imported Audi automobiles. From 2004 to 2006, Mr. Si was a sales director of Volkswagen (Finance) China Company Limited responsible for sales and dealership relationship. From 2006 to 2007, Mr. Si acted as the director of the Iveco Business Department for Fiat's representative office in China and took responsibilities for business development matters. Subsequently Mr. Si commenced his employment with Beijing Benz Automobile Co., Ltd. in 2007 where he was initially the general manager of dealership network development department, responsible for dealership network management and development. In 2008, Mr. Si assumed the office of vice executive president of Beijing Benz Automobile Co., Ltd. in charge of sales and marketing activities. Mr. Si received a Bachelor's degree in English and American literature from Beijing Normal College in 1987.

ZHANG Zhicheng (張志誠), aged 46, has been serving as vice-president of the Group since July 2008 and executive Director since 31 March 2014. Mr. Zhang joined the Group in 2003, and has held numerous management positions in several of our key operating subsidiaries, including Fuzhou Zhongsheng Toyota Automobile Sales Co., Ltd., Dalian Zhongsheng Lexus Automobile Sales & Services Co., Ltd. and Dalian Zhongsheng Toyota Automobile Sales & Services Co., Ltd., primarily responsible for implementing the strategic decisions of the Group and liaising with the automakers regarding developing our brand automobile sales business. Mr. Zhang currently oversees the sales and management of our brand automobile sales business. Mr. Zhang has over 16 years' relevant experience and in-depth expertise in the China's automobile industry. Mr. Zhang received a Master's degree in Business Administration from Dongbei University of Finance and Economics in 2003. Mr. Zhang also received Peak Performance General Manager awards in both 2006 and 2007 from Toyota Motor (China) Investment Co., Ltd., as part of the Lexus Certification Program.

NON-EXECUTIVE DIRECTORS

PANG Yiu Kai (彭耀佳) GBS, JP, aged 58, has served as a non-executive Director since 22 August 2016. He is the deputy managing director of Jardine Matheson Holdings Limited. He is also deputy chairman of Jardine Matheson Limited, chairman of Jardine Pacific, Zung Fu and Gammon, chairman and chief executive of Jardine Motors, and a director of Jardine Matheson (China) Limited. Mr. Pang joined the Jardine Matheson Group in Hong Kong in 1984, where he first worked in a variety of positions in the trading, marketing and retail sectors of the group. He was appointed director of Jardine Pacific in 1995 with responsibility for the company's restaurants businesses, and in 1999 he moved to Jardine Motors as chief executive officer of Zung Fu before becoming executive chairman in 2003. Prior to taking up his current role, he was appointed in 2007 as chief executive of a listed-subsidiary of Jardine Matheson Group, Hongkong Land Holding Limited, a property investment, management and development group.

Mr. Pang is a director of Dairy Farm International Holdings Limited (stock code: DFI), Hongkong Land Holdings Limited (stock code: HKLD), Jardine Matheson Holdings Limited (also deputy managing director) (stock code: JAR), Jardine Strategic Holdings Limited (stock code: JDS) and Mandarin Oriental International Limited (stock code: MDO), each of which has a standard listing on the London Stock Exchange, with secondary listings in Bermuda and Singapore. Mr. Pang was also a director of Yonghui Superstores Co., Ltd. (stock code: 601933), a company listed on the Shanghai Stock Exchange, from August 2016 to December 2018.

In addition to his business pursuits, Mr. Pang plays an active role in the business community and in public service in Hong Kong. In 2016 and 2008, he was awarded the Gold Bauhinia Star and the Silver Bauhinia Star, respectively, by the HKSAR Government. He was appointed a Justice of the Peace in 2001. He was chosen as one of Ten Outstanding Young Persons of Hong Kong in 1999. He is vice patron of the Community Chest of Hong Kong. He is also a member of the general committee and council of the Hong Kong General Chamber of Commerce and the chairman of the general committee and executive committee of the Employers' Federation of Hong Kong. He is also the chairmen of the HKSAR Government Advisory Committee on Gifted Education and HKSAR Government Standing Committee on Directorate Salaries and Conditions of Service, the HKSAR Government Standing Commission on Civil Service Salaries and Condition of Service and a member of HKSAR Government Trade and Industry Advisory Board. He is the chairman of the Hospital Governing Committee of Queen Mary Hospital and Tsan Yuk Hospital. He is also deputy chairman and member of the executive committee and council of the Hong Kong Management Association.

Mr. Pang was born in Hong Kong and graduated from the University of Nottingham with a Bachelor of Science Degree in Civil Engineering and a Master of Business Administration Degree from the University of Edinburgh in the United Kingdom. He completed the Program for Global Leadership at Harvard Business School in 1998. In July 2016, he was conferred an Honorary Doctorate degree by the University of Edinburgh.

CHEAH Kim Teck (謝金德), aged 67, has been serving as a non-executive Director since 12 June 2017. Mr. Cheah has been serving as the managing director, business development of Jardine Cycle & Carriage Limited ("**JC&C**") (a company listed on the Singapore Exchange, stock code: C07) since 2014 and is responsible for developing new lines of business in the region. He was formerly the chief executive officer of the group motor operations department of JC&C between 2004 and 2013. From June 2005 to March 2017, Mr. Cheah served as an independent director of Mapletree Logistics Trust Management Ltd. (a company listed on the Singapore Exchange, stock code: M44U). Prior to joining JC&C, Mr. Cheah held senior executive positions in various multinational companies, namely DaimlerChrysler Singapore Pte Ltd, Artal Food (SEA) Pte Ltd, McDonald's Restaurant Pte Ltd, Kentucky Fried Chicken Corporation and Coca-Cola Export Corporation. Mr. Cheah is also the chairman of Seletar Country Club and an independent director of Singapore Pools (Private) Ltd. Mr. Cheah holds a master's degree in Marketing from the University of Lancaster, United Kingdom.

INDEPENDENT NON-EXECUTIVE DIRECTORS

SHEN Jinjun (沈進軍), aged 61, has been serving as an independent non-executive Director since 16 November 2009. Mr. Shen served an independent non-executive director of Wuchan Zhongda Group Co., Ltd. (Stock code: 600704), a company listed on the Shanghai Stock Exchange, between August 2011 and April 2017, has become an independent non-executive director of China Grand Automotive Services Co., Ltd. (Stock code: 600297), a company listed on the Shanghai Stock Exchange, since July 2015 and an independent non-executive director of Beijing Changjiu Logistics Corp. (Stock code: 603569), a company listed on the Shanghai Stock Exchange, since August 2016. Mr. Shen has served as deputy chairman and secretary chief for the China Automobile Dealers Association since 2005 and has served as the chairman for China Automobile Dealers Association since 5 November 2014. Mr. Shen has also worked as the deputy chief of the Transport and Mechanical Section of Mechanical and Electrical Equipment Division of the State Administration of Supplies, chief of Automobile Section of Mechanical and Electrical Equipment Circulation Division of Ministry of Internal Trade and the chief of the Electrical, Mechanical and Metallic section of Production Circulation Division of the State Administration of Domestic Commerce. During that time, Mr. Shen was mainly responsible for administering the automobile dealing industry and participated in the formulation of related regulations. Mr. Shen completed all the related courses of an associate degree majoring in electronics at the Beijing Open University in 1982 and obtained a graduation certificate.

LIN Yong (林涌), aged 49, has been serving as an independent non-executive Director since 31 March 2014. Mr. Lin has over 23 years of experience in investment bank industry. He joined Haitong Securities Co., Ltd. in 1996 and was a general manager of the Investment Banking Department of Haitong Securities Co., Ltd. from 2001 to 2007 and he has been appointed as an assistant to general manager of Haitong Securities Co., Ltd. with effect from 30 December 2014. He has been the chief executive officer of Haitong International Holdings Limited (formerly known as "Hai Tong (HK) Financial Holdings Limited") since 2007 and is responsible for the overall operation of Haitong International Holdings Limited. He was appointed as an executive director on 23 December 2009 of Haitong International Securities Group Ltd. (stock code: 665) which is a company listed on the Stock Exchange and as the joint managing director of this company on 10 March 2010. He has been a deputy chairman of the board of directors and the managing director of this company as well as the chief executive officer of this group since 29 April 2011. In addition, Mr. Lin is the chairman of the board of directors or a director of various subsidiaries of this company and a responsible officer of Hai Tong Asset Management (HK) Limited, Hai Tong Capital (HK) Limited, Haitong International Asset Management Limited and Haitong International Capital Limited under the Securities and Futures Ordinance. Mr. Lin is one of the first batch of sponsor representatives of China Securities Regulatory Committee. Mr. Lin also served as a member of the advisory committee of the Securities and Futures Commission. In 2006, Mr. Lin was named 2006 Top Ten Outstanding Young Person in Financial Sector in Shanghai (2006年上海首屆十大金融傑出青年) and was honoured as the "the 2014 Shanghai Financial Industry Leader" (2014滬上金融業領袖) in 2014. He acts as an adjunct professor in Management College of Xiamen University and is a member of China Finance 40 Forum Executive Council since 12 May 2010. Mr. Lin holds a Doctorate Degree in Economics from Xi'an Jiaotong University.

YING Wei (應偉), aged 52, has served as an independent non-executive Director and chairman of audit committee of the Company since 19 December 2016. Mr. Ying served as an executive director and vice-president of China Resources Textiles (Holdings) Company Limited from 1989 to 2007. Mr. Ying served as a vice-president of China Water Affairs Group Limited (a company listed on the Stock Exchange, stock code: 855) from 2007 to 2009, an executive director and president of China Botanic Development Holdings Limited (renamed as China City Infrastructure Group Limited) (a company listed on the Stock Exchange, stock code: 2349) from 21 July 2008 to 30 July 2009 and an independent non-executive director of China Public Procurement Limited (a company listed on the Stock Exchange, stock code: 1094) from 28 December 2012 to 24 March 2014. Mr. Ying served as a non-executive director of New Focus Auto Tech Holdings Limited (a company listed on the Stock Exchange, stock code：360) from 28 August 2013 to 29 March 2018 and a non-executive director of China Health Group Limited (a company listed on the Stock Exchange, stock code：673) from 18 June 2016 to 7 May 2018. Currently, Mr. Ying is a director of Giant Network Group Co., Ltd (formerly Chongqing New Century Cruise Co., Ltd.) (a company listed on the Shenzhen Stock Exchange, stock code: 2558), an independent non-executive director of CHTC Fong's Industries Company Limited (a company listed on the Stock Exchange, stock code: 641) and Fountain Set (Holdings) Limited (a company listed on the Stock Exchange, stock code: 420). Mr. Ying is also a managing partner of CDH Shanghai Dinghui Bai Fu Wealth Management Co., Ltd. Mr. Ying is a non-practicing member of The Chinese Institute of Certified Public Accountants and holds a master's degree in Business Administration from the University of San Francisco and a bachelor's degree in Economics from Zhejiang Gongshang University (formerly Hangzhou College of Commerce).

CHIN Siu Wa Alfred (錢少華), aged 62, was appointed as an independent non-executive director of the Company on 10 August 2018. Mr. Chin has been serving as group vice president at Shangri-La Asia Limited ("**SA**", a company listed on the Stock Exchange with stock code 69) since February 2017 and served as vice president of development at SA from February 2004 to September 2007. Mr. Chin has also been serving as the non-executive director of the Kerry Logistics Network Limited (a company listed on the Stock Exchange with stock code 636) since November 2013. Mr. Chin served as a director of Kerry Properties Limited ("**KPL**", a company listed on the Stock Exchange with stock code 683) from September 2007 to January 2017 and was re-designated as an executive director of KPL from July 2009 to January 2017. He also served as a co-managing director of KPL from August 2013 to September 2015. Mr. Chin served as chairman and general manager of Zhongshan City Tourism Group Company, a state owned enterprise primarily engaged in the business of tourism development, from January 1996 to May 2002, where he was responsible for the day-to-day general management, asset management, and business development primarily for the China market. Mr. Chin graduated from South China Normal University in 1986 and completed an advanced management programme at Harvard Business School in 2002.

OTHER SENIOR MANAGEMENT

The table below shows certain information in respect of our senior management (excluding Directors who also hold executive positions):

Name	Age	Position
TANG Xianfeng	49	Vice-president
SHAO Wencheng	50	Vice-president

TANG Xianfeng (唐憲峰), aged 49, joined our Group in January 2014 and currently serves as vice-president of our Group, primary responsible for construction and development. Prior to joining the Group, Mr. Tang served as the vice-president of Dalian Huarui Heavy Industry Group Co., Ltd. from January 2012 to December 2013. In addition, Mr. Tang also served as a designer in the research institute, office vice-director, assistant to the head of reducer factory, vice-director of labour and personnel department and head of port machinery factory of Dalian Daqi Group from 1999 to 2003. Mr. Tang joined Dalian DHI.DCW Group Co., Ltd. in June 2003 and served as the executive vice head and head of Second Business Division, assistant to the general manager and vice general manager of the Group. Mr. Tang obtained a Bachelor's degree in lifting transportation and mechanical engineering from Taiyuan Heavy Machinery Institute in 1991 and obtained a Master's degree in mechanical engineering Wuhan University of Technology in 2006. Mr. Tang obtained the senior professional manager qualification and was qualified as professor and researcher level senior engineer.

SHAO Wencheng (邵文成), aged 50, first joined our Group in June 1998 and currently serves as vice-president of our Group, primarily responsible for after-sales and accessories business. Mr. Shao worked as general manager of Dalian Zhongsheng Group Auto Accessories Co., Ltd. from December 2014 to February 2018. Mr. Shao worked as the general manager in Zhongsheng Group's East China Regional Office from June 2014 to December 2014 and was also general manager for Zhongsheng Group's East China District Office from January 2014 to June 2014. Mr. Shao has also worked in various capacities for Zhongsheng Motor Sales & Service Co., Ltd. in Kunming, Dalian and Nanjing. Mr. Shao obtained a bachelors degree in Engineering in cars and tractors from Liaoning Institute of Technology in 1995.

COMPANY SECRETARIES

KAM Mei Ha Wendy (甘美霞), aged 51, was appointed as joint company secretary of the Company on 1 July 2010 and resigned on 1 April 2019. She is an executive director of Corporate Services Division of Tricor Services Limited and a fellow member of both The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. Ms. Kam has over 27 years of experience in corporate secretarial area.

MAK Sze Man (麥詩敏), aged 44, was appointed as joint company secretary of the Company on 1 July 2010. She is a senior manager of Corporate Services Division of Tricor Services Limited and an associate member of both The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. Ms. Mak has over 22 years of experience in corporate secretarial area.

YAO Zhenchao (姚振超), aged 38, was appointed as joint company secretary of the Company on 1 April 2019. She joined the Group in July 2011 and currently serves as the chief legal officer of the Company. She is admitted as a registered attorney in People's Republic of China and the State of New York, United States of America.

REPORT OF THE DIRECTORS

The Directors are pleased to present this annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018 (the "**Financial Statements**").

PRINCIPAL ACTIVITIES

The Group's operations are conducted in the PRC through its subsidiaries in the PRC. The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the sale and service of motor vehicles. There were no significant changes in the nature of the Group's principal activities during the Reporting Period.

We are a leading national automobile dealership group in China. We have dealership agreements to operate our 4S dealerships for a diversified portfolio of automobile brands, consisting of luxury automobile brands including Mercedes-Benz, Lexus, Audi, Jaguar, Land Rover, Porsche, Chrysler, Volvo and Imported Volkswagen, and mid-to-high end automobile brands including Toyota and Nissan. Through our "One-stop Automobile Shop" business model, we offer a comprehensive range of new automobiles and after-sales products and services in each of our 4S dealerships. In addition to our new automobile sales business, our after-sales businesses offer spare parts, automobile accessories, repair and maintenance services, detailing services, and other automobile-related products and services.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the financial statements on pages 78 to 175 of this annual report.

BUSINESS REVIEW

A review of the business of the Company and a discussion and analysis of the Company's performance during the year, and the material factors underlying its results and financial position are provided in the Management Discussion and Analysis on pages 12 to 18. Main risks and uncertain factors faced by the Group and corresponding mitigation methods are set out in note 47 to the Consolidated Financial Statements. An analysis of the Group's performance during the year using financial Key Performance Indicators is provided in the section headed "Management Discussion and Analysis-Financial Review" on pages 12 to 18 of this annual report. The future development of the Company's business is discussed throughout this annual report including in the Chief Executive Officer's Statement on pages 6 to 7 and Management Discussion and Analysis on pages 12 to 18. The directors recognises the importance of environmental protection and has adopted stringent measures for environmental protection in order to ensure the Group's compliance to the prevailing environmental protection laws and regulations. Additional details regarding the Company's performance on environmental and social-related key performance indicators and policies are provided in the "environment policies and performance" of this Report of Directors on page 71.

Compliance with relevant laws and regulations which have a significant impact on the Company are provided in the "compliance with laws and regulations" of this Report of Directors; and an account of the Company's relationships with its employees, customers, suppliers, shareholders, etc. are disclosed, in "relationship with stakeholders" of this Report of Directors on page 71.

CAPITAL

Details of the capital of the Group during the Reporting Period are set out in note 34 to the Financial Statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the Reporting Period are set out in the consolidated statement of changes in equity and note 49 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company has distributable reserves of RMB5,160.7 million in total available for distribution, of which RMB727.3 million has been proposed as final dividend for the year.

DIVIDEND POLICY

The Board has adopted a dividend policy. The Company do not have any pre-determined dividend payout ratio.

The Board shall also take into account the following factors of the Group when considering the declaration and payment of dividends: financial results; cash flow situation; business conditions and strategies; future operations and earnings; capital requirements and expenditure plans; interests of shareholders; any restrictions on payment of dividends; and any other factors that the Board may consider relevant.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 176 of this annual report.

DONATIONS

The Company made a donation of approximately RMB800,000 to various PRC charity projects or organizations for the year of 2018.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Reporting Period are set out in note 13 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group as at 31 December 2018 are set out in note 26 to the Financial Statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of our directors, the Company has maintained the amount of public float as approved by the Stock Exchange and as permitted under the Listing Rules as at the date of this annual report.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

The Directors of the Company during the Reporting Period and up to the date of this annual report are:

EXECUTIVE DIRECTORS

Mr. Huang Yi *(Chairman)*
Mr. Li Guoqiang *(President and Chief Executive Officer)*
Mr. Du Qingshan
Mr. Yu Guangming
Mr. Si Wei
Mr. Zhang Zhicheng

NON-EXECUTIVE DIRECTORS

Mr. Pang Yiu Kai
Mr. Cheah Kim Teck

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Shen Jinjun
Mr. Lin Yong
Mr. Ying Wei
Mr. Chin Siu Wa Alfred (Appointed on 10 August 2018)
Mr. Shoichi Ota (Retired on 11 June 2018)

Pursuant to the Articles of Association, Mr. Li Guoqiang, Mr. Du Qingshan, Mr. Zhang Zhicheng and Mr. Lin Yong shall retire by rotation at the forthcoming annual general meeting whereas Mr. Chin Siu Wa Alfred (who was appointed by the Board on 10 August 2018) shall hold office only until the forthcoming annual general meeting. These five retiring Directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Mr. Lin Yong and Mr. Chin Siu Wa Alfred, each of them is holding other listed company directorships as set out under "Directors and Senior Management" on page 50, have confirmed their independence with reference to the factors set out in Rule 3.13 of the Listing Rules. The Nomination Committee has reviewed the structure and composition of the Board, the confirmations and disclosures given by the Directors, the qualifications, skills and experience, time commitment and contribution of the retiring Directors with reference to the nomination principles and criteria set out in the Company's Board Diversity Policy and Director Nomination Policy and the Company's corporate strategy, and the independence of all independent non-executive Directors. The Nomination Committee has recommended to the Board on re-election of all the retiring Directors including the aforesaid independent non-executive Directors who are due to retire at the forthcoming annual general meeting. The Company considers that the retiring independent non-executive Directors are independent in accordance with the independence guidelines set out in the Listing Rules and will continue to bring valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning and diversity.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Company are set out on pages 50 to 56 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years with effect from their respective date of appointment unless terminated by not less than three months' notice in writing served by either the executive Directors or the Company. Each of the non-executive Directors and independent non-executive Directors has signed an appointment letter with the Company for a term of three years with effect from their respective date of appointment. The appointments are subject to the provisions of retirement and rotation of directors under the Articles of Association.

None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

We have received from each of the independent non-executive Directors, namely Mr. Shen Jinjun, Mr. Lin Yong, Mr. Ying Wei and Mr. Chin Siu Wa Alfred, the confirmation of their respective independence pursuant to rule 3.13 of the Listing Rules. The Company has duly reviewed the confirmation of independence of each of these Directors. We consider that our independent non-executive Directors have been independent from the date of their appointment to 31 December 2018 and remain so as of the date of this annual report.

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

As at 31 December 2018, the interests and short positions of our directors and chief executives in the shares, underlying shares or debentures of the Company or any of our associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code as contained in Appendix 10 to the Listing Rules, were as follows:

LONG POSITIONS IN THE COMPANY'S SHARES

Name of Director	Capacity/Nature of Interest	Total Number of Ordinary Shares	Approximate Percentage of Shareholding (%)
Mr. Huang Yi	Interest of controlled corporation	338,331,504 (Long position)	14.89
	Founder of a discretionary trust	486,657,686 (Long position)	21.42
	Agreement to acquire interests	486,657,686 (Long position)	21.42
Mr. Li Guoqiang	Interest of controlled company	185,653,000 (Long position)	8.17
	Founder of a discretionary trust	486,657,686 (Long position)	21.42
	Agreement to acquire interests	639,336,190 (Long position)	28.14
Mr. Du Qingshan	Beneficial owner (Note 1)	5,500,000 (Long position)	0.24
Mr. Zhang Zhicheng	Beneficial owner (Note 1)	5,500,000 (Long position)	0.24
Mr. Chin Siu Wa Alfred	Beneficial owner	100,000 (Long position)	0.00

Notes:

1. These interests represent options granted to the Director as beneficial owner under the Share Option Scheme.

Save as disclosed above, none of the Directors or chief executives of the Company has or is deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at the end of the Reporting Period.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the followings are the persons, other than the Directors or chief executives of the Company, who had interests or short positions in the shares and underlying shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

LONG POSITION IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

Name of Shareholder	Capacity/Nature of Interest	Total Number of Ordinary Shares	Approximate Percentage of Shareholding (%)
Blue Natural Development Ltd. (Note 1)	Beneficial owner and agreement to acquire interests	1,311,646,876 (long position)	57.74
Light Yield Ltd. (Note 2)	Beneficial owner, interest of controlled company and agreement to acquire interests	1,311,646,876 (long position)	57.74
Vest Sun Ltd. (Note 3)	Interest of controlled company and agreement to acquire interests	1,311,646,876 (long position)	57.74
Mountain Bright Limited (Note 4)	Beneficial owner and agreement to acquire interests	1,308,019,876 (long position)	57.70
UBS TC (Jersey) Ltd.	Trustee, interest of controlled company and agreement to acquire interests	1,308,019,876 (long position)	57.70
Vintage Star Limited (Note 5)	Beneficial owner and agreement to acquire interests	1,308,019,876 (long position)	57.70
Jardine Strategic Holdings Limited	Interest of controlled company	453,412,844 (long position)	19.98
Jardine Matheson Holdings Limited	Interest of controlled company	453,412,844 (long position)	19.98
JSH Investment Holdings Limited	Beneficial owner	453,412,844 (long position)	19.98
FIL Limited (Note 6)	Interest of controlled company	135,460,520 (long position)	5.96
Pandanus Partners L.P. (Note 6)	Interest of controlled company	135,460,520 (long position)	5.96
Pandanus Associates Inc. (Note 6)	Interest of controlled company	135,460,520 (long position)	5.96

Notes:

1. Blue Natural Development Ltd. is owned by Light Yield Ltd. (62.3%) and Vest Sun Ltd. (37.7%). Mr. Huang Yi and Mr. Li Guoqiang are directors of Blue Natural Development Ltd.

2. Light Yield Ltd. is wholly-owned by Mr. Huang Yi, who is also the sole director of Light Yield Ltd.

3. Vest Sun Ltd. is wholly-owned by Mr. Li Guoqiang, who is also the sole director of Vest Sun Ltd.

4. Mountain Bright Limited is wholly owned by UBS TC (Jersey) Ltd. as trustee of a trust settlement for Mr. Huang Yi (the settler of the trust) and his family.

5. Vintage Star Limited is wholly owned by UBS TC (Jersey) Ltd. as trustee of a trust settlement for Mr. Li Guoqiang (the settler of the trust) and his family.

6. Pandanus Associates Inc. holds 100% interests in Pandanus Partners L.P., and Pandanus Partners L.P. holds 37.51% interests in FIL Limited. FIL Limited held 135,460,520 shares (long position) of the Company in aggregate through its controlled entities, and was deemed to have interests in the shares of the Company held by such entities.

Save as disclosed above, as at the end of the Reporting Period, the Directors and the chief executives of the Company are not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CONVERTIBLE BONDS

2018 CONVERTIBLE BONDS

On 11 October 2017, the Company and J.P. Morgan Securities Plc (the "**Manager**") entered into a subscription agreement, according to which the Company agreed to issue, and the Manager agreed to subscribe for (or procure its nominee to subscribe for) zero coupon rate convertible bonds due 2018 of an aggregate principal amount of HK$2,350 million (the "**2018 Convertible Bonds**").

The 2018 Convertible Bonds were convertible into ordinary shares of HK$0.0001 each in the share capital of the Company at an initial conversion price of HK$20.2860 per conversion share at the option of the holder thereof, at any time on or after the 41st day after the issue date up to the close of business on the date falling ten days prior to the maturity date, being a date falling on or about 25 October 2018. The closing price per share of the Company was HK$17.64 as quoted on the Hong Kong Stock Exchange on 11 October 2017 (being the date on which the terms of the subscription of the 2018 Convertible Bonds were fixed). The net price of each conversion share was approximately HK$19.8545. The issue of 2018 Convertible Bonds was completed on 30 October 2017. Upon full conversion of the 2018 Convertible Bonds at the initial conversion price, a total of 115,843,438 ordinary shares would be issued, with an aggregate nominal value of HK$11,584.34. To the best of the Directors' knowledge, the Convertible Bonds were offered and sold by the Manager to no less than six independent placees (who are independent individuals, corporate and/or institutional investors).

The Directors considered that the issue of the Convertible Bonds represented an opportunity to raise capital for the Company while broadening the shareholder base and capital base of the Company and to obtain immediate funding for further business expansion.

The net proceeds (after deduction of commission and expenses) from the issue of the Convertible Bonds amounted to approximately HK$2,300 million, which as at 31 December 2017 had been utilised by the Company as follows:

Intended use of net proceeds	Actual use of the net proceeds
(i) approximately 50%, being HK$1,150 million, for opening new 4S stores in order to further expand the Company's network coverage and for potential merger and acquisition when such opportunities arises;	(i) approximately 50%, being HK$1,150 million, for opening new 4S stores in order to further expand the Company's network coverage and for potential merger and acquisition when such opportunities arises;
(ii) approximately 25%, being HK$575 million, for working capital purpose to strengthen the financial position of the Group; and	(ii) approximately 25%, being HK$575 million, for working capital purpose to strengthen the financial position of the Group; and
(iii) approximately 25%, being HK$575 million, for repayment of offshore debt.	(iii) approximately 25%, being HK$575 million, for repayment of offshore debt.

On 3 May 2018, the Company entered into a dealer manager agreement with the Manager, pursuant to which the Manager was appointed as the Company's dealer manager (the "**Sole Dealer Manager**") in connection with the repurchase of the 2018 Convertible Bonds. The Company, through the Sole Dealer Manager, repurchased approximately HK$2,256 million in aggregate principal amount of the 2018 Convertible Bonds at a total repurchase price of approximately HK$2,713 million (the "**Repurchase**"). Upon completion of the Repurchase, approximately HK$2,256 million in aggregate principal amount of the 2018 Convertible Bonds were cancelled.

On 25 May 2018, 31 May 2018, 6 June 2018 and 19 June 2018, the Company received conversion notices from holders of the 2018 Convertible Bonds (the "**Bondholders**") in relation to the exercise of the conversion rights attached to the 2018 Convertible Bonds, to convert the 2018 Convertible Bonds in the principal amount of HK$6 million, HK$2 million, HK$49 million and HK$37 million, respectively, at the conversion price of HK$20.2860 per share (the "**Conversion**"). Accordingly, 295,770 shares, 98,590 shares, 2,415,458 shares and 1,823,917 shares of the Company (the "**Conversion Shares**") were allotted to the respective Bondholders on 30 May 2018, 4 June 2018, 12 June 2018 and 20 June 2018, respectively, pursuant to the terms and conditions of the 2018 Convertible Bonds. The Conversion Shares rank *pari passu* in all respects among themselves and with all other existing shares of the Company in issue. After the Conversion on 20 June 2018, the total number of issued shares of the Company increased to 2,271,697,955 shares and all the outstanding 2018 Convertible Bonds have been fully converted into ordinary shares of the Company in accordance with the terms and conditions of the 2018 Convertible Bonds.

NEW CONVERTIBLE BONDS

On 4 May 2018, the Company and the Manager entered into a bond subscription agreement, according to which (i) the Company agreed to issue, and the Manager agreed to subscribe and pay for (or procure subscribers to subscribe and pay for) HK$3,925 million in aggregate principal amount of zero coupon convertible bonds due 2023 (the "**2023 Convertible Bonds**"); and (ii) the Company agreed to grant the Manager an option to subscribe for up to an additional HK$775 million in principal amount of the 2023 Convertible Bonds (the "**Option Bonds**", together with the 2023 Convertible Bonds, the "**New Convertible Bonds**"). On 14 May 2018, the Manager exercised in full the option granted by the Company, pursuant to which the Company is required to issue the Option Bonds in the aggregate principal amount of HK$775 million.

The New Convertible Bonds are convertible into fully-paid ordinary shares of HK$0.0001 each in the share capital in the Company at an initial conversion price of HK$30.0132 per conversion share at the option of the holder thereof, at any time on or after the 41st day after the issue date up to the close of business on the tenth day prior to the maturity date, being a date falling on or about 23 May 2023. The closing price per share of the Company was HK$23.5398 as quoted on the Hong Kong Stock Exchange on 4 May 2018 (being the date on which the terms of the subscription of the New Convertible Bonds were fixed). The net price of each conversion share was approximately HK$29.63. The issue of New Convertible Bonds in the aggregate amount of HK$4,700 million was completed on 23 May 2018. To the best of the Directors' knowledge, the New Convertible Bonds were offered and sold by the Manager to no less than six independent placees (who are independent individuals, corporate and/or institutional investors).

As at the date of this annual report, there was no conversion of the New Convertible Bonds and the outstanding principal amount of all the New Convertible Bonds was HK$4,700 million. Upon full conversion of the outstanding New Convertible Bonds at the initial conversion price, the Company would issue 156,597,763 shares, with an aggregate nominal value of HK$15,659.78, increasing the total issued shares of the Company to 2,428,295,718 shares, which represent approximately 6.89% of the then existing share capital of the Company (calculated as at 31 December 2018), and approximately 6.45% of the issued share capital of the Company as enlarged by the issue of the shares upon full conversion of all the outstanding New Convertible Bonds. Upon full exercise of the conversion rights attaching to the outstanding New Convertible Bonds, based on their shareholding as at 31 December 2018, the shareholdings of Mr. Huang Yi, Mr. Li Guoqiang and UBS TC (Jersey) Ltd., the substantial shareholders of the Company, will be diluted from 57.74%, 57.74% and 57.70% respectively to 54.02%, 54.02% and 53.87% respectively of the issued share capital of the Company as enlarged by the issue of the Shares upon the conversion of all the outstanding New Convertible Bonds. Based on the profit for the period attributable to ordinary equity holders of the parent amounted to approximately RMB3,636.6 million, the basic and diluted earnings per share attributable to the owners of the Company were RMB1.60 and RMB1.56 respectively.

For the year ended 31 December 2018, the Group has a net profit of approximately RMB3,695.3 million. As at 31 December 2018, the Group had a consolidated reserve of RMB18,239.4 million and net current assets of RMB3,861.0 million. The Company will redeem each New Convertible Bond on the maturity date at its principal amount together with accrued and unpaid interest thereon. Based on the financial position of the Group, to the best knowledge of the Company, the Company expects that it will be able to meet its redemption obligations under the outstanding New Convertible Bonds issued by the Company. As the New Convertible Bonds bear no interest on the principal amount, it would be equally financially advantageous for the bondholders to convert or redeem the New Convertible Bonds (and therefore the bondholders would be indifferent as to whether the New Convertible Bonds are converted or redeemed) in the event that the price of each share of the Company traded on the Hong Kong Stock Exchange equals the then adjusted conversion price of the New Convertible Bonds. Conversion price of all the New Convertible Bonds will be subject to adjustment for consolidation or subdivision, capitalisation of profits or reserves, capital distribution, right issues, debt equity swap and other dilutive events, as the case may be, which may have impacts on the rights of the holders of the New Convertible Bonds.

The Directors considered that the issue of the New Convertible Bonds represented an opportunity to raise capital for the Company while broadening the shareholder base and capital base of the Company and to obtain immediate funding for further business expansion.

The total net proceeds (after deduction of commission and expenses) from the issue of the New Convertible Bonds amounted to approximately HK$4,640 million, of which, approximately HK$3,880 million was derived from the issue of the 2023 Convertible Bonds and approximately HK$760 million was derived from the issue of the Option Bonds.

As at 31 December 2018, the net proceeds of approximately HK$3,880 million from the issue of the 2023 Convertible Bonds had been utilised by the Company in the Reporting Period as follows:

Intended use of net proceeds	Actual use of the net proceeds
(i) approximately 61%, being HK$2,366.8 million, for the Repurchase;	(i) approximately 61%, being HK$2,366.8 million, for the Repurchase;
(ii) approximately 15%, being HK$582 million, for opening new 4S stores in order to further expand the Company's network coverage and for potential mergers and acquisitions when such opportunities arise;	(ii) approximately 15%, being HK$582 million, for opening new 4S stores in order to further expand the Company's network coverage and for potential mergers and acquisitions when such opportunities arise;
(iii) approximately 14%, being approximately HK$543.2 million, for working capital purpose to strengthen the financial position of the Group; and	(iii) approximately 14%, being HK$543.2 million, for working capital purpose to strengthen the financial position of the Group; and
(iv) approximately 10%, being HK$388 million, for repayment of offshore debt.	(iv) approximately 10%, being HK$388 million, for repayment of offshore debt.

As at 31 December 2018, the net proceeds of approximately HK$760 million from the issue of the Option Bonds had been utilised by the Company in the Reporting Period as follows:

Intended use of net proceeds	Actual use of the net proceeds
(i) approximately 30%, being HK$228 million, for opening new 4S stores in order to further expand the Company's network coverage and for potential mergers and acquisitions when such opportunities arise;	(i) approximately 30%, being HK$228 million, for opening new 4S stores in order to further expand the Company's network coverage and for potential mergers and acquisitions when such opportunities arise;
(ii) approximately 40%, being HK$304 million, for working capital purpose to strengthen the financial position of the Group; and	(ii) approximately 40%, being HK$304 million, for working capital purpose to strengthen the financial position of the Group; and
(iii) approximately 30%, being HK$228 million, for repayment of offshore debt.	(iii) approximately 30%, being HK$228 million, for repayment of offshore debt.

Details of the 2018 Convertible Bonds and the New Convertible Bonds are set out in note 27 to the financial statements.

The net proceeds from the issue of the New Convertible Bonds had been applied in accordance with the intended use as disclosed in the announcements of the Company dated 6 May 2018 and 15 May 2018.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the year ended 31 December 2018 was the Company or any of its subsidiaries or holding company or any subsidiary of the Company's holding company, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

DIRECTORS AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

For the year ended 31 December 2018 and up to the date of this annual report, none of the Directors and controlling shareholders (i.e. Mr. Huang Yi, Mr. Li Guoqiang, Light Yield Ltd., Vest Sun Ltd., Blue Natural Development Ltd., Mountain Bright Limited, UBS TC (Jersey) Ltd. and Vintage Star Limited) of the Company was interested in any business which competes or is likely to compete with the businesses of our Group.

We have received an annual written confirmation from our controlling shareholders, including Mr. Huang Yi and Mr. Li Guoqiang, in respect of the compliance by and with the provisions of the non-competition deed entered into between the Company and our controlling shareholders (the "**Non-competition Deed**").

Our independent non-executive Directors have reviewed the compliance with the Non-competition Deed during the financial year ended 31 December 2018 and up to the date of this annual report based on information and confirmation provided by or obtained from controlling shareholders, and were satisfied that our controlling shareholders, including Mr. Huang Yi and Mr. Li Guoqiang, have duly complied with the Non-competition Deed.

CONNECTED TRANSACTIONS

The Board confirmed that none of the related party transactions set out in note 45 to the financial statements constituted non-exempt connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT OR CONTRACTS

No director or any entity connected with any Director had a material interest, either directly or indirectly, in any transactions, arrangement or contract of significance to the business of our Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2018 and up to the date of this annual report.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's Board with reference to Directors' duties, responsibilities and performance and the results of our Group.

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

RETIREMENT SCHEMES

Details of the retirement benefits plans of our Group are set out in note 31 to the financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period and up to the date of this annual report.

CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, at no time during the year had the Company or any of its subsidiaries entered into any contract of significance with the controlling shareholder or any of its subsidiaries, nor had any contract of significance been entered into for the services provided by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

SHARE OPTION SCHEME

The Share Option Scheme was conditionally approved by a resolution of the shareholders on 9 February 2010 and adopted by a resolution of the Board on the same day. Unless it is terminated by the Board or our shareholders in general meeting in accordance with the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of ten years on the date which it becomes unconditional. After the period, no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to exercise any subsisting options granted prior to the expiry of this ten year period or otherwise as handled in accordance with the provisions of the Share Option Scheme. The amount payable by a participant upon of a grant of option is HK$1.00. The last day for accepting and paying for the consideration of the option shall be determined by the Board and shall be set out on the offer letter for granting such option. The period during which a granted option may be exercised in accordance with the terms of the Share Option Scheme shall be the period of time to be notified by the Board to each grantee, which the Board may in its absolute discretion determine, save that such period shall not be more than ten years commencing on the offer date.

The Board may, at its absolute discretion, offer any employee, management member or director of the Company, or any of our subsidiaries and third party service providers the options to subscribe for shares on the terms set out in the Share Option Scheme. The purpose of the Share Option Scheme is to attract and retain skilled and experienced personnel, to incentivize them to remain with us and to give effect to our customer-focused corporate culture, and to motivate them to strive for our future development and expansion, by providing them with the opportunity to acquire equity interests in the Company.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not in aggregate exceed 10% of the share in issue as at the date of approval of the Share Options Scheme. No option may be granted to any one person such that the total number of shares issued and to be issued upon the exercise of options granted and to be granted to that person in any 12 months period up to the date of the latest grant exceeds 1% of our issued share capital from time to time, unless the approval of our shareholders is obtained.

The amount payable for each share to be subscribed for under an option upon exercise shall be determined by the Board and notified to a proposed beneficiary at the time of offer of the option and shall be not less than the higher of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of the Shares. The Share Option Scheme does not contain any minimum period(s) for which an option must be held before it can be exercised. However, at the time of grant of the options, the Company may specify any such minimum period(s).

Details of the options to subscribe ordinary shares of the Company, granted under the Share Option Scheme and the movement during the Reporting Period are set out below:

			Number of Share Options				
Name of Grantees	Date granted	Exercise price per share	Outstanding as at 31 December 2017	Granted during the period	Exercised during the period	Lapsed/ Cancelled during the period	Outstanding as at 31 December 2018
Mr. Du Qingshan							
— Executive Director of the Board	26 April 2018	HK$22.60	–	5,500,000[1]	–	–	5,500,000
Mr. Zhang Zhicheng							
— Executive Director of the Board	26 April 2018	HK$22.60	–	5,500,000[1]	–	–	5,500,000
Total							11,000,000

Note:

(1) On 26 April 2018, the Company offered to grant share options (the "**Share Options**") to Mr. Du Qingshan and Mr. Zhang Zhicheng under the Share Option Scheme, which will entitle them to subscribe for an aggregate of 11,000,000 new ordinary shares of HK$0.0001 each in the capital of the Company. The Share Options will be fully vested from 26 April 2019. The Share Options are exercisable from 26 April 2019 to 25 April 2028 (both dates inclusive) at a price of HK$22.60 per share. The closing price of the shares in the Company immediately before 26 April 2018 is HK$22.35 per share.

Further details of the Share Options are set out in note 36 to the financial statements. The Binomial Option Pricing Model is one of the commonly used models to estimate the fair value of an option which can be exercised before the expiry of the option period. The value of an option varies with different variables of certain subjective assumptions. The significant inputs into the model were the exercise price of HK$22.60 at the grant date, volatility of 33.94%, dividend yield of 3.00% and an annual risk-free interest rate of 2.22%.

Any change in variables so adopted may materially affect the estimation of the fair value of an option.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits.

Save as disclosed above, during the Reporting Period and up to the date of this annual report, no other options have been granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme. As at 31 December 2018, the total number of shares available for issue under the Share Option Scheme remained to be 144,999,280, representing approximately 6.38% of the issued share capital of the Company. As at the date of this annual report, the remaining life of the Share Option Scheme is approximately ten months.

DEBENTURES IN ISSUE

Save as disclosed above, during the Reporting Period, the Company did not have any debentures in issue during the year ended 31 December 2018.

EQUITY-LINKED AGREEMENT

Save for the 2018 Convertible Bonds, New Convertible Bonds and the Share Option Scheme, the Company did not enter into any equity-linked agreement during the year ended 31 December 2018.

PERMITTED INDEMNITY PROVISION

The Company has purchased appropriate liability insurance for its Directors and senior management. The permitted indemnity provisions are set out in such liability insurance. Save as disclosed above, no permitted indemnity provision was made by the Company for the year ended 31 December 2018 and no permitted indemnity provision was in force as at the date of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the percentage of the aggregate sales attributable to the Group's five largest customers was less than 30% of the Group's total sales. As an automobile dealer, the Group has a large and diverse customer base across China. The respective percentage of purchases attributable to the Group's largest supplier and five largest suppliers in aggregate was 26.8% and 69.5% respectively. These suppliers are relatively large and reputable corporations with long-standing relationships with the Group.

None of our Directors or any of their associates or any shareholders (which to the best knowledge of our directors owned more than 5% of the Company's issued share capital) had a material interest in our five largest customers and suppliers.

TAX RELIEF

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holding of the shares of the Company.

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

Save as disclosed in this annual report, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the Reporting Period of our Group are set out in note 48 to the Financial Statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group recognises the importance of environmental protection and has adopted stringent measures for environmental protection in order to ensure our compliance to the prevailing environmental protection laws and regulations. Adhering to the concept of green environmental protection, the Group has also promoted green operations and advocated the concept of green office. Environmental protection, energy conservation and emissions reduction and reasonable and efficient utilization of resources have been consistently implemented in the daily operation activities of the Group. The Group has also been working on reducing its energy use, consumption and wastage by actively promoting recycling concept, using less paper and saving electric power and use of water. Going forward, the Group will continue to develop sustainable policies and designs to reduce its environmental impact not only internally within its offices but also externally in the regions it operates in.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company recognizes the importance of compliance with regulatory requirements and the risk of non-compliance with such requirements could lead to the termination of operating licenses. The Company has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with regulators effectively through effective communications. During the year under review, the Company has complied, to the best of the knowledge of Directors, with all relevant rules and regulations that have a significant impact on the Company.

RELATIONSHIP WITH STAKEHOLDERS

The Company recognizes that our employees, customers and business associates are key to our sustainability development. We strive to achieve corporate sustainability through engaging our employees, providing quality services for our customers, collaborating with business partners and supporting the community and social welfare.

The Company places significant emphasis on human capital. The Company provides a fair workplace, promoting non-discrimination and diversity to our staff, together with competitive remuneration and benefits, as well as a range of opportunities for career advancement based on employees' merits and performance. Furthermore, we have established and will continue to promote our KPI-driven corporate culture with a clear career and promotion system to motivate our employees. Our employees are provided with rotation opportunities both cross-stores and cross-functions to develop their skills and their own career path with us.

We promote a customer-oriented culture within the Company. Our corporate motto is "Zhongsheng Group — Lifetime Partner", and it is central to our corporate culture. The Company values the feedback from customers by daily communication and other means. The Company has also established the mechanism about customer service and support. The Company treats providing customer support as an opportunity to improve our relationship with the customer, addressing customer's concern in a timely manner and in accordance with international standards.

We have strong and established working relationships with leading global automakers and their PRC joint venture corporations. We believe that our suppliers are equally important in our development into a first-class automobile dealer enterprise. Therefore, we proactively collaborate with our business partners to deliver quality sustainable services.

With the goal of developing into a preeminent international enterprise and a trustworthy public company, the Company actively fulfill its social responsibility. The Group, with high quality products and services, is committed to creating good internal and external corporate relationships, and build a harmonious enterprise to undertake its responsibilities for employees, customers, suppliers and the shareholders.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the CG Code contained in Appendix 14 to the Listing Rules. Throughout the Reporting Period, the Company has complied with the code provisions in the CG Code.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2018 have been audited by Ernst & Young, certified public accountants. Ernst & Young retired and a resolution to re-appoint Ernst & Young as the auditors of the Company in the following year will be proposed at the Company's forthcoming annual general meeting. The Company did not change its auditor during the preceding three years.

PROPOSED DISTRIBUTION OF FINAL DIVIDEND

The Board resolved to propose to the shareholders on the forthcoming annual general meeting of the Company on 10 June 2019 (the "**AGM**") for the distribution of a final dividend of HK$0.37 per ordinary share for the year ended 31 December 2018 payable to the Shareholders whose names are listed in the register of the Company on 18 June 2019, in an aggregate amount of HK$830.1 million (equivalent to RMB727.3 million). It is expected that the final dividend will be paid on 8 July 2019. The proposal for the distribution of the final dividend above is subject to the consideration and approval of the Shareholders at the AGM.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining who is entitled to attend the AGM of the Company, the register of members will be closed from Wednesday, 5 June 2019 to Monday, 10 June 2019 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming AGM, unregistered holders of shares of the Company shall lodge share transfer documents, together with relevant share certificates, with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration before 4:30 p.m. on Tuesday, 4 June 2019.

In addition, the Company's register of members will be closed from Friday, 14 June 2019 to Tuesday, 18 June 2019 (both days inclusive) for the purpose of determining the shareholder's entitlement to the proposed final dividend of the Company. In order to qualify for the proposed final dividend (subject to the approval by Shareholders at the forthcoming AGM), unregistered holders of shares of the Company shall lodge share transfer documents, together with relevant share certificates, with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at the above-mentioned address for registration before 4:30 p.m. on Thursday, 13 June 2019.

By order of the Board
Huang Yi
Chairman

Hong Kong, 22 March 2019

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Zhongsheng Group Holdings Limited
(Incorporated in the Cayman Islands as an exempted company with limited liability)

OPINION

We have audited the consolidated financial statements of Zhongsheng Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 78 to 175, 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 the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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 MATTERS (continued)

KEY AUDIT MATTER

ACQUISITIONS

During the year ended 31 December 2018, the Group completed acquisitions of certain car dealerships at a total consideration of approximately RMB2,193,612,000. The accounting for these acquisitions involved significant judgement of the management for the purchase price allocation mainly in relation to the valuation of property, plant and equipment, land use rights, intangible assets which include dealership agreements, customer relationship and the remaining goodwill balance. The Group engaged an external independent appraiser to perform the valuation.

Information about the acquisitions were disclosed in note 2.4 *Summary of significant accounting policies — business combinations and goodwill* and note 37 *Business combination* to the financial statements.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We evaluated the competency, capabilities and objectivity of the external independent appraiser engaged by the Group to perform the valuation and involved our internal valuation specialists to review the valuation methodologies adopted by the appraiser, and the assumptions used in valuation of the assets acquired and liabilities by reference to the historical experience and the market practices. We have reviewed the identification of the acquired assets and liabilities, and tested the prospective financial information assumptions used in the calculation of the fair value allocated to the acquired assets. We also checked the related disclosures.

KEY AUDIT MATTERS (continued)

KEY AUDIT MATTER (continued)

IMPAIRMENT ASSESSMENT OF GOODWILL AND INTANGIBLE ASSETS

The carrying values of goodwill and intangible assets amounted to approximately RMB4,563,686,000 and RMB6,330,872,000 as at 31 December 2018, respectively. Under HKFRSs, the Group is required to perform an impairment test for goodwill annually and the intangible assets with definite useful lives are reviewed whether there is any indication of impairment at each reporting period end. An impairment test itself for intangible assets with definite useful lives only has to be carried out if there are such indications. The impairment test is based on the recoverable value of each of the cash-generating units ("CGU") or group of CGUs to which the goodwill and the intangible asset are assigned to.

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.

Information about the goodwill and intangible assets was disclosed in note 2.4 *Summary of significant accounting policies — Impairment of non-financial assets*, note 3 *Significant accounting judgement and estimates — Estimation uncertainty*, note 17 *Goodwill* and note 16 *Intangible assets* to the financial statements.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER (continued)

We have involved our internal valuation specialists to assist us in evaluating the models and certain assumptions used by the Group in the impairment test of goodwill and intangible assets. We paid attention to the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historical performance of the respective CGU or group of CGUs. We have also reviewed the Group's assessment of whether there had been any indicators of impairment of the intangible assets with definite useful lives for the year. We also checked the related disclosures.

VENDER REBATE RECEIVABLES

The Group recognised volume-related vendor rebates on an accrual basis based on the terms of the suppliers' contracts. As at 31 December 2018, the rebate receivables recognised in the consolidated statement of financial position amounted to approximately RMB4,712,234,000. The balance of rebate receivables was significant and the process of calculating the accrual was complex.

Information about the rebate receivables was disclosed in note 2.4 *Summary of significant accounting policies — vendor rebates* and note 21 *Prepayments, other receivables and other assets* to the financial statements.

We understood and tested management's key internal controls in relation to the 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 and underlying inputs, including sales and purchase volume, rebate rates and other criteria as set out in 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.

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 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.

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.

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

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

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

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

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

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

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

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

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

22 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5(a)	**107,735,655**	86,290,288
Cost of sales and services provided	6(b)	**(97,812,525)**	(77,606,286)
Gross profit		**9,923,130**	8,684,002
Other income and gains, net	5(b)	**2,561,221**	1,842,863
Selling and distribution expenses		**(4,310,827)**	(3,294,302)
Administrative expenses		**(1,745,100)**	(1,347,069)
Profit from operations		**6,428,424**	5,885,494
Finance costs	7	**(1,230,522)**	(1,076,712)
Share of profits of joint ventures	18	**2,856**	4,595
Profit before tax	6	**5,200,758**	4,813,377
Income tax expense	8	**(1,505,440)**	(1,337,523)
Profit for the year		**3,695,318**	3,475,854
Attributable to:			
Owners of the parent		**3,636,636**	3,350,413
Non-controlling interests		**58,682**	125,441
		3,695,318	3,475,854
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
— For profit for the year (RMB)	12	**1.60**	1.52
Diluted			
— For profit for the year (RMB)	12	**1.56**	1.48

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Profit for the year	**3,695,318**	3,475,854
Other comprehensive (loss)/income		
Exchange differences on translation of foreign operations	**(362,630)**	309,921
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	**(362,630)**	309,921
Other comprehensive (loss)/income for the year, net of tax	**(362,630)**	309,921
Total comprehensive income for the year	**3,332,688**	3,785,775
Attributable to:		
Owners of the parent	**3,274,006**	3,660,334
Non-controlling interests	**58,682**	125,441
	3,332,688	3,785,775

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**11,506,929**	10,055,748
Land use rights	14	**2,977,418**	2,495,923
Prepayments	15	**1,013,004**	984,591
Intangible assets	16	**6,330,872**	5,737,441
Goodwill	17	**4,563,686**	3,940,056
Investments in joint ventures	18	**45,470**	42,614
Deferred tax assets	32(b)	**269,297**	278,923
Total non-current assets		**26,706,676**	23,535,296
CURRENT ASSETS			
Inventories	19	**10,980,498**	7,509,806
Trade receivables	20	**1,341,740**	1,082,746
Prepayments, other receivables and other assets	21	**10,110,948**	8,644,378
Amounts due from related parties	45(b)(i)	**850**	555
Available-for-sale investments		**—**	19,100
Financial assets at fair value through profit or loss	22	**141,190**	—
Pledged bank deposits	23	**1,312,577**	1,405,646
Cash in transit	24	**431,044**	356,063
Cash and cash equivalents	25	**6,142,664**	5,027,202
Total current assets		**30,461,511**	24,045,496
CURRENT LIABILITIES			
Bank loans and other borrowings	26	**17,072,705**	16,828,479
Convertible bonds, current portion	27	**—**	1,883,958
Trade and bills payables	28	**4,814,761**	3,470,593
Other payables and accruals	29	**2,996,549**	2,935,400
Other liabilities	30	**245,000**	245,000
Amounts due to related parties	45(b)(ii)	**1,119**	577
Income tax payable	32(a)	**1,470,353**	1,373,395
Dividends payable		**9**	9
Total current liabilities		**26,600,496**	26,737,411
NET CURRENT ASSETS/(LIABILITIES)		**3,861,015**	(2,691,915)
TOTAL ASSETS LESS CURRENT LIABILITIES		**30,567,691**	20,843,381
NON-CURRENT LIABILITIES			
Deferred tax liabilities	32(b)	**1,909,282**	1,679,590
Bank loans and other borrowings	26	**5,575,464**	2,494,628
Convertible bonds	27	**4,046,722**	—
Total non-current liabilities		**11,531,468**	4,174,218
NET ASSETS		**19,036,223**	16,669,163

	Notes	2018 RMB'000	2017 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Share capital	34	**197**	197
Reserves	35	**18,239,418**	15,912,794
		18,239,615	15,912,991
Non-controlling interests		**796,608**	756,172
Total equity		**19,036,223**	16,669,163

Huang Yi
Director

Li Guoqiang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2018

	Attributable to owners of the parent												
	Share capital RMB'000	Share premium* RMB'000	Equity component of convertible bonds* RMB'000	Share option reserve* RMB'000	Discretionary reserve fund* RMB'000	Statutory reserve* RMB'000	Merger reserve* RMB'000	Other reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	186	6,187,462	203,729	–	37,110	854,738	(1,386,176)	(670,052)	(501,581)	7,492,912	12,218,328	880,631	13,098,959
Profit for the year	–	–	–	–	–	–	–	–	–	3,350,413	3,350,413	125,441	3,475,854
Other comprehensive income for the year: Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	309,921	–	309,921	–	309,921
Total comprehensive income for the year	–	–	–	–	–	–	–	–	309,921	3,350,413	3,660,334	125,441	3,785,775
Disposal of subsidiaries	–	–	–	–	–	(7,485)	–	–	–	7,485	–	(7,409)	(7,409)
Issue of shares	11	1,175,867	–	–	–	–	–	–	–	–	1,175,878	–	1,175,878
Acquisition of non-controlling interests	–	–	–	–	–	–	–	(637,124)	–	–	(637,124)	(199,119)	(836,243)
Capital contribution from a non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	6,000	6,000
Transfer from retained profits	–	–	–	–	–	523,673	–	–	–	(523,673)	–	–	–
Non-controlling interests arising from business combination	–	–	–	–	–	–	–	–	–	–	–	7,631	7,631
Issue of convertible bonds	–	–	56,779	–	–	–	–	–	–	–	56,779	–	56,779
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(57,003)	(57,003)
Final 2016 dividend declared	–	(561,204)	–	–	–	–	–	–	–	–	(561,204)	–	(561,204)
Transfer of equity component of convertible bonds upon the redemption of the convertible bonds	–	–	(203,729)	–	–	–	–	203,729	–	–	–	–	–
At 31 December 2017	197	6,802,125	56,779	–	37,110	1,370,926	(1,386,176)	(1,103,447)	(191,660)	10,327,137	15,912,991	756,172	16,669,163

	Attributable to owners of the parent												
	Share capital RMB'000	Share premium* RMB'000	Equity component of convertible bonds* RMB'000	Share option reserve* RMB'000	Discretionary reserve fund* RMB'000	Statutory reserve* RMB'000	Merger reserve* RMB'000	Other reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018	197	6,802,125	56,779	–	37,110	1,370,926	(1,386,176)	(1,103,447)	(191,660)	10,327,137	15,912,991	756,172	16,669,163
Profit for the year	–	–	–	–	–	–	–	–	–	3,636,636	3,636,636	58,682	3,695,318
Other comprehensive loss for the year:													
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(362,630)	–	(362,630)	–	(362,630)
Total comprehensive income for the year	–	–	–	–	–	–	–	–	(362,630)	3,636,636	3,274,006	58,682	3,332,688
Acquisition of non-controlling interests	–	–	–	–	–	–	–	(95,804)	–	–	(95,804)	(9,620)	(105,424)
Non-controlling interests arising from acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	26,571	26,571
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	42,100	42,100
Transfer from retained profits	–	–	–	–	–	540,126	–	–	–	(540,126)	–	–	–
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(77,297)	(77,297)
Conversion of convertible bonds	–	77,898	(2,271)	–	–	–	–	–	–	–	75,627	–	75,627
Transfer of equity component of convertible bonds upon the redemption of the convertible bonds	–	–	(54,508)	–	–	–	–	(351,996)	–	–	(406,504)	–	(406,504)
Issue of convertible bonds	–	–	113,139	–	–	–	–	–	–	–	113,139	–	113,139
Equity-settled share-based transactions	–	–	–	33,367	–	–	–	–	–	–	33,367	–	33,367
Final 2017 dividend declared	–	(667,207)	–	–	–	–	–	–	–	–	(667,207)	–	(667,207)
At 31 December 2018	197	6,212,816	113,139	33,367	37,110	1,911,052	(1,386,176)	(1,551,247)	(554,290)	13,423,647	18,239,615	796,608	19,036,223

* These reserve accounts comprise the consolidated reserves of RMB18,239,418,000 (2017: RMB15,912,794,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**5,200,758**	4,813,377
Adjustments for:			
Share of profits of joint ventures	18(b)	**(2,856)**	(4,595)
Depreciation and impairment of property, plant and equipment	13	**855,503**	751,906
Amortisation of land use rights	14	**74,173**	57,674
Amortisation of intangible assets	16	**245,225**	183,907
Impairment of intangible assets	16	**—**	15,164
Impairment of goodwill		**—**	32,257
Impairment of trade receivables	20	**5,279**	—
Write-down of inventories to net realisable value	6(c)	**2,099**	1,573
Interest income	5(b)	**(57,048)**	(26,375)
Net loss on disposal of items of property, plant and equipment	5(b)	**27,579**	67,596
Finance costs	7	**1,230,522**	1,076,712
Net loss on disposal of subsidiaries	38	**2,711**	18,186
Fair value losses/(gains), net:			
— Listed equity investments held for trading	5(b)	**5,039**	—
— Financial products	5(b)	**(613)**	—
Expense on redemption of convertible bonds	27	**6,206**	—
Equity-settled share option expense	36	**33,367**	—
		7,627,944	6,987,382
Increase in cash in transit		**(60,674)**	(20,635)
(Increase)/decrease in trade receivables		**(220,205)**	130,426
Increase in prepayments, other receivables and other assets		**(843,652)**	(657,244)
Increase in inventories		**(2,943,357)**	(403,842)
Increase in trade payables		**340,133**	87,899
(Decrease)/increase in other payables and accruals		**(141,248)**	170,726
(Increase)/decrease in amounts due from related parties — trade related		**(295)**	397
Increase/(decrease) in amounts due to related parties — trade related		**542**	(243)
Cash generated from operations		**3,759,188**	6,294,866
Tax paid		**(1,441,225)**	(1,060,365)
Net cash generated from operating activities		**2,317,963**	5,234,501

	2018 RMB'000	2017 RMB'000
INVESTING ACTIVITIES		
Purchase of items of property, plant and equipment	**(2,275,870)**	(1,848,983)
Proceeds from disposal of items of property, plant and equipment	**584,513**	533,636
Purchase of land use rights	**(284,568)**	(259,944)
Purchase of intangible assets	**(265)**	(218,011)
(Purchase)/redemption of financial assets at fair value through profit or loss, net (2017: available-for-sale financial assets)	**(126,516)**	17,750
Prepayments for the potential acquisitions of equity interests from third parties	**(261,823)**	(387,570)
Acquisitions of subsidiaries	**(1,778,039)**	(2,694,162)
Increase in prepayments, other receivables and other assets	**(236,489)**	(80,348)
Dividends received from a joint venture	**—**	10,000
Disposal of subsidiaries, net of cash	**88,954**	62,871
Interest received	**57,048**	26,967
Net cash used in investing activities	**(4,233,055)**	(4,837,794)

	2018 RMB'000	2017 RMB'000
FINANCING ACTIVITIES		
Proceeds from issue of new shares	—	1,175,878
Proceeds from issue of convertible bonds	3,778,812	1,959,922
Proceeds from bank loans and other borrowings	78,577,495	55,283,344
Repayments of bank loans and other borrowings	(75,627,570)	(51,664,556)
Decrease in pledged bank deposits	216,927	37,494
Capital contribution from non-controlling shareholders of subsidiaries	32,100	6,000
Increase/(decrease) in notes payable	439,561	(1,207,520)
Acquisition of non-controlling interests	(95,424)	(650,000)
Interest paid for bank loans and other borrowings	(1,201,409)	(1,051,881)
Redemption of convertible bonds	(2,203,966)	(2,735,297)
Increase in deposits to entities controlled by suppliers for borrowings	(164,761)	—
Interest paid for convertible bonds	—	(38,978)
Capital element of finance lease rental payments	(4,596)	(5,332)
Dividends paid to the non-controlling shareholders	(77,297)	(57,003)
Dividends paid	(667,207)	(561,204)
Net cash generated from financing activities	3,002,665	490,867
Net increase in cash and cash equivalents	1,087,573	887,574
Cash and cash equivalents at beginning of year	5,027,202	4,157,264
Effect of foreign exchange rate changes, net	27,889	(17,636)
Cash and cash equivalents at end of year	6,142,664	5,027,202

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated 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 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands. The Company has established a principal place of business in Hong Kong which is located at Rooms 1803–09, 18th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 26 March 2010.

During the year, the Group was principally engaged in the sale and service of motor vehicles.

In the opinion of the directors of the Company (the "Directors"), the ultimate controlling shareholders of the Company are Mr. Huang Yi and Mr. Li Guoqiang.

2.1 BASIS OF PRESENTATION

These 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. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss 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.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as 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).

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. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.1 BASIS OF PRESENTATION (continued)

BASIS OF CONSOLIDATION (continued)

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 new and revised HKFRSs 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 Customers*
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

Other than as explained below regarding the impact of HKFRS 9 *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers*, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

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

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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

CLASSIFICATION AND MEASUREMENT

The following information sets out the impacts of adopting HKFRS 9 on the financial instruments, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts of the financial instruments under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 measurement		HKFRS 9 measurement
	Note	Amount RMB'000	Reclassification RMB'000	Amount RMB'000
Financial assets				
Financial assets at fair value through profit or loss		—	19,100	19,100
From: Available-for-sale investments	(i)	19,100	(19,100)	—

(i) The Group has classified its financial products issued by financial institution previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these investments did not pass the contractual cash flow characteristics test in HKFRS 9.

IMPAIRMENT

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("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. For further details on the Group's accounting policy for accounting for credit losses, see note 2.4 summary of significant accounting policies — impairment of financial assets.

(b) 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 asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 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.

The Group recognizes revenue from the following major sources:

(i) sales of motor vehicles

(ii) provision of after-sales services, including primarily repair and maintenance services

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

The business model for the sale of motor vehicles is straight forward and its contracts with customers for the sale of motor vehicles include only single performance obligation. The Group has concluded that revenue from the sale of motor vehicles should be recognised at the point of time when a customer obtains control of goods.

For the provision of after-sales services, the Group has concluded that revenue from provision of after-sales services should be recognised at the point of time when the performance obligation is satisfied.

Therefore, the Group has concluded that the initial application of HKFRS 15 does not have a significant impact on the Group's revenue recognition.

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 of RMB1,721,995,000 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.

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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 HKFRS 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.

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.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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 RMB3,135,854,000 and lease liabilities of RMB3,135,854,000 will be recognised at 1 January 2019 with a corresponding adjustment to the opening balance of retained earnings.

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.

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

INVESTMENTS IN JOINT VENTURES

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred.

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.

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 of 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 is measured at fair value with changes in fair value recognised in profit or loss. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BUSINESS COMBINATIONS AND GOODWILL (continued)

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.

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 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.

FAIR VALUE MEASUREMENT

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each 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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FAIR VALUE MEASUREMENT (continued)

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.

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 goodwill), 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, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 estimated useful lives and residual values of property, plant and equipment are as follows:

Category	Estimated useful life	Estimated residual value
Buildings	10–30 years	5%
Leasehold improvements	5 years	—
Plant and machinery	5–10 years	5%
Furniture and fixtures	5 years	5%
Motor vehicles	5–10 years	5%

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 buildings, plant and machinery under construction or pending installation, which are stated at cost less any impairment losses, and are 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (continued)

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:

Software	3–5 years
Dealership agreements	20–40 years
Customer relationships	15 years
Others	5–44 years

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, 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.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. 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.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

LAND USE RIGHTS

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the right to use certain land and the amount paid for such a right is recorded as land use rights, which are amortised over the lease terms of 17 to 62 years using the straight-line method.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018) (continued)

INITIAL RECOGNITION AND MEASUREMENT (continued)

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:

FINANCIAL ASSETS AT AMORTISED COST (DEBT INSTRUMENTS)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018) (continued)

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

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, 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:

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition (applicable before 1 January 2018)” below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (POLICIES UNDER HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018) (continued)

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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. 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, when the cumulative gain or loss reclassified from the available-for-sale investment revaluation reserve to 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF FINANCIAL ASSETS (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018) (continued)

GENERAL APPROACH (continued)

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 trade receivables and contract 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

SIMPLIFIED APPROACH

For trade receivables and contract 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.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF FINANCIAL ASSETS (POLICIES UNDER HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018) (continued)

FINANCIAL ASSETS CARRIED AT AMORTISED COST

For financial assets carried at amortised cost, the Group first assesses whether 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.

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.

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.

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.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade and bills payables, other payables, amounts due to related parties, bank loans and other borrowings, and convertible bonds.

SUBSEQUENT MEASUREMENT

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

LOANS AND BORROWINGS

After initial recognition, banks loans and other 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 the 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.

CONVERTIBLE BONDS

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

PUT OPTION OVER NON-CONTROLLING INTEREST

During the process of acquiring the majority equity interests of a subsidiary, the Group provided the non-controlling shareholder the right to dispose of its equity interests to the Group. The equity interests in the subsidiary held by the non-controlling shareholder shall be recognised as non-controlling interests in the consolidated financial statements of the Group. At the same time, for the put option, the Group shall assume the obligations to redeem in cash the equity interests in the subsidiary held by the non-controlling shareholder. The present value of the amount payable at the time of redemption of such put option shall be deducted from equity (other than non-controlling interests) and is recognised as the financial liability of the Group. Such financial liability shall be re-measured at the present value of the amount payable upon redemption in the subsequent period, with changes recognised in the consolidated statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on 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 based on the estimated selling price in the ordinary course of business less the estimated costs to be incurred to completion and disposal.

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, and assets similar in nature to cash, which are not restricted as to use.

INCOME TAX

Income tax comprises current and deferred 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAX (continued)

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

- when the deferred tax liability arises from the initial recognition of goodwill or 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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, 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.

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:

- 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

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, 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 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 tax asset to be utilised. Unrecognised deferred 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 tax assets and liabilities are measured at the tax rates that are expected to apply to the period 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 if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(A) SALE OF GOODS

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

(B) RENDERING OF SERVICES

For the rendering of services, the control is transferred overtime and therefore, the performance obligation is satisfied and revenue is recognised over time, if one of the following criteria is met:

(i) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;

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

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

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

REVENUE FROM OTHER RESOURCES

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION (APPLICABLE FROM 1 JANUARY 2018) (continued)

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.

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, on the percentage of completion basis, in the period in which the services are rendered;

(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; and

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

CONTRACT ASSETS (APPLICABLE FROM 1 JANUARY 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

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.

VENDOR REBATES

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 36 to the financial statements.

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)

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 a certain percentage 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.

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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 of 6.2% has been applied to the expenditure on the individual assets.

DIVIDENDS

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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 their respective functional currencies. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated 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.

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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FOREIGN CURRENCIES (continued)

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. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB 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.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, 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.

JUDGEMENT

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

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 value of deferred tax assets recognised was RMB269,297,000 (2017: RMB278,923,000) as at 31 December 2018. More details are given in note 32(b).

3. SIGNIFICANT ACCOUNTING JUDGEMENT 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 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 estimation 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 as at 31 December 2018 was RMB4,563,686,000 (2017: RMB3,940,056,000). Further details are given in note 17.

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. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other 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 of disposal and its value in use. The calculation of the fair value less costs of disposal 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.

USEFUL LIVES OF INTANGIBLE ASSETS

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. Management will increase the amortisation charges when useful lives become shorter than previously estimated.

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

The Group's management 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. Management 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 the depreciation charge in the future periods.

4. OPERATING 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 AREA

Since over 90% of the Group's revenue and operating profit were generated from the sale and service of motor vehicles in Mainland China and over 90% of the Group's non-current assets other than deferred tax assets were located in Mainland China, no geographical information is presented in accordance with HKFRS 8 *Operating Segments*.

INFORMATION ABOUT MAJOR CUSTOMERS

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the year, no major customer information is presented in accordance with HKFRS 8 *Operating Segments*.

5. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue and other income and gains is as follows:

(a) Revenue:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers		
Disaggregated revenue information		
Type of goods or service		
Revenue from sales of motor vehicles	93,221,612	74,696,340
Revenue from after-sales service	14,514,043	11,593,948
Total revenue from contracts with customers	107,735,655	86,290,288
Timing of revenue recognition		
At a point in time	107,735,655	86,290,288

(b) Other income and gains, net:

	2018 RMB'000	2017 RMB'000
Commission income	2,404,411	1,788,556
Rental income	22,016	23,730
Interest income	57,048	26,375
Government grants	37,232	10,063
Net loss on disposal of items of property, plant and equipment	(27,579)	(67,596)
Net loss on disposal of subsidiaries	(2,711)	(18,186)
Fair value gains/(losses), net:		
Financial assets at fair value through profit or loss		
— listed equity investments	(5,039)	—
— financial products	613	—
Others	75,230	79,921
	2,561,221	1,842,863

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2018 RMB'000	2017 RMB'000
(a) Employee benefit expense (including directors' and chief executive officer's remuneration (note 9)):		
Wages and salaries	**2,938,704**	2,346,934
Pension scheme contributions	**458,063**	327,339
Other welfare	**247,019**	175,699
Equity settled share option expense	**33,367**	—
	3,677,153	2,849,972
(b) Cost of sales and services provided:		
Cost of sales of motor vehicles	**90,359,798**	71,684,639
Others	**7,452,727**	5,921,647
	97,812,525	77,606,286
(c) Other items:		
Depreciation and impairment of property, plant and equipment	**855,503**	751,906
Amortization of land use rights	**74,173**	57,674
Amortization of intangible assets	**245,225**	183,907
Auditor's remuneration	**5,800**	5,800
Lease expenses	**364,700**	276,286
Promotion and advertisement	**763,980**	722,759
Office expenses	**314,819**	225,527
Logistics expenses	**119,647**	113,924
Impairment of trade receivables	**5,279**	—
Write-down of inventories to net realizable value	**2,099**	1,573
Net loss on disposal of items of property, plant and equipment	**27,579**	67,596
Fair value losses/(gains), net:		
Financial assets at fair value through profit or loss		
— listed equity investments	**5,039**	—
— financial products	**(613)**	—
Impairment of goodwill	**—**	32,257
Impairment of intangible assets	**—**	15,164
Net loss on disposal of subsidiaries	**2,711**	18,186

7. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest expense on bank borrowings	**1,054,617**	900,458
Interest expense on convertible bonds	**129,413**	68,065
Interest expense on other borrowings	**120,896**	168,340
Interest expense on finance leases	**124**	166
Less: Interest capitalised	**(74,528)**	(60,317)
	1,230,522	1,076,712

8. INCOME TAX EXPENSE

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

	2018 RMB'000	2017 RMB'000
Current Mainland China corporate income tax	**1,513,179**	1,302,753
Deferred tax (note 32(b))	**(7,739)**	34,770
	1,505,440	1,337,523

Pursuant to Section 6 of the Tax Concessions Law (1999 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 subsidiaries incorporated in the BVI are not subject to income tax as such subsidiaries do not have a place of business (other than a registered office only) or carry on any business in the BVI.

No Hong Kong tax has been provided as the Group had no assessable profits arising in Hong Kong during the year (2017: Nil).

According to the Corporate Income Tax Law ("CIT") of the People's Republic of China, the income tax rates for both domestic and foreign investment enterprises in Mainland China are unified at 25% effective from 1 January 2008.

Certain subsidiaries of the Group enjoyed preferential CIT rates which were lower than 25% during the reporting period as approved by the relevant tax authorities or operated in designated areas with preferential CIT policies in the PRC.

8. INCOME TAX EXPENSE (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 regions 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 RMB'000	2017 RMB'000
Profit before tax	**5,200,758**	4,813,377
Tax at the statutory tax rate (25%)	**1,300,190**	1,203,344
Tax effect of non-deductible expenses	**118,044**	94,827
Income not subject to tax	**(720)**	(330)
Profits attributable to jointly-controlled entities	**(714)**	(1,149)
Lower tax rates for specific provinces or enacted by local authority	**30,672**	13,540
Adjustments in respect of current tax of previous periods	**15,190**	—
Tax losses not recognized	**42,778**	27,291
Tax charge	**1,505,440**	1,337,523

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:

	2018 RMB'000	2017 RMB'000
Fees	**768**	709
Other emoluments:		
Salaries, allowances and other benefits	**13,673**	15,217
Discretionary bonuses	**17,122**	17,304
Contributions to defined contribution retirement schemes	**413**	426
Equity-settled share option expense	**33,367**	—
	64,575	32,947
	65,343	33,656

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 36 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) INDEPENDENT NON-EXECUTIVE DIRECTORS

The fees paid to independent non-executive directors during the year were as follows:

	2018 RMB'000	2017 RMB'000
— Mr. Shen Jinjun	214	216
— Mr. Lin Yong	214	216
— Mr. Shoichi Ota	42	216
— Mr. Ying Wei	214	61
— Mr. Chin Siu Wa Alfred	84	—
	768	709

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

Mr. Chin Siu Wa Alfred has been appointed as an independent non-executive director of the Company with effect from 10 August 2018.

Mr. Shoichi Ota has retired as an independent non-executive director of the Company with effect from 11 June 2018.

(b) EXECUTIVE DIRECTORS, NON-EXECUTIVE DIRECTORS AND THE CHIEF EXECUTIVE

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Discretionary bonuses RMB'000	Contributions to defined contribution retirement schemes RMB'000	Equity-settled share option expense RMB'000	Total RMB'000
2018						
Executive directors:						
— Mr. Huang Yi	—	2,226	8,561	15	—	10,802
— Mr. Yu Guangming	—	—	—	—	—	—
— Mr. Du Qingshan	—	2,874	—	86	16,683	19,643
— Mr. Si Wei	—	600	—	124	—	724
— Mr. Zhang Zhicheng	—	2,874	—	86	16,684	19,644
Executive director and chief executive:						
— Mr. Li Guoqiang	—	5,099	8,561	102	—	13,762
Non-executive directors:						
— Mr. Cheah Kim Teck	—	—	—	—	—	—
— Mr. Pang Yiu Kai	—	—	—	—	—	—
	—	13,673	17,122	413	33,367	64,575

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) EXECUTIVE DIRECTORS, NON-EXECUTIVE DIRECTORS AND THE CHIEF EXECUTIVE (continued)

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Discretionary bonuses RMB'000	Contributions to defined contribution retirement schemes RMB'000	Total RMB'000
2017					
Executive directors:					
— Mr. Huang Yi	—	2,250	8,652	16	10,918
— Mr. Yu Guangming	—	1,371	—	50	1,421
— Mr. Du Qingshan	—	2,916	—	76	2,992
— Mr. Si Wei	—	600	—	114	714
— Mr. Zhang Zhicheng	—	2,916	—	76	2,992
Executive director and chief executive:					
— Mr. Li Guoqiang	—	5,164	8,652	94	13,910
Non-executive directors:					
— Mr. Cheah Kim Teck	—	—	—	—	—
— Mr. Pang Yiu Kai	—	—	—	—	—
	—	15,217	17,304	426	32,947

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2017: Nil).

No emoluments were paid by the Group to any directors as an inducement to join or upon joining the Group or as compensation for loss of office.

No contracts, transactions and arrangements of significance in relation to the Company's business in which the Company or Company's subsidiary was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Pursuant to section 383(1)(d) of the Companies Ordinance (Cap. 622) and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, there were no loans, quasi-loans and other dealing in favour of (a) directors of the Company; (b) bodies corporate controlled by such directors; and (c) entities connected with such directors.

During the year ended 31 December 2018, there were no considerations provided to or receivable by any third party for making available the services of a person as a director of the Company.

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included three directors and the chief executive (2017: three directors and the chief executive), details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2017: one) non-director, highest paid employee for the year are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, bonuses, allowances and benefits in kind	2,871	2,913
Pension scheme contributions	86	76
	2,957	2,989

The number of non-director, highest paid employee whose remuneration fell within the following band is as follows:

	Number of employees	
	2018	2017
HK$3,000,001 to HK$3,500,000	1	—
HK$3,500,001 to HK$4,000,000	—	1

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to the highest paid, non-director employee as an inducement to join or upon joining the Group or as compensation for loss of office.

11. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Proposed final — HK$0.37 (approximately RMB0.32) (2017: HK$0.36) per ordinary share	**727,327**	680,119

The calculation of the proposed final dividend for the year ended 31 December 2018 is based on the proposed final dividend per ordinary share, and the total number of ordinary shares as at 22 March 2019.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year ended 31 December 2018, a final dividend of HK$0.36 per ordinary share in respect of the year ended 31 December 2017 was declared and paid to the ordinary equity holders of the Company. The aggregate amount of the final dividend declared and paid in the year ended 31 December 2018 was HK$817,155,000 (equivalent to RMB667,207,000).

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic 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 2,269,601,362 (2017: 2,208,602,205) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds. The weighted average number of ordinary shares used in the calculation is the weighted average number of ordinary shares in issue during the year, as used in the basic 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 earnings per share are based on:

Earnings

	2018 RMB'000	2017 RMB'000
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**3,636,636**	3,350,413
Interest on convertible bonds	**129,413**	68,065
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	**3,766,049**	3,418,478

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

Shares

	Number of shares	
	2018	2017
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,269,601,362**	2,208,602,205
Effect of dilution — weighted average number of ordinary shares:		
Convertible bonds	**140,912,183**	94,186,747
Weighted average number of ordinary shares used in diluted earnings per share calculation	**2,410,513,545**	2,302,788,952

Earnings per share

	2018	2017
	RMB	RMB
Basic	**1.60**	1.52
Diluted	**1.56**	1.48

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	8,909,051	436,137	718,112	599,964	1,559,779	447,821	12,670,864
Exchange realignment	—	36	—	4	249	—	289
Additions	319,954	218,069	83,218	104,928	1,004,144	667,117	2,397,430
Acquisition of subsidiaries (note 37)	395,896	8,367	26,640	17,302	66,986	9,989	525,180
Transfer	536,102	5,713	12,189	2,017	—	(556,021)	—
Disposals	(43,509)	(13,443)	(21,782)	(24,658)	(819,949)	—	(923,341)
Disposal of a subsidiary (note 38)	—	—	—	—	—	(4,144)	(4,144)
At 31 December 2018	10,117,494	654,879	818,377	699,557	1,811,209	564,762	14,666,278
Accumulated depreciation and impairment:							
At 1 January 2018	1,519,898	216,304	284,194	376,997	217,723	—	2,615,116
Exchange realignment	—	14	—	1	174	—	189
Depreciation and impairment provided during the year	356,480	45,682	76,304	80,410	296,627	—	855,503
Disposals	(15,281)	(6,953)	(14,806)	(20,602)	(253,817)	—	(311,459)
At 31 December 2018	1,861,097	255,047	345,692	436,806	260,707	—	3,159,349
Net book amount:							
At 31 December 2018	8,256,397	399,832	472,685	262,751	1,550,502	564,762	11,506,929
Cost:							
At 1 January 2017	7,618,840	324,099	615,296	592,177	1,308,541	537,129	10,996,082
Exchange realignment	—	(61)	—	(10)	(346)	—	(417)
Additions	344,719	82,998	77,557	40,243	900,057	577,584	2,023,158
Acquisition of subsidiaries	447,543	28,517	56,820	24,234	100,332	250	657,696
Transfer	656,834	6,281	1,770	2,257	—	(667,142)	—
Disposals	(54,607)	(4,363)	(25,438)	(53,430)	(737,143)	—	(874,981)
Disposals of subsidiaries	(104,278)	(1,334)	(7,893)	(5,507)	(11,662)	—	(130,674)
At 31 December 2017	8,909,051	436,137	718,112	599,964	1,559,779	447,821	12,670,864
Accumulated depreciation and impairment:							
At 1 January 2017	1,194,395	185,866	241,186	349,848	214,649	—	2,185,944
Exchange realignment	—	(33)	—	(11)	(273)	—	(317)
Depreciation and impairment provided during the year	351,651	33,882	63,038	76,099	227,236	—	751,906
Disposals	(3,956)	(2,894)	(15,453)	(45,349)	(220,873)	—	(288,525)
Disposals of subsidiaries	(22,192)	(517)	(4,577)	(3,590)	(3,016)	—	(33,892)
At 31 December 2017	1,519,898	216,304	284,194	376,997	217,723	—	2,615,116
Net book amount:							
At 31 December 2017	7,389,153	219,833	433,918	222,967	1,342,056	447,821	10,055,748

As at 31 December 2018, the application for the property ownership certificates of certain buildings with a net book amount of approximately RMB5,701,693,000 (2017: RMB5,214,599,000) was still in progress. Notwithstanding this, the Directors are of the opinion that the Group owned the beneficial titles to these buildings as at 31 December 2018 and 2017.

As at 31 December 2018, certain of the Group's buildings with an aggregate net book amount of approximately RMB220,438,000 (2017: RMB502,055,000) were pledged as security for the Group's bank loans (note 26(a)(ii)).

14. LAND USE RIGHTS

	2018 RMB'000	2017 RMB'000
Cost:		
At the beginning of the year	2,774,326	2,175,227
Additions	194,470	472,229
Acquisition of subsidiaries (note 37)	374,740	129,453
Disposal of a subsidiary (note 38)	(13,542)	(2,583)
At the end of the year	3,329,994	2,774,326
Amortisation:		
At the beginning of the year	278,403	221,493
Charge for the year	74,173	57,674
Disposals of subsidiaries	—	(764)
At the end of the year	352,576	278,403
Net book value:		
At the end of the year	2,977,418	2,495,923

The lease prepayments of the Group represent the cost of the Group's land use rights in respect of land located in Mainland China. The remaining periods of the land use rights of the Group are from 16 to 61 years.

As at 31 December 2018, certain of the Group's land use rights with an aggregate net book value of approximately RMB151,755,000 (2017: RMB449,359,000) were pledged as security for the Group's bank loans (Note 26(a)(i)).

As at 31 December 2018, the Group had yet to obtain the legal title of certain land use rights in Mainland China subject to certain administrative procedures to be completed by the Group and the local government authorities. The net book value of these land use rights as at 31 December 2018 amounted to RMB297,884,000 (2017: RMB300,047,000). 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 and 2017, respectively.

15. PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Prepaid lease for land	246,741	172,886
Prepayment for land use rights	286,135	211,614
Prepaid lease for buildings	129,943	115,039
Prepayments for potential acquisitions	350,185	485,052
	1,013,004	984,591

16. INTANGIBLE ASSETS

	Software RMB'000	Dealership agreements RMB'000	Customer relationships RMB'000	Others RMB'000	Total RMB'000
Cost:					
At 1 January 2018	65,814	5,666,070	812,944	84,915	6,629,743
Exchange realignment	—	—	—	449	449
Additions	9,879	6,000	—	439	16,318
Acquisition of subsidiaries (note 37)	2,131	744,800	75,350	—	822,281
Disposals	(224)	—	—	—	(224)
At 31 December 2018	77,600	6,416,870	888,294	85,803	7,468,567
Accumulated amortisation and impairment:					
At 1 January 2018	43,835	552,706	260,860	34,901	892,302
Exchange realignment	—	—	—	372	372
Amortisation provided during the year	7,296	173,292	59,613	5,024	245,225
Disposals	(204)	—	—	—	(204)
At 31 December 2018	50,927	725,998	320,473	40,297	1,137,695
Net book value:					
At 31 December 2018	26,673	5,690,872	567,821	45,506	6,330,872
Cost:					
At 1 January 2017	56,724	3,191,115	684,254	85,383	4,017,476
Exchange realignment	(27)	—	—	(478)	(505)
Additions	7,146	169,405	41,450	10	218,011
Acquisition of subsidiaries	2,768	2,341,900	103,800	—	2,448,468
Disposals	(14)	—	—	—	(14)
Disposals of subsidiaries	(783)	(36,350)	(16,560)	—	(53,693)
At 31 December 2017	65,814	5,666,070	812,944	84,915	6,629,743
Accumulated amortisation and impairment:					
At 1 January 2017	36,586	429,927	214,240	30,416	711,169
Exchange realignment	(27)	—	—	(84)	(111)
Amortisation provided during the year	7,763	122,606	48,969	4,569	183,907
Impairment provided during the year	—	10,337	4,827	—	15,164
Disposals	(14)	—	—	—	(14)
Disposals of subsidiaries	(473)	(10,164)	(7,176)	—	(17,813)
At 31 December 2017	43,835	552,706	260,860	34,901	892,302
Net book value:					
At 31 December 2017	21,979	5,113,364	552,084	50,014	5,737,441

The Group's principal identifiable intangible assets represent dealership agreements in Mainland China with various vehicle manufacturers and customer relationships acquired from third parties. The dealership agreements do not include a specified contract period or termination arrangement.

17. GOODWILL

	2018 RMB'000	2017 RMB'000
At the beginning of the year	**3,940,056**	2,732,547
Acquisition of subsidiaries (note 37)	**623,630**	1,289,942
Disposal of subsidiaries	**—**	(50,176)
Impairment during the year	**—**	(32,257)
At the end of the year	**4,563,686**	3,940,056

IMPAIRMENT TESTING OF GOODWILL

The goodwill comprises the fair value of expected business synergies arising from the acquisitions, which is not separately recognised.

Goodwill acquired through business combinations has been allocated to the relevant 4S dealership business (or group of 4S dealership businesses) from which the goodwill was resulted. These individual 4S dealership businesses are treated as individual cash-generating unit for impairment testing.

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections 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%. The discount rate applied to the cash flow projections beyond the one-year period is 12% (2017: 12%).

The carrying amount of goodwill allocated to each cash-generating unit (or group of cash-generating units) of the operation of 4S dealership businesses is:

	2018 RMB'000	2017 RMB'000
4S dealership businesses	**4,563,686**	3,940,056

KEY ASSUMPTIONS USED IN THE VALUE IN USE CALCULATION

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

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

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.

18. INVESTMENTS IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000
Share of net assets	**45,470**	42,614

廈門中升豐田汽車銷售服務有限公司 (Xiamen Zhongsheng Toyota Automobile Sales & Service Co., Ltd.) ("Xiamen Zhongsheng"), 中升泰克提汽車服務(大連)有限公司 (Zhongsheng Tacti Automobile Service (Dalian) Co., Ltd.) ("Zhongsheng Tacti") and 提愛希汽車用品商貿(上海)有限公司 (TAC Automobile Accessories Trading (Shanghai) Co., Ltd.) ("TAC") are joint ventures of the Group and are considered to be related parties of the Group.

(a) Particulars of the joint ventures

Joint ventures	Place and date of registration	Authorised registered/ paid-in/ issued capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Xiamen Zhongsheng	Xiamen, the PRC, 1998	RMB12,000,000	50%	50%	50%	Sale and service of motor vehicles
Zhongsheng Tacti	Dalian, the PRC, 2009	USD3,000,000	50%	50%	50%	Sale and service of accessories
TAC	Shanghai, the PRC, 2011	RMB4,000,000	50%	50%	50%	Sale and service of accessories

All of the above investments in joint ventures are directly held by the Company.

(b) The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material to the Group:

Share of the joint ventures' assets and liabilities:

	2018 RMB'000	2017 RMB'000
Non-current assets	**1,777**	1,721
Current assets	**51,592**	48,234
Current liabilities	**(7,899)**	(7,341)
Net assets	**45,470**	42,614

Share of the joint ventures' results:

	2018 RMB'000	2017 RMB'000
Income	**249,081**	217,837
Expenses	**(244,919)**	(211,550)
Tax	**(1,306)**	(1,692)
Profit for the year	**2,856**	4,595
Dividend received	**–**	(10,000)

19. INVENTORIES

Inventories in the consolidated statement of financial position represent:

	2018 RMB'000	2017 RMB'000
Motor vehicles	10,223,680	6,846,563
Spare parts and others	764,048	668,374
	10,987,728	7,514,937
Less: Provision for inventories	7,230	5,131
	10,980,498	7,509,806

As at 31 December 2018, certain of the Group's inventories with a carrying amount of approximately RMB4,892,765,000 (2017: RMB3,494,023,000) were pledged as security for the Group's bank loans and other borrowings (notes 26(a)(iii) and 26(b)).

As at 31 December 2018, certain of the Group's inventories with a carrying amount of approximately RMB2,077,866,000 (2017: RMB1,345,204,000) were pledged as security for the Group's bills payable.

20. TRADE RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	1,347,019	1,082,746
Impairment	(5,279)	—
	1,341,740	1,082,746

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.

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

	2018 RMB'000	2017 RMB'000
Within 3 months	1,290,645	1,051,824
More than 3 months but less than 1 year	38,490	15,553
Over 1 year	12,605	15,369
	1,341,740	1,082,746

20. TRADE RECEIVABLES (continued)

The movements in provision for impairment of trade receivables are as follows:

	2018 RMB'000	2017 RMB'000
At the beginning of the year	–	–
Impairment losses, net	5,279	–
At the end of the year	5,279	–

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The information about the credit risk exposure on the Group's trade receivables using a provision matrix was disclosed in note 47 to the financial statements.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	1,067,377
Over one year past due	15,369
	1,082,746

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 RMB'000	2017 RMB'000
Prepayments and deposits to suppliers	**2,756,109**	2,653,965
Deposits paid for acquisition of land use rights	**853,971**	847,507
Advances to certain companies to be acquired	**186,489**	80,348
Rebate receivables	**4,712,234**	3,892,694
VAT recoverable (i)	**368,908**	44,546
Receivables on disposal of subsidiaries	**10,088**	88,674
Receivables on disposal of items of property, plant and equipment	**36,223**	36,433
Receivables from original shareholders of subsidiaries acquired	**93,400**	62,381
Receivables on disposal of land use rights	**34,425**	34,425
Prepaid finance costs	**41,041**	15,144
Others	**1,018,060**	888,261
	10,110,948	8,644,378

Note:

(i) The Group's sales of motor vehicles are subject to Mainland China Value Added Tax ("VAT"). Input VAT on purchases can be deducted from output VAT payable. The VAT recoverable is the net difference between output and deductible input VAT.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

	2018 RMB'000	2017 RMB'000
Prepayments, other receivables and other assets	**6,090,919**	5,083,216

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	2018 RMB'000	2017 RMB'000
Listed equity investments, at fair value	(i)	**61,455**	—
Financial products	(ii)	**79,735**	—
		141,190	—

(i) The listed equity investments at 31 December 2018 were classified as financial assets at fair value through profit or loss as they were held for trading.

(ii) The financial products as at 31 December 2018 were issued by financial institutions. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

23. PLEDGED BANK DEPOSITS

	2018 RMB'000	2017 RMB'000
Deposits pledged with banks as collateral against credit facilities granted by the banks	**1,312,577**	1,405,646

Pledged bank deposits earn interest at interest rates stipulated by the respective financial institutions.

24. CASH IN TRANSIT

	2018 RMB'000	2017 RMB'000
Cash in transit	**431,044**	356,063

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

25. CASH AND CASH EQUIVALENTS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**6,136,514**	4,705,153
Short term deposits	**6,150**	322,049
Cash and cash equivalents	**6,142,664**	5,027,202

As at 31 December 2018, the cash and bank balances and short term deposits of the Group denominated in a currency other than RMB amounted to RMB754,862,000 (2017: RMB427,858,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and short term deposits 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.

26. BANK LOANS AND OTHER BORROWINGS

		2018			2017		
	Notes	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current							
Finance lease payables (note 33)		1–6	2019	5,751	1–5	2018	3,476
Bank loans							
— secured	(a)	3–5	2019	2,447,323	2–6	2018	4,674,655
— unsecured		1–6	2019	9,323,213	3–6	2018	7,600,188
Other borrowings							
— secured	(b)	2–8	2019	4,335,448	2–8	2018	2,635,311
— unsecured		2–8	2019	34,247	2–8	2018	24,027
Current portion of long term bank loans							
— secured	(a)	4–5	2019	571,435	3–7	2018	516,018
— unsecured		3–5	2019	235,288	3–7	2018	346,234
Syndicated term loans							
— secured	(c)	—	—	—	3–5	2018	983,570
— unsecured		5	2019	120,000	5	2018	45,000
				17,072,705			16,828,479
Non-current							
Finance lease payables (note 33)		1–5	2020	640	1–5	2019–2020	1,373
Bank loans							
— secured	(a)	4–5	2020–2021	671,735	3–7	2019–2021	685,318
— unsecured		3–5	2020–2021	1,349,270	3–7	2020	952,937
Syndicated term loans							
— secured	(c)	4	2021	2,533,819	—	—	—
— unsecured		5	2020	1,020,000	5	2020	855,000
				5,575,464			2,494,628
				22,648,169			19,323,107

26. BANK LOANS AND OTHER BORROWINGS (continued)

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	12,577,259	13,137,095
In the second year	1,493,945	559,330
In the third to fifth years	527,060	1,078,925
	14,598,264	14,775,350
Other borrowings repayable:		
Within one year	4,369,695	2,659,338
Syndicated term loans:		
Within one year	120,000	1,028,570
In the second year	1,273,382	90,000
In the third year	2,280,437	765,000
	3,673,819	1,883,570
Finance lease payables:		
Within one year	5,751	3,476
In the second year	640	1,373
	6,391	4,849
	22,648,169	19,323,107

26. BANK LOANS AND OTHER BORROWINGS (continued)

Notes:

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

(i) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying amount of approximately RMB151,755,000 (2017: RMB449,359,000) as at 31 December 2018;

(ii) mortgages over the Group's buildings, which had an aggregate carrying amount of approximately RMB220,438,000 (2017: RMB502,055,000) as at 31 December 2018;

(iii) mortgages over the Group's inventories, which had an aggregate carrying amount of approximately RMB619,417,000 (2017: RMB954,532,000) as at 31 December 2018; and

(iv) mortgages over the entire shares of certain subsidiaries of the Company.

(b) Certain of the Group's other borrowings were secured by mortgages over the Group's inventories, which had an aggregate carrying amount of approximately RMB4,273,348,000 (2017: RMB2,539,491,000) as at 31 December 2018.

(c) Certain of the Group's syndicated term loans were secured by mortgages over the entire shares of Billion Great Corporation Limited (wholly owned by Well Snape Holdings Limited) and Loong Wah Motors Limited (wholly owned by Loong Wah Motors (Cayman) Co., Ltd.).

(d) All bank loans and other borrowings were denominated in RMB, except for certain bank loans which were denominated in Hong Kong dollars, United States dollars and Japanese Yen amounting to RMB3,227,045,000, RMB1,781,449,000 and RMB66,974,000, respectively. (2017: Hong Kong dollars amounting to RMB3,114,810,000, United States dollars amounting to RMB1,388,535,000, and Euros amounting to RMB58,789,000).

27. CONVERTIBLE BONDS

(i) On 30 October 2017, the Company issued zero coupon convertible bonds due 2018 with a nominal value of HK$2,350,000,000 (the "2018 convertible bonds"). The bonds were convertible at the option of the bondholders into ordinary shares at any time on or after 10 December 2017 until and including 15 October 2018 at a conversion price of HK$20.2860 per share. Any convertible bonds not converted would be redeemed on 25 October 2018 at 100% of their principal amounts. During the year ended 31 December 2018, the Company has redeemed principal amounts of HK$2,256,000,000 of the bonds. The remaining bonds with principal amounts of HK$94,000,000 were converted by the bondholders into 4,633,735 shares of the Company of HK$0.0001 each at a conversion price of HK$20.286 per ordinary share during the year.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible bonds issued during 2017 have been split into the liability and equity components as follows:

	2018 **RMB'000**	2017 RMB'000
Nominal value of 2018 convertible bonds	**2,002,177**	2,002,177
Equity component	**(58,003)**	(58,003)
Direct transaction costs attributable to the liability component	**(41,031)**	(41,031)
Liability component at the issuance date	**1,903,143**	1,903,143
Interest expense	**55,608**	17,321
Redemption of 2018 convertible bonds	**(1,793,787)**	—
Converted to shares of the Company	**(75,627)**	—
Exchange realignment	**(89,337)**	(36,506)
Liability component at the end of the year	**—**	1,883,958
Less: Portion classified as current liabilities	**—**	1,883,958
Long-term portion	**—**	—

27. CONVERTIBLE BONDS (continued)

(ii) On 23 May 2018, the Company issued zero coupon convertible bonds with a nominal value of HK$4,700,000,000 (the "New convertible bonds"). There was no movement in the number of these convertible bonds during the year. The bonds are convertible at the option of the bondholders into ordinary shares at any time on or after 3 July 2018 until and including 12 May 2023 at a conversion price of HK$30.0132 per share. Any convertible bonds not converted will be redeemed on 23 May 2023 at 114.63% of their principal amount. There was no conversion of the New convertible bonds during the year.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible bonds issued during the year have been split into the liability and equity components as follows:

	2018 RMB'000	2017 RMB'000
Nominal value of New convertible bonds	**3,818,374**	—
Equity component	**(114,324)**	—
Direct transaction costs attributable to the liability component	**(38,377)**	—
Liability component at the issuance date	**3,665,673**	—
Interest expense	**91,126**	—
Exchange realignment	**289,923**	—
Liability component at the end of the year	**4,046,722**	—
Less: Portion classified as current liabilities	**—**	—
Long-term portion	**4,046,722**	—

28. TRADE AND BILLS PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	1,607,975	1,205,263
Bills payable	3,206,786	2,265,330
Trade and bills payables	4,814,761	3,470,593

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 RMB'000	2017 RMB'000
Within 3 months	4,100,991	3,176,626
3 to 6 months	694,485	282,975
6 to 12 months	12,350	4,386
Over 12 months	6,935	6,606
	4,814,761	3,470,593

The trade and bills payables are non-interest-bearing.

29. OTHER PAYABLES AND ACCRUALS

	Note	2018 RMB'000	2017 RMB'000
Payables for purchase of items of property, plant and equipment and land use rights		**126,652**	179,338
Advances and deposits from distributors		**49,621**	52,203
Advances from customers		**—**	1,721,995
Contract liabilities	(a)	**2,128,257**	—
Payables for purchase of equity interests from third parties		**154,304**	478,165
Staff payroll and welfare payables		**10,538**	26,151
Others		**527,177**	477,548
		2,996,549	2,935,400

(a) 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		
Sale of goods	2,128,257	1,721,995
Total contract liabilities	2,128,257	1,721,995

Contract liabilities include short-term advances received to deliver new automobiles. The increase in contract liabilities in 2018 was mainly due to the increase in short-term advances received from customers in relation to the sales of new automobiles at the end of the year.

30. OTHER LIABILITIES

Included in other liabilities are a put option over non-controlling interest of RMB245,000,000 (2017: RMB245,000,000) arising from the acquisition of Hainan Jiahua Weiye Investment Co., Ltd. and its subsidiaries in 2016.

31. EMPLOYEE RETIREMENT BENEFITS

In compliance with the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance"), the Company has participated in an MPF scheme, which is a defined contribution scheme managed by an independent trustee, to provide retirement benefits to its Hong Kong employees. Contributions to the MPF scheme are made in accordance with the statutory limits prescribed by the MPF Ordinance.

As stipulated by the People's Republic of China (the "PRC") state regulations, the subsidiaries in Mainland China 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 10% to 22% (2017: 10% to 22%) of the previous 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 pension benefits beyond the annual contributions as set out above.

According to the relevant rules and regulations of the PRC, the Mainland China subsidiaries and their employees are each required to make contributions to an accommodation fund at 7% to 18% (2017: 7% to 18%) of the salaries and wages of the employees which is administered by the Public Accumulation Funds Administration Centre. There is no further obligation on the part of the Group except for these contributions to the accommodation fund.

As at 31 December 2018, the Group was not entitled to any forfeited contributions to reduce its future contributions (2017: nil).

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

32. INCOME TAX PAYABLE AND DEFERRED TAX

(a) The movements in income tax payable during the year are as follows:

	2018 RMB'000	2017 RMB'000
At the beginning of the year	**1,373,395**	1,133,583
Provision for current tax for the year	**1,513,179**	1,302,753
Income tax payable arising from acquisition of subsidiaries	**25,004**	15,484
Income tax payable decrease due to disposal of subsidiaries	**—**	(18,060)
Current tax paid	**(1,441,225)**	(1,060,365)
At the end of the year	**1,470,353**	1,373,395

32. INCOME TAX PAYABLE AND DEFERRED TAX (continued)

(b) Deferred tax assets and liabilities recognised

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

DEFERRED TAX ASSETS:

	Losses available for offsetting against future taxable profits RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018	**278,923**	**—**	**278,923**
Deferred tax recognised in the consolidated statement of profit or loss during the year (note 8(a))	**(29,651)**	**20,025**	**(9,626)**
At 31 December 2018	**249,272**	**20,025**	**269,297**
At 1 January 2017	307,243	—	307,243
Deferred tax arising from acquisition of subsidiaries	15,533	—	15,533
Deferred tax decrease due to disposal of subsidiaries	(1,335)	—	(1,335)
Deferred tax recognised in the consolidated statement of profit or loss during the year	(42,518)	—	(42,518)
At 31 December 2017	278,923	—	278,923

The Group has tax losses arising in Hong Kong of RMB291,058,000 (2017: RMB181,771,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Group also has tax losses arising in Mainland China of RMB183,503,000 (2017: RMB81,607,000) that will expire in one to five years for offsetting against future taxable profits.

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.

32. INCOME TAX PAYABLE AND DEFERRED TAX (continued)

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

DEFERRED TAX LIABILITIES:

	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Capitalisation of interest expenses and others RMB'000	Withholding tax RMB'000	Total RMB'000
At 1 January 2018	**1,426,443**	**219,476**	**33,671**	**1,679,590**
Deferred tax arising from acquisition of subsidiaries (note 37)	**248,084**	**—**	**—**	**248,084**
Deferred tax decrease due to disposal of a subsidiary (note 38)	**—**	**(1,027)**	**—**	**(1,027)**
Deferred tax recognised in the consolidated statement of profit or loss during the year (note 8(a))	**(61,409)**	**44,044**	**—**	**(17,365)**
At 31 December 2018	**1,613,118**	**262,493**	**33,671**	**1,909,282**
At 1 January 2017	856,105	179,109	33,671	1,068,885
Deferred tax arising from acquisition of subsidiaries	629,118	—	—	629,118
Deferred tax decrease due to disposal of subsidiaries	(9,725)	(940)	—	(10,665)
Deferred tax recognised in the consolidated statement of profit or loss during the year	(49,055)	41,307	—	(7,748)
At 31 December 2017	1,426,443	219,476	33,671	1,679,590

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained profits as at 31 December 2007 are exempted from the withholding tax.

In the opinion of the directors, it is not probable that the Group's subsidiaries established in Mainland China will, in the foreseeable future, distribute earnings with temporary differences aggregating approximately RMB15,653,672,000 (2017: RMB11,517,381,000) associated with investments in these subsidiaries for which deferred tax liabilities have not been recognised as at 31 December 2018.

33. FINANCE LEASE PAYABLES

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 finance leases, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation to reflect the purchase and financing.

Assets held under capitalized finance leases were included in its equipment.

At 31 December 2018, the total future minimum lease payments under leases and their present values were as follows:

	Minimum lease payments 2018 RMB'000	Minimum lease payments 2017 RMB'000	**Present value of minimum lease payments 2018 RMB'000**	Present value of minimum lease payments 2017 RMB'000
Amounts payable:				
Within one year	**6,166**	3,861	**5,751**	3,476
In the second year	**749**	1,577	**640**	1,329
In the third to fifth years	**—**	59	**—**	44
Total minimum finance lease payments	**6,915**	5,497	**6,391**	4,849
Future finance charges	**(524)**	(648)		
Total net finance lease payables	**6,391**	4,849		
Portion classified as current liabilities (note 26)	**5,751**	3,476		
Non-current portion (note 26)	**640**	1,373		

34. SHARE CAPITAL

Shares	2018 HK$'000	2017 HK$'000
Issued and fully paid:		
2,271,697,955 (2017: 2,267,064,220) ordinary shares	**227**	227
Equivalent to RMB'000	**197**	197

During the years ended 31 December 2018 and 2017, the movements in the Company's share capital were as follows:

	Number of shares in issue	Share capital RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2017	2,146,506,957	186	6,187,462	6,187,648
Issue of shares	120,557,263	11	1,175,867	1,175,878
Final 2016 dividend declared	—	—	(561,204)	(561,204)
At 31 December 2017 and 1 January 2018	2,267,064,220	197	6,802,125	6,802,322
Conversion of convertible bonds	4,633,735	—	77,898	77,898
Final 2017 dividend declared	—	—	(667,207)	(667,207)
At 31 December 2018	2,271,697,955	197	6,212,816	6,213,013

35. RESERVES

(I) DISCRETIONARY RESERVE FUND

Pursuant to the articles of association of certain subsidiaries of the Group registered in the PRC, these subsidiaries are required to transfer part of their profits after taxation to the discretionary reserve fund. The amounts allocated to this reserve are determined by the respective boards of directors.

For the PRC subsidiaries, in accordance with the Company Law of the People's Republic of China, the discretionary reserve fund can be used to offset previous years' losses, if any, and may be converted into capital in proportion to the equity holders' existing equity holdings, provided that the balance after the conversion is not less than 25% of the registered capital.

(II) STATUTORY RESERVE

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC 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) EXCHANGE FLUCTUATION RESERVE

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies outside Mainland China. The reserve is dealt with in accordance with the accounting policy set out in note 2.4.

(IV) MERGER RESERVE

The merger reserve of the Group represents the capital contributions from the equity holders of the Company.

(V) OTHER RESERVE

The other reserve of the Group represents the excess of the carrying amount of the non-controlling interests acquired over the consideration and the present value of the amount payable at the time of redemption of a put option over non-controlling interests.

36. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the employee, management member or director of the Company, or any of the Company's subsidiaries and third party service providers. The Scheme was conditionally approved by a resolution of the shareholders on 9 February 2010 and adopted by a resolution of the Board on the same day. Unless otherwise terminated, the Scheme will remain in force for 10 years from the date on which it becomes unconditional.

The maximum number of shares in respect of which options may be granted under the Scheme shall not in aggregate exceed 10% of the share in issue as at the date of approval of the Scheme. No option may be granted to any one person such that the total number of shares issued and to be issued upon the exercise of options granted and to be granted to that person in any twelve months period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time, unless the approval of the Company's shareholders is obtained.

36. SHARE OPTION SCHEME (continued)

Share options granted to a connected person are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, if the shares issued and to be issued upon exercise of all options granted and proposed to be granted to him is in excess of 0.1% of the shares of the Company then in issue or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within the twelve month period up to and including the proposed date of such grant, are subject to shareholders' approval in advance in a general meeting.

The last day for accepting an option and the Company to receive the nominal consideration of HK$1 for the option shall be determined by the Board and shall be set out on the offer letter for granting such option. The period during which a granted option may be exercised in accordance with the terms of the Scheme shall be the period of time to be notified by the Board to each grantee, which the Board may in its absolute discretion determine, save that such period shall not be more than ten years commencing on the offer date.

The amount payable for each share to be subscribed for under an option upon exercise shall be determined by the Board and notified to a proposed beneficiary at the time of offer of the option and shall be not less than the higher of: (a) the closing price of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (b) the average closing price of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares.

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

The following share options were outstanding under the Scheme during the year:

	2018		2017	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January 2018	—	—	—	—
Granted during the year	22.60	11,000	—	—
At 31 December 2018	22.60	11,000	—	—

The exercise prices and exercise periods of the share options outstanding as at the end of the year are as follows:

Number of options '000	**2018 Exercise price HK$ per share**	**Exercise period**
11,000	22.60	26 April 2019 to 25 April 2028 (both dates inclusive)

The fair value of the share options granted during the year was HK$58,135,000 (HK$5.29 each) (2017: Nil), of which the Group recognised a share option expense of RMB33,367,000 (2017: Nil) during the year ended 31 December 2018.

36. SHARE OPTION SCHEME (continued)

The fair value of these share options granted determined using the Binominal Option Pricing Model. The significant inputs into the model were the exercise price of HK$22.60 at the grant date, volatility of 33.94%, dividend yield of 3.00% and an annual risk-free interest rate of 2.22%.

The validity period of the options is 10 years. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The expected dividend yield is based on historical dividend payment record of the Company.

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

At the end of reporting period, the Company had 11,000,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 11,000,000 additional ordinary shares of the Company and additional share capital of HK$1,100 (before issue expenses).

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits.

37. BUSINESS COMBINATION

(a) As part of the Group's plan to expand its motor vehicle sales and service business in Jiangsu and Zhejiang provinces, the Group acquired 100% of the equity interests of the following companies, which are engaged in the motor vehicle sales and service business in Mainland China, from certain third parties on 1 January 2018 at a total consideration of RMB262,450,000. The purchase consideration for the acquisition was in the form of cash, with RMB262,450,000 paid by the end of the year of 2018.

Company name	Acquired equity interests %
蘇州凌通雷克薩斯汽車銷售服務有限公司 (Suzhou Lingtong Lexus Automobile Sales & Service Co., Ltd.)	100%
溫州凌通雷克薩斯汽車銷售服務有限公司 (Wenzhou Lingtong Lexus Automobile Sales & Service Co., Ltd.)	100%
溫州萊曼汽車快修有限公司 (Wenzhou Laiman Automobile Service Co., Ltd.)	100%

37. BUSINESS COMBINATION (continued)

(a) (continued)

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

	Notes	Recognised fair values on acquisition date RMB'000
Property, plant and equipment	13	33,193
Land use rights	14	39,440
Intangible assets	16	118,310
Inventories		32,734
Trade receivables		3,240
Prepayments, other receivables and other assets		27,160
Pledged bank deposits		1,014
Cash in transit		1,499
Cash and cash equivalents		12,195
Trade and bills payables		(5,501)
Other payables and accruals		(30,575)
Bank loans and other borrowings		(26,677)
Income tax payable		(5,499)
Deferred tax liabilities	32(b)	(36,164)
Total identifiable net assets at fair value		164,369
Goodwill on acquisition		98,081
Total purchase consideration		262,450

The goodwill recognised is primarily attributed to the expected business synergies arising from the acquisition, which is not separately recognised. The goodwill is not deductible for income tax purposes.

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB3,240,000 and RMB27,160,000, respectively, which are equal to the gross contractual amounts.

An analysis of the cash flows in respect of the acquisition of these subsidiaries is as follows:

	RMB'000
Cash consideration paid	(262,450)
Cash and cash equivalents acquired	12,195
Net cash outflow	(250,255)

Since the acquisition, the acquired business contributed RMB844,779,000 to the Group's revenue and RMB58,797,000 to the consolidated profit for the year ended 31 December 2018.

37. BUSINESS COMBINATION (continued)

(b) As part of the Group's plan to expand its motor vehicle sales and service business in Jiangsu, Sichuan, Zhejiang provinces, Tianjin and Shanghai, the Group acquired 100% of the equity interests of the following companies, which are engaged in the motor vehicle sales and service business in Mainland China, from certain third parties on 1 January 2018 at a total consideration of RMB728,724,000. The purchase consideration for the acquisition was in the form of cash, with RMB665,130,000 paid by the end of the year of 2018.

Company name	Acquired equity interests %
天津通孚祥汽車銷售服務有限公司 (Tianjin Tongfuxiang Automobile Sales & Service Co., Ltd.)	100%
上海通孚祥汽車銷售服務有限公司 (Shanghai Tongfuxiang Automobile Sales & Service Co., Ltd.)	100%
上海通孚祥貿易有限公司 (Shanghai Tongfuxiang Trading Co., Ltd.)	100%
通孚祥(蘇州)汽車銷售服務有限公司 (Suzhou Tongfuxiang Automobile Sales & Service Co., Ltd.)	100%
四川通孚祥汽車貿易有限公司 (Sichuan Tongfuxiang Automobile Trading Co., Ltd.)	100%
寧波廣達汽車銷售服務有限公司 (Ningbo Guangda Automobile Sales & Service Co., Ltd.)	100%
無錫通孚祥汽車銷售服務有限公司 (Wuxi Tongfuxiang Automobile Sales & Service Co., Ltd.)	100%

37. BUSINESS COMBINATION (continued)

(b) (continued)

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

	Notes	Recognised fair values on acquisition date RMB'000
Property, plant and equipment	13	71,116
Land use rights	14	32,990
Intangible assets	16	231,771
Inventories		232,002
Trade receivables		29,193
Prepayments, other receivables and other assets		234,464
Pledged bank deposits		57,540
Cash in transit		2,566
Cash and cash equivalents		288,702
Trade and bills payables		(406,063)
Other payables and accruals		(204,220)
Bank loans and other borrowings		(43,920)
Income tax payable		(18,309)
Deferred tax liabilities	32(b)	(63,108)
Total identifiable net assets at fair value		444,724
Goodwill on acquisition		284,000
Total purchase consideration		728,724

The goodwill recognised is primarily attributed to the expected business synergies arising from the acquisition, which is not separately recognised. The goodwill is not deductible for income tax purposes.

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB29,193,000 and RMB234,464,000, respectively, which are equal to the gross contractual amounts.

An analysis of the cash flows in respect of the acquisition of these subsidiaries is as follows:

	RMB'000
Cash consideration paid	(665,130)
Cash and cash equivalents	288,702
Net cash outflow	(376,428)

Since the acquisition, the acquired business contributed RMB2,544,294,000 to the Group's revenue and RMB63,221,000 to the consolidated profit for the year ended 31 December 2018.

37. BUSINESS COMBINATION (continued)

(c) As part of the Group's plan to expand its motor vehicle sales and service business in Henan province, the Group acquired 100% of the equity interests in in the following companies, which are engaged in the motor vehicle sales and service business in Mainland China, from certain third parties on 1 July 2018 at a total consideration of RMB299,842,000. The purchase consideration for the acquisition was in the form of cash, with RMB299,842,000 paid by the end of the year of 2018.

Company name	Acquired equity interests %
洛陽眾寶行汽車銷售服務有限公司 (Luoyang Zhongbaohang Automobile Sales & Service Co., Ltd.)	100%
鄭州市鄭寶行汽車銷售有限公司 (Zhengzhou Zhengbaohang Automobile Sales Co., Ltd.)	100%
新鄭市新寶行汽車銷售服務有限公司 (Xinzheng Xinbaohang Automobile Sales & Service Co., Ltd.)	100%

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

	Notes	Recognised fair values on acquisition date RMB'000
Property, plant and equipment	13	60,913
Intangible assets	16	143,900
Inventories		139,958
Trade receivables		3,473
Prepayments, other receivables and other assets		106,525
Pledged bank deposits		1,200
Cash in transit		6,988
Cash and cash equivalents		20,854
Trade and bills payables		(15,292)
Other payables and accruals		(104,047)
Bank loans and other borrowings		(162,021)
Deferred tax liabilities	32(b)	(36,506)
Total identifiable net assets at fair value		165,945
Goodwill on acquisition		133,897
Total purchase consideration		299,842

The goodwill recognised is primarily attributed to the expected business synergies arising from the acquisition, which is not separately recognised. The goodwill is not deductible for income tax purposes.

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB3,473,000 and RMB106,525,000, respectively, which are equal to the gross contractual amounts.

37. BUSINESS COMBINATION (continued)

(c) (continued)

An analysis of the cash flows in respect of the acquisition of the subsidiaries is as follows:

	RMB'000
Cash consideration paid	(299,842)
Cash and cash equivalents	20,854
Net cash outflow	(278,988)

Since the acquisition, the acquired business contributed RMB468,861,000 to the Group's revenue and RMB2,308,000 of loss to the consolidated profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB108,094,103,000 and RMB3,692,631,000, respectively.

(d) As part of the Group's plan to expand its motor vehicle sales and service business in Mainland China, the Group acquired 100% of the equity interests in the following companies, and the non-current assets from Tangshan Pangda Lexus Automobile Sales & Service Co., Ltd. (唐山龐大雷克薩斯汽車銷售服務有限公司), Shijiazhuang Pangda Lexus Automobile Sales & Service Co., Ltd. (石家莊龐大雷克薩斯汽車銷售服務有限公司), Daqing Pangda Qinghong Lexus Automobile Sales & Service Co., Ltd. (大慶龐大慶鴻雷克薩斯汽車銷售服務有限公司) and Jinan Pangda Ruixing Automobile Sales & Service Co., Ltd. (濟南龐大瑞星汽車銷售服務有限公司), which are engaged in the motor vehicle sales and service business in Mainland China, from certain third parties on 1 September 2018 at a total consideration of RMB861,504,000. The purchase consideration for the acquisition was in the form of cash, with RMB861,504,000 paid by the end of the year of 2018.

Company name	Acquired equity interests %
山東龐大興業汽車銷售服務有限公司 (Shandong Pangda Xingye Automobile Sales & Service Co., Ltd.)	100%
濟南龐大龍豐汽車銷售有限公司 (Jinan Pangda Longfeng Automobile Sales Co., Ltd.)	100%
濟南中冀斯巴魯汽車銷售有限公司 (Jinan Zhongji Subaru Automobile Sales Co., Ltd.)	100%
濟南龐大一眾汽車銷售服務有限公司 (Jinan Pangda Faw-Volkswagen Automobile Sales & Service Co., Ltd.)	100%
石家莊廣順汽車貿易有限公司 (Shijiazhuang Guangshun Automobile Trading Co., Ltd.)	100%
沈陽鴻譽新輝汽車銷售服務有限公司 (Shenyang Hongyu Xinhui Automobile Sales & Service Co., Ltd.)	100%
石家莊弘豐行汽車銷售服務有限公司 (Shijiazhuang Hongfenghang Automobile Sales & Service Co., Ltd.)	100%
北京龐大慶鴻雷克薩斯汽車銷售服務有限公司 (Beijing Pangda Qinghong Lexus Automobile Sales & Service Co., Ltd.)	100%

37. BUSINESS COMBINATION (continued)

(d) (continued)

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

	Notes	Recognised fair values on acquisition date RMB'000
Property, plant and equipment	13	359,198
Land use rights	14	302,310
Intangible assets	16	304,900
Inventories		110,863
Trade receivables		8,020
Prepayments, other receivables and other assets		139,984
Pledged bank deposits		64,082
Cash in transit		3,227
Cash and cash equivalents		16,992
Trade and bills payables		(131,630)
Other payables and accruals		(293,729)
Income tax payable		(1,196)
Deferred tax liabilities	32(b)	(106,357)
Total identifiable net assets at fair value		776,664
Goodwill on acquisition		84,840
Total purchase consideration		861,504

The goodwill recognised is primarily attributed to the expected business synergies arising from the acquisition, which is not separately recognised. The goodwill is not deductible for income tax purposes.

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB8,020,000 and RMB139,984,000, respectively, which are equal to the gross contractual amounts.

An analysis of the cash flows in respect of the acquisition of these subsidiaries is as follows:

	RMB'000
Cash consideration paid	(861,504)
Cash and cash equivalents	16,992
Net cash outflow	(844,512)

Since the acquisition, the acquired business contributed RMB711,128,000 to the Group's revenue and RMB6,564,000 to the consolidated profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB108,432,127,000 and RMB3,612,606,000, respectively.

37. BUSINESS COMBINATION (continued)

(e) As part of the Group's plan to expand its motor vehicle sales and service business in Guangdong province, the Group acquired 100% of the equity interests in Guangzhou Xinju Toyota Automobile Sales & Service Co., Ltd. (廣州新鉅豐田汽車銷售服務有限公司), which is engaged in the motor vehicle sales and service business in Mainland China, from certain third parties on 1 August 2018 at a total consideration of RMB41,092,000. The purchase consideration for the acquisition was in the form of cash, with RMB36,983,000 paid by the end of the year of 2018.

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

	Notes	Recognised fair values on acquisition date RMB'000
Property, plant and equipment	13	760
Intangible assets	16	23,400
Inventories		13,877
Trade receivables		141
Prepayments, other receivables and other assets		8,339
Cash in transit		27
Cash and cash equivalents		4,025
Trade and bills payables		(5,988)
Other payables and accruals		(20,352)
Deferred tax liabilities	32(b)	(5,949)
Total identifiable net assets at fair value		18,280
Goodwill on acquisition		22,812
Total purchase consideration		41,092

The goodwill recognised is primarily attributed to the expected business synergies arising from the acquisition, which is not separately recognised. The goodwill is not deductible for income tax purposes.

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB141,000 and RMB8,339,000, respectively, which are equal to the gross contractual amounts.

An analysis of the cash flows in respect of the acquisition of this subsidiary is as follows:

	RMB'000
Cash consideration paid	(36,983)
Cash and cash equivalents acquired	4,025
Net cash outflow	(32,958)

Since the acquisition, the acquired business contributed RMB56,356,000 to the Group's revenue and RMB2,611,000 to the consolidated profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB107,830,497,000 and RMB3,694,745,000, respectively.

38. DISPOSAL OF A SUBSIDIARY

	Notes	2018 RMB'000
Net assets disposed of:		
Property, plant and equipment	13	4,144
Land use rights	14	13,542
Prepayments, other receivables and other assets		50
Cash and cash equivalents		2
Other payables and accruals		(3,630)
Deferred tax liabilities	32(b)	(1,027)
		13,081
Loss on disposal of a subsidiary	5(b)	(2,711)
Total consideration		10,370

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

	2018 RMB'000
Cash consideration received	10,370
Cash and bank balances disposed of	(2)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	10,368

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) MAJOR NON-CASH TRANSACTIONS

During the year, the Group didn't enter into any material non-cash transaction (2017: Nil).

(b) CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

2018

	Bank loans and other borrowings RMB'000	Bills payable RMB'000	Financial lease payables RMB'000	Convertible bonds RMB'000	Dividends Payable RMB'000
At 1 January 2018	**19,318,258**	**2,265,330**	**4,849**	**1,883,958**	**9**
Changes from financing cash flows	**2,949,925**	**439,561**	**(4,596)**	**1,574,846**	**(744,504)**
Exchange realignment	**140,977**	**—**	**—**	**234,561**	**—**
Increase arising from acquisition of subsidiaries	**232,618**	**501,895**	**—**	**—**	**—**
Equity component of convertible bonds	**—**	**—**	**—**	**(113,139)**	**—**
Conversion of convertible bonds	**—**	**—**	**—**	**(75,627)**	**—**
Redemption of convertible bonds	**—**	**—**	**—**	**412,710**	**—**
New finance lease	**—**	**—**	**6,014**	**—**	**—**
Interest expense	**—**	**—**	**124**	**129,413**	**—**
Final 2017 dividend declared	**—**	**—**	**—**	**—**	**667,207**
Dividends paid to the non-controlling shareholders	**—**	**—**	**—**	**—**	**77,297**
At 31 December 2018	**22,641,778**	**3,206,786**	**6,391**	**4,046,722**	**9**

2017

	Bank loans and other borrowings RMB'000	Bills payable RMB'000	Financial lease payables RMB'000	Convertible bonds RMB'000	Dividends Payable RMB'000
At 1 January 2017	15,271,771	3,049,445	3,801	2,753,130	9
Changes from financing cash flows	3,618,788	(1,207,520)	(5,332)	(814,353)	(618,207)
Equity component of convertible bonds	—	—	—	(56,779)	—
Exchange realignment	(263,154)	—	—	(66,105)	—
New finance lease	—	—	6,214	—	—
Interest expense	—	—	166	68,065	—
Increase arising from acquisition of subsidiaries	783,093	457,605	—	—	—
Decrease due to disposal of subsidiaries	(92,240)	(34,200)	—	—	—
Final 2016 dividend declared	—	—	—	—	561,204
Dividends paid to the non-controlling shareholders	—	—	—	—	57,003
At 31 December 2017	19,318,258	2,265,330	4,849	1,883,958	9

40. 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:

2018

FINANCIAL ASSETS

	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total
	Held for trading RMB'000	RMB'000	RMB'000
Financial assets at fair value through profit or loss	141,190	—	141,190
Trade receivables	—	1,341,740	1,341,740
Financial assets included in prepayments, other receivables and other assets	—	6,090,919	6,090,919
Amounts due from related parties	—	850	850
Pledged bank deposits	—	1,312,577	1,312,577
Cash in transit	—	431,044	431,044
Cash and cash equivalents	—	6,142,664	6,142,664
	141,190	15,319,794	15,460,984

FINANCIAL LIABILITIES

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	4,814,761
Financial liabilities included in other payables and accruals	818,671
Amounts due to related parties	1,119
Bank loans and other borrowings	22,648,169
Convertible bonds	4,046,722
Other liabilities	245,000
	32,574,442

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2017

FINANCIAL ASSETS

	Available-for-sale investments RMB'000	Loans and receivables RMB'000	Total RMB'000
Available-for-sale investments	19,100	—	19,100
Trade receivables	—	1,082,746	1,082,746
Financial assets included in prepayments, other receivables and other assets	—	5,083,216	5,083,216
Amounts due from related parties	—	555	555
Pledged bank deposits	—	1,405,646	1,405,646
Cash in transit	—	356,063	356,063
Cash and cash equivalents	—	5,027,202	5,027,202
	19,100	12,955,428	12,974,528

FINANCIAL LIABILITIES

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	3,470,593
Financial liabilities included in other payables and accruals	1,161,202
Amounts due to related parties	577
Bank loans and other borrowings	19,323,107
Convertible bonds	1,883,958
Other liabilities	245,000
	26,084,437

41. 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:

Group

	Carrying amounts		Fair values	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Financial assets at fair value through profit or loss	**141,190**	–	**141,190**	–

FAIR VALUE HIERARCHY

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

ASSETS MEASURED AT FAIR VALUE:

Group
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**
Financial assets at fair value through profit or loss:				
Listed equity investments, at fair value	**61,455**	–	–	**61,455**
Financial products	**79,735**	–	–	**79,735**
	141,190	–	–	**141,190**

The fair values of listed equity investments and the financial products issued by financial institutions are based on quoted market prices.

The Group did not have any financial assets measured at fair value as at 31 December 2017.

LIABILITIES MEASURED AT FAIR VALUE:

The Group did not have any financial liabilities measured at fair value as at 31 December 2018 and 2017, respectively.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

42. CONTINGENT LIABILITIES

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

43. COMMITMENTS

(a) CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for land use rights and buildings	239,960	192,935
Contracted, but not provided for potential acquisitions	153,246	487,250
	393,206	680,185

(b) OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating lease payables as follows:

	2018		2017	
	Properties RMB'000	Land RMB'000	Properties RMB'000	Land RMB'000
Within one year	181,917	214,982	120,676	168,763
After one year but within five years	635,192	794,114	386,127	656,438
After five years	1,098,392	1,389,407	577,231	1,151,530
	1,915,501	2,398,503	1,084,034	1,976,731

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

44. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans and other borrowings, are included in note 13, note 14, note 19 and note 23, to the consolidated financial statements.

45. RELATED PARTY TRANSACTIONS AND BALANCES

Mr. Li Guoqiang and Mr. Huang Yi are collectively the Controlling Shareholders of the Group. They are also considered to be related parties of the Group.

(a) TRANSACTIONS WITH RELATED PARTIES

The following transactions were carried out with related parties during the year:

	2018 RMB'000	2017 RMB'000
(i) Sales of goods to a joint venture:		
— Xiamen Zhongsheng	**11,393**	9,381
(ii) Purchase of goods or services from joint ventures:		
— Xiamen Zhongsheng	**29,728**	5,078
— TAC	**4,272**	2,195
	34,000	7,273

The terms of sales and purchases were mutually agreed between the parties with reference to the ordinary course of business.

(b) BALANCES WITH RELATED PARTIES

The Group had the following significant balances with its related parties during the year:

	2018 RMB'000	2017 RMB'000
(i) Due from related parties:		
Trade related		
Joint ventures		
— Xiamen Zhongsheng	**850**	555
	850	555
(ii) Due to related parties:		
Trade related		
Joint ventures		
— TAC	**1,119**	577
	1,119	577

45. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(c) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP:

	2018 RMB'000	2017 RMB'000
Short term employee benefits	35,568	36,034
Post-employee benefits	559	503
Equity-settled share option expense	33,367	—
Total compensation paid to key management personnel	69,494	36,537

Further details of directors' and chief executive officer's emoluments are included in note 9 to the financial statements.

The above related party transactions do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

46. SUBSIDIARIES

The following is a list of the Group's principal subsidiaries, all of which are unlisted, at 31 December 2018:

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest Held by the Company %	 Held by a subsidiary %	Principal activities
中升(大連)集團有限公司* (Zhongsheng (Dalian) Group Co., Ltd.)	Dalian, the PRC 1998	Registered and paid-in capital of RMB1,900,000,000	—	100%	Investment holding
大連中升匯迪汽車銷售服務有限公司** (Dalian Zhongsheng Huidi Automobile Sales & Service Co., Ltd.)	Dalian, the PRC 1999	Registered and paid-in capital of RMB16,550,000	—	100%	Sale and service of motor vehicles
昆明中升汽車銷售服務有限公司** (Kunming Zhongsheng Automobile Sales & Service Co., Ltd.)	Kunming, the PRC 2005	Registered and paid-in capital of RMB12,000,000	—	100%	Sale and service of motor vehicles
昆明中升豐田汽車銷售服務有限公司** (Kunming Zhongsheng Toyota Automobile Sales & Service Co., Ltd.)	Kunming, the PRC 2002	Registered and paid-in capital of RMB5,000,000	—	100%	Sale and service of motor vehicles
大連中升之星汽車銷售服務有限公司** (Dalian Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Dalian, the PRC 2005	Registered and paid-in capital of RMB90,000,000	—	100%	Sale and service of motor vehicles
廣州中升凌志汽車銷售服務有限公司** (Guangzhou Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Guangzhou, the PRC 2002	Registered and paid-in capital of USD10,000,000	—	100%	Sale and service of motor vehicles

46. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
大連中升凌志汽車銷售服務有限公司** (Dalian Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Dalian, the PRC 2004	Registered and paid-in capital of USD17,500,000	–	100%	Sale and service of motor vehicles
雲南中升雷克薩斯汽車銷售服務有限公司** (Yunnan Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Kunming, the PRC 2006	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
Zhongsheng Holdings Company Limited	Hong Kong 1996	Registered and paid-in capital of HK$32,000,000	–	100%	Investment holding
Hokuryo (Hong Kong) Company Limited	Hong Kong 1997	Registered and paid-in capital of HK$10,000	–	100%	Investment holding
東莞中升雷克薩斯汽車銷售服務有限公司* (Dongguan Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Dongguan, the PRC 2008	Registered and paid-in capital of USD10,000,000	–	100%	Sale and service of motor vehicles
Super Charm Limited	Hong Kong 2007	Registered and paid-in capital of HK$1	–	100%	Investment holding
Billion Great Corporation Limited	Hong Kong 2007	Registered and paid-in capital of HK$1	–	100%	Investment holding
Olympia Well Limited	Hong Kong 2007	Registered and paid-in capital of HK$1	–	100%	Investment holding
佛山中升之星汽車銷售服務有限公司** (Foshan Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Foshan, the PRC 2009	Registered and paid-in capital of RMB100,000,000	–	100%	Sale and service of motor vehicles
南京中升之星汽車銷售服務有限公司** (Nanjing Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Nanjing, the PRC 2009	Registered and paid-in capital of RMB140,000,000	–	100%	Sale and service of motor vehicles
常熟中升之星汽車銷售服務有限公司** (Changshu Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Changshu, the PRC 2008	Registered and paid-in capital of RMB80,000,000	–	100%	Sale and service of motor vehicles
沈陽中升豐田汽車銷售服務有限公司* (Shenyang Zhongsheng Toyota Automobile Sales & Service Co., Ltd.)	Shenyang, the PRC 2009	Registered and paid-in capital of USD6,000,000	–	100%	Sale and service of motor vehicles

46. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
遼寧中升捷通汽車銷售服務有限公司** (Liaoning Zhongsheng Jietong Automobile Sales & Service Co., Ltd.)	Shenyang, the PRC 2007	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
無錫中升之星汽車銷售服務有限公司** (Wuxi Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Wuxi, the PRC 2009	Registered and paid-in capital of RMB100,000,000	–	100%	Sale and service of motor vehicles
Noble Villa Investments Ltd.	BVI 2008	Registered and paid-in capital of USD1	100%	–	Investment holding
中升(中國)企業管理有限公司* (Zhongsheng (China) Business Management Co., Ltd)	Beijing, the PRC 2009	Registered and paid-in capital of USD40,000,000	–	100%	Investment holding
成都中升之星汽車銷售服務有限公司** (Chengdu Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Chengdu, the PRC 2010	Registered and paid-in capital of RMB100,000,000	–	100%	Sale and service of motor vehicles
重慶中升雷克薩斯汽車銷售服務有限公司** (Chongqing Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Chongqing, the PRC 2010	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
上海中升之星汽車銷售服務有限公司** (Shanghai Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Shanghai, the PRC 2010	Registered and paid-in capital of RMB200,000,000`	–	100%	Sale and service of motor vehicles
南京中升恒岳汽車銷售服務有限公司** (Nanjing Zhongsheng Hengyue Automobile Sales & Service Co., Ltd.)	Nanjing, the PRC 2010	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
無錫中升雷克薩斯汽車銷售服務有限公司** (Wuxi Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Wuxi, the PRC 2012	Registered and paid-in capital of RMB80,000,000	–	100%	Sale and service of motor vehicles
太倉中升之星汽車銷售服務有限公司** (Taicang Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Taicang, the PRC 2011	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
東莞中升之星汽車銷售服務有限公司** (Dongguan Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Dongguan, the PRC 2008	Registered and paid-in capital of RMB60,000,000	–	100%	Sale and service of motor vehicles

46. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
成都中升仕豪汽車銷售服務有限公司** (Chengdu Zhongsheng Shihao Automobile Sales & Service Co., Ltd.)	Chengdu, the PRC 2012	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
樂清中升星輝汽車銷售服務有限公司** (Yueqing Zhongsheng Xinghui Automobile Sales & Service Co., Ltd.)	Yueqing, the PRC 2011	Registered and paid-in capital of RMB80,000,000	–	100%	Sale and service of motor vehicles
深圳中升星輝汽車銷售服務有限公司** (Shenzhen Zhongsheng Xinghui Automobile Sales & Service Co., Ltd.)	Shenzhen, the PRC 2013	Registered and paid-in capital of RMB80,000,000	–	100%	Sale and service of motor vehicles
中升(天津)保險銷售有限公司** (Zhongsheng (Tian Jin) Insurance Sales Co., Ltd.)	Tianjin, the PRC 2013	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of automobile insurance
上海中升雷克薩斯汽車銷售服務有限公司** (Shanghai Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Shanghai, the PRC 2013	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
無錫中升星輝汽車銷售服務有限公司** (Wuxi Zhongsheng Xinghui Automobile Sales & Service Co., Ltd.)	Wuxi, the PRC 2012	Registered and paid-in capital of RMB60,000,000	–	100%	Sale and service of motor vehicles
武漢中升聚星汽車銷售服務有限公司** (Wuhan Zhongsheng Juxing Automobile Sales & Service Co., Ltd.)	Wuhan, the PRC 2014	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
合肥中升匯迪汽車銷售服務有限公司** (Hefei Zhongsheng Huidi Automobile Sales & Service Co., Ltd)	Hefei, the PRC 2012	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
鄭州中升匯迪汽車銷售服務有限公司** (Zhengzhou Zhongsheng Huidi Automobile Sales & Service Co., Ltd.)	Zhengzhou, the PRC 2010	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
濟南中升仕豪汽車銷售服務有限公司** (Jinan Zhongsheng Shihao Automobile Sales & Service Co., Ltd.)	Jinan, the PRC 2001	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
青島中升傑豪汽車銷售服務有限公司** (Qingdao Zhongsheng Jiehao Automobile Sales & Service Co., Ltd.)	Qingdao, the PRC 2009	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles

46. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
深圳觀瀾中升雷克薩斯汽車銷售服務有限公司** (Shenzhen Guanlan Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Shenzhen, the PRC 2014	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
北京中升之星汽車銷售服務有限公司** (Beijing Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Beijing, the PRC 2007	Registered and paid-in capital of RMB50,000,000	–	75%	Sale and service of motor vehicles
杭州中升星宏汽车服務有限公司** (Zhejiang Zhongsheng Xinghong Automobile Service Co., Ltd.)	Hangzhou, the PRC 2006	Registered and paid-in capital of USD20,067,700	–	100%	Sale and service of motor vehicles
黑龍江中升之星汽車銷售服務有限公司** (Heilongjiang Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Harbin, the PRC 2014	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
雲南中升遠安昆星汽車銷售服務有限公司* (Yunnan Zhongsheng Yuanan Kunxing Automobile Sales & Service Co., Ltd)	Kunming, the PRC 2004	Registered and paid-in capital of USD8,000,000	–	100%	Sale and service of motor vehicles
上海中升奉星汽車銷售服務有限公司** (Shanghai Zhongsheng Fengxing Automobile Sales & Service Co., Ltd.)	Shanghai, the PRC 2014	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
雲南中升之星汽車銷售服務有限公司** (Yunnan Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Kunming, the PRC 2016	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
深圳中升之星汽車銷售服務有限公司** (Shenzhen Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Shenzhen, the PRC 2016	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
上海中升星宏汽車銷售服務有限公司** (Shanghai Zhongsheng Xinghong Automobile Sales & Service Co., Ltd.)	Shanghai, the PRC 2015	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
蘇州海星汽車銷售服務有限公司** (Suzhou Haixing Automobile Sales & Services Co., Ltd.)	Suzhou, the PRC 2005	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
蘇州海星高新汽車銷售服務有限公司** (Suzhou Haixing Gaoxin Automobile Sales & Services Co., Ltd.)	Suzhou, the PRC 2012	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
張家港海星汽車銷售服務有限公司** (Zhangjiagang Haixing Automobile Sales & Services Co., Ltd.)	Zhangjiagang, the PRC, 2010	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles

46. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
長沙中升之寶汽車銷售服務有限公司** (Changsha Zhongsheng Zhibao Automobile Sales & Services Co., Ltd.)	Changsha, the PRC, 2017	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
長春中升之星汽車銷售服務有限公司** (Changchun Zhongsheng Star Automobile Sales & Services Co., Ltd.)	Changchun, the PRC, 2012	Registered and paid-in capital of RMB70,000,000	–	100%	Sale and service of motor vehicles
西安中升之寶汽車銷售服務有限公司** (Xi'an Zhongsheng Zhibao Automobile Sales & Services Co., Ltd.)	Xi'an, the PRC, 2009	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
西安中升匯寶汽車銷售服務有限公司** (Xi'an Zhongsheng Huibao Automobile Sales & Services Co., Ltd.)	Xi'an, the PRC, 2013	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
深圳中升匯寶汽車銷售服務有限公司** (Shenzhen Zhongsheng Huibao Automobile Sales & Services Co., Ltd.)	Shenzhen, the PRC, 2010	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
重慶市寶馴汽車銷售服務有限公司** (Chongqing Baoxun Automobile Sales & Services Co., Ltd)	Chongqing, the PRC 2010	Registered and paid-in capital of RMB100,000,000	–	100%	Sale and service of motor vehicles
杭州中升星旗汽車銷售服務有限公司** (Hangzhou Zhongsheng Xingqi Automobile Sales & Services Co., Ltd)	Hangzhou, the PRC 2017	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
上海中升沃茂汽車銷售服務有限公司** (Shanghai Zhongsheng Womao Automobile Sales & Services Co., Ltd)	Shanghai, the PRC 2005	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
天津中升汽車用品有限公司** (Tianjin Zhongsheng Automobile Accessories Co., Ltd)	Tianjin, the PRC 2018	Registered and paid-in capital of RMB100,000,000	–	100%	Sale of automobile accessories
天津中升匯迪汽車銷售有限公司** (Tianjing Zhongsheng Huidi Automobile Sales Co., Ltd)	Tianjin, the PRC 2007	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
成都中升匯迪汽車銷售服務有限公司** (Chengdu Zhongsheng Huidi Automobile Sales & Service Co., Ltd.)	Chengdu, the PRC 2010	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles

46. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
杭州中升之星汽車銷售服務有限公司** (Hangzhou Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Hangzhou, the PRC 2010	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
浙江中升裕迪汽車銷售服務有限公司** (Zhejiang Zhongsheng Yudi Automobile Sales & Service Co., Ltd.)	Hangzhou, the PRC 2010	Registered and paid-in capital of USD10,000,000	–	100%	Sale and service of motor vehicles
深圳中升雷克薩斯汽車有限公司** (Shenzhen Zhongsheng Lexus Automobile Co., Ltd.)	Shenzhen, the PRC 2003	Registered and paid-in capital of HK$30,000,000	–	100%	Sale and service of motor vehicles
寧波中升雷克薩斯汽車服務有限公司** (Ningbo Zhongsheng Lexus Automobile Services Co., Ltd)	Ningbo, the PRC 2006	Registered and paid-in capital of USD10,000,000	–	100%	Sale and service of motor vehicles
海口中升捷豐汽車銷售服務有限公司** (Haikou Zhongsheng Jiefeng Automobile Sales & Service Co., Ltd.)	Haikou, the PRC 2005	Registered and paid-in capital of RMB12,000,000	–	65%	Sale and service of motor vehicles
海口中升宏達汽車銷售服務有限公司** (Haikou Zhongsheng Honda Automobile Sales & Service Co., Ltd.)	Haikou, the PRC 2000	Registered and paid-in capital of RMB10,000,000	–	65%	Sale and service of motor vehicles
海南中升之星汽車銷售服務有限公司** (Hainan Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Haikou, the PRC 2013	Registered and paid-in capital of RMB25,000,000	–	65%	Sale and service of motor vehicles
Loong Wah Motors Ltd.	Hong Kong 1978	Registered and paid-in capital of HK$10,000,000	–	100%	Investment holding
大連中升之寶汽車銷售服務有限公司** (Dalian Zhongsheng Zhibao Automobile Sales & Service Co., Ltd.)	Dalian, the PRC 2008	Registered and paid-in capital of RMB100,000,000	–	100%	Sale and service of motor vehicles
南京中升之寶汽車銷售服務有限公司** (Nanjing Zhongsheng Zhibao Automobile Sales & Service Co., Ltd.)	Nanjing, the PRC 2008	Registered and paid-in capital of RMB80,000,000	–	100%	Sale and service of motor vehicles
合肥中升之寶汽車銷售服務有限公司** (Hefei Zhongsheng Zhibao Automobile Sales & Service Co., Ltd.)	Hefei, the PRC 2009	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
福建中升之寶汽車銷售服務有限公司** (Fujian Zhongsheng Zhibao Automobile Sales & Service Co., Ltd.)	Fuzhou, the PRC 2010	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles

46. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
蘇州中升雷克薩斯汽車銷售服務有限公司** (Suzhou Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Suzhou, the PRC 2008	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
溫州濱海中升雷克薩斯汽車銷售服務有限公司** (Wenzhou Binhai Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Wenzhou, the PRC 2006	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
天津中升沃茂汽車銷售服務有限公司** (Tianjin Zhongsheng Womao Automobile Sales & Service Co., Ltd.)	Tianjin, the PRC 2010	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
上海中升沃豪汽車銷售服務有限公司** (Shanghai Zhongsheng Wohao Automobile Sales & Service Co., Ltd.)	Shanghai, the PRC 2010	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
蘇州中升沃茂汽車銷售服務有限公司** (Suzhou Zhongsheng Womao Automobile Sales & Service Co., Ltd.)	Suzhou, the PRC 2009	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
寧波廣達汽車銷售服務有限公司** (Ningbo Guangda Automobile Sales & Service Co., Ltd.)	Ningbo, the PRC 2006	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
無錫中升仕豪汽車銷售服務有限公司** (Wuxi Zhongsheng Shihao Automobile Sales & Service Co., Ltd.)	Wuxi, the PRC 2010	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
溫州萊曼汽車快修有限公司** (Wenzhou Laiman Automobile Service Co., Ltd.)	Wenzhou, the PRC 2012	Registered and paid-in capital of RMB1,000,000	–	100%	Service of motor vehicles
洛陽中升匯寶汽車銷售服務有限公司** (Luoyang Zhongsheng Huibao Automobile Sales & Service Co., Ltd.)	Luoyang, the PRC 2016	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
新鄭市中升匯寶汽車銷售服務有限公司** (Xinzheng Zhongsheng Huibao Automobile Sales & Service Co., Ltd.)	Xinzheng, the PRC 2014	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles

46. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
鄭州中升之寶汽車銷售服務有限公司** (Zhengzhou Zhongsheng Zhibao Automobile Sales & Service Co., Ltd.)	Zhengzhou, the PRC 2016	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
山東龐大興業汽車銷售服務有限公司** (Shandong Pangda Xingye Automobile Sales & Service Co., Ltd.)	Jinan, the PRC 2017	Registered and paid-in capital of RMB264,000,000	–	100%	Sale and service of motor vehicles
濟南龐大龍豐汽車銷售有限公司** (Jinan Pangda Longfeng Automobile Sales Co., Ltd.)	Jinan, the PRC 2011	Registered and paid-in capital of RMB2,000,000	–	100%	Sale and service of motor vehicles
濟南龐大一眾汽車銷售服務有限公司** (Jinan Pangda Faw-Volkswagen Automobile Sales & Service Co., Ltd.)	Jinan, the PRC 2012	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
石家莊中升捷豐汽車銷售服務有限公司** (Shijiazhuang Zhongsheng Jiefeng Automobile Sales & Service Co., Ltd.)	Shijiazhuang, the PRC 2008	Registered and paid-in capital of RMB12,000,000	–	100%	Sale and service of motor vehicles
沈陽中升汽車銷售服務有限公司** (Shenyang Zhongsheng Automobile Sales & Service Co., Ltd.)	Shenyang, the PRC 2011	Registered and paid-in capital of RMB12,000,000	–	100%	Sale and service of motor vehicles
石家莊中升豐悦汽車銷售服務有限公司** (Shijiazhuang Zhongsheng Fengyue Automobile Sales & Service Co., Ltd.)	Shijiazhuang, the PRC 2011	Registered and paid-in capital of RMB12,000,000	–	100%	Sale and service of motor vehicles
石家莊華欣中升雷克薩斯汽車銷售服務有限公司** (Shijiazhuang Huaxin Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Shijiazhuang, the PRC 2018	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
唐山中升雷克薩斯汽車銷售服務有限公司** (Tangshan Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Tangshan, the PRC 2018	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
濟南中升瑞星汽車銷售服務有限公司** (Jinan Zhongsheng Ruixing Automobile Sales & Service Co., Ltd.)	Jinan, the PRC 2018	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
大慶中升雷克薩斯汽車銷售服務有限公司** (Daqing Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Daqing, the PRC 2018	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles

46. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest: Held by the Company %	Proportion of ownership interest: Held by a subsidiary %	Principal activities
北京龐大慶鴻雷克薩斯汽車銷售服務有限公司** (Beijing Pangda Qinghong Lexus Automobile Sales & Service Co., Ltd.)	Beijing, the PRC 2011	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
廣州新鉅豐田汽車銷售服務有限公司** (Guangzhou Xinju Toyota Automobile Sales & Service Co., Ltd.)	Guangzhou, the PRC 2002	Registered and paid-in capital of RMB10,100,000	–	100%	Sale and service of motor vehicles

* These companies are registered as wholly-foreign-owned enterprises under PRC law.

** These companies are registered as limited liability companies under PRC law.

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

None of the subsidiaries had issued any debt securities subsisting as at 31 December 2018 or at any time in 2018.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and other borrowings, finance leases, convertible bonds 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 payables and other 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.

INTEREST RATE RISK

The Group has no significant interest-bearing assets other than pledged bank deposits (note 23) and cash and cash equivalents (note 25).

The Group's interest rate risk arises from its borrowings, details of which are set out in note 26. Borrowings at variable rates expose the Group to the risk of changes on 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 rates relates primarily to the Group's debt obligations with a floating interest rate.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

INTEREST RATE RISK (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, 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
2018		
RMB	**15**	**(22,964)**
RMB	**(15)**	**22,964**
2017		
RMB	15	(10,428)
RMB	(15)	10,428

FOREIGN CURRENCY RISK

Most of the Group's assets and liabilities were denominated in RMB, except for certain cash and cash equivalents, bank loans and other borrowings and the liability component of convertible bonds denominated in Hong Kong dollars, United States dollars and Japanese Yen as disclosed in note 25, note 26 and note 27, respectively.

The Group's assets and liabilities denominated in Hong Kong dollars, United States dollars and Japanese Yen were mainly held by certain subsidiaries incorporated outside Mainland China who used Hong Kong dollars as their functional currencies, and the Group did not have material foreign currency transactions in Mainland China during the year. Therefore, the Group had immaterial foreign currency risk.

CREDIT RISK

The Group has no significant concentrations of credit risk. The carrying amounts of bank deposits, cash and cash equivalents, trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

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.

	12-months ECLs	Lifetime ECLs	
	Stage 1 RMB'000	Simplified Approach RMB'000	Total RMB'000
Trade receivables	**—**	**1,341,740**	**1,341,740**
Financial assets included in prepayments, other receivables and other assets	**6,090,919**	**—**	**6,090,919**
	6,090,919	**1,341,740**	**7,432,659**

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

CREDIT RISK (continued)

MAXIMUM EXPOSURE AND YEAR-END STAGING AS AT 31 DECEMBER 2018 (continued)

For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix at 31 December 2018 was set as below:

	Ageing		
	Within 3 months	3 months to 1 year	over 1 year
Expected credit loss rate	—	3%	25%
Gross carrying amount (RMB'000)	1,290,645	39,662	16,712
Expected credit losses (RMB'000)	—	1,172	4,107

For the financial assets included in prepayments, other receivables and other assets to which the Group applies the general approach for impairment, there was no recent history of default. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. No loss allowance was provided because management estimated that the expected credit losses as at 31 December 2018 were not significant.

As at 31 December 2018, all pledged bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

LIQUIDITY RISK

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

2018

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Bank loans and other borrowings	—	4,500,933	13,198,732	5,908,608	—	23,608,273
Other liabilities	245,000	—	—	—	—	245,000
Trade and bills payables	—	4,164,867	649,894	—	—	4,814,761
Other payables	—	524,662	294,009	—	—	818,671
Amounts due to related parties	1,119	—	—	—	—	1,119
Convertible bonds	—	—	—	4,046,722	—	4,046,722
	246,119	9,190,462	14,142,635	9,955,330	—	33,534,546

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

LIQUIDITY RISK (continued)

2017

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Bank loans and other borrowings	—	5,865,952	11,059,368	2,570,316	—	19,495,636
Other liabilities	245,000	—	—	—	—	245,000
Trade and bills payables	—	3,278,549	192,044	—	—	3,470,593
Other payables	—	491,248	669,954	—	—	1,161,202
Amounts due to related parties	577	—	—	—	—	577
Convertible bonds	—	—	1,883,958	—	—	1,883,958
	245,577	9,635,749	13,805,324	2,570,316	—	26,256,966

CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. Net debt includes bank loans and other borrowings, other liabilities, convertible bonds, amounts due to related parties, trade, bills and other payables and accruals, less cash and cash equivalents, cash in transit and pledged bank deposits. The gearing ratios as at the reporting dates were as follows:

	2018 RMB'000	2017 RMB'000
Bank loans and other borrowings	**22,648,169**	19,323,107
Other liabilities	**245,000**	245,000
Convertible bonds	**4,046,722**	1,883,958
Trade and bills payables	**4,814,761**	3,470,593
Other payables and accruals	**2,996,549**	2,935,400
Amounts due to related parties	**1,119**	577
Less: Cash and cash equivalents	**(6,142,664)**	(5,027,202)
Cash in transit	**(431,044)**	(356,063)
Pledged bank deposits	**(1,312,577)**	(1,405,646)
Net debt	**26,866,035**	21,069,724
Total equity	**19,036,223**	16,669,163
Total equity and net debt	**45,902,258**	37,738,887
Gearing ratio	**58.5%**	55.8%

48. EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Company or by the Group after 31 December 2018 and up to the date of approval of these financial statements.

49. 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	2,185,612	2,088,801
Amounts due from subsidiaries	9,073,713	7,276,421
Total non-current assets	11,259,325	9,365,222
CURRENT ASSETS		
Prepayments, other receivables and other assets	29,762	11,075
Cash and cash equivalents	671,721	169,013
Total current assets	701,483	180,088
CURRENT LIABILITIES		
Bank loans and other borrowings	65,715	334,363
Other payables and accruals	12	1,936
Convertible bonds, current portion	—	1,883,958
Total current liabilities	65,727	2,220,257
NET CURRENT ASSETS/(LIABILITIES)	635,756	(2,040,169)
TOTAL ASSETS LESS CURRENT LIABILITIES	11,895,081	7,325,053
NON-CURRENT LIABILITIES		
Convertible bonds	4,046,722	—
Bank loans and other borrowings	2,868,203	1,364,959
Total non-current liabilities	6,914,925	1,364,959
NET ASSETS	4,980,156	5,960,094
EQUITY		
Share capital	197	197
Reserves	4,979,959	5,959,897
Total equity	4,980,156	5,960,094

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Share option reserve RMB'000	Equity component of convertible bonds RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Other reserve RMB'000	Total RMB'000
As at 1 January 2017	6,187,462	—	203,729	(14,731)	(643,231)	—	5,733,229
Total comprehensive loss for the year	—	—	—	(327,458)	(117,316)	—	(444,774)
Issue of shares	1,175,867	—	—	—	—	—	1,175,867
Transfer of equity component of convertible bonds upon the redemption of the convertible bonds	—	—	(203,729)	—	—	203,729	—
Issue of convertible bonds	—	—	56,779	—	—	—	56,779
Final 2016 dividend declared	(561,204)	—	—	—	—	—	(561,204)
As at 31 December 2017	6,802,125	—	56,779	(342,189)	(760,547)	203,729	5,959,897
Total comprehensive loss for the year	—	—	—	163,221	(291,581)	—	(128,360)
Conversion of convertible bonds	77,898	—	(2,271)	—	—	—	75,627
Equity-settled share-based transactions	—	33,367	—	—	—	—	33,367
Transfer of equity component of convertible bonds upon the redemption of the convertible bonds	—	—	(54,508)	—	—	(351,996)	(406,504)
Issue of convertible bonds	—	—	113,139	—	—	—	113,139
Final 2017 dividend declared	(667,207)	—	—	—	—	—	(667,207)
As at 31 December 2018	6,212,816	33,367	113,139	(178,968)	(1,052,128)	(148,267)	4,979,959

50. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2019.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial information and financial statements is set out below.

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	**107,735,655**	86,290,288	71,599,221	59,142,607	54,786,660
Cost of sales and services provided	**(97,812,525)**	(77,606,286)	(65,046,942)	(54,473,414)	(50,011,837)
Gross profit	**9,923,130**	8,684,002	6,552,279	4,669,193	4,774,823
Other income and gains, net	**2,561,221**	1,842,863	1,325,514	1,104,143	944,500
Selling and distribution expenses	**(4,310,827)**	(3,294,302)	(2,806,807)	(2,609,155)	(2,373,479)
Administrative expenses	**(1,745,100)**	(1,347,069)	(1,178,687)	(1,154,254)	(981,466)
Profit from operations	**6,428,424**	5,885,494	3,892,299	2,009,927	2,364,378
Finance costs	**(1,230,522)**	(1,076,712)	(1,018,020)	(1,295,697)	(1,272,568)
Share of profits and losses of:					
Joint ventures	**2,856**	4,595	4,148	1,408	3,638
Profit before tax	**5,200,758**	4,813,377	2,878,427	715,638	1,095,448
Income tax expense	**(1,505,440)**	(1,337,523)	(836,689)	(234,329)	(314,727)
Profit for the year	**3,695,318**	3,475,854	2,041,738	481,309	780,721
Attributable to:					
Owners of the parent	**3,636,636**	3,350,413	1,860,228	460,964	750,905
Non-controlling interests	**58,682**	125,441	181,510	20,345	29,816
	3,695,318	3,475,854	2,041,738	481,309	780,721

	31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**57,168,187**	47,580,792	39,645,059	38,725,315	38,908,251
TOTAL LIABILITIES	**(38,131,964)**	(30,911,629)	(26,546,100)	(26,109,320)	(26,527,323)
NON-CONTROLLING INTERESTS	**(796,608)**	(756,172)	(880,631)	(1,347,484)	(1,262,131)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**18,239,615**	15,912,991	12,218,328	11,268,511	11,118,797