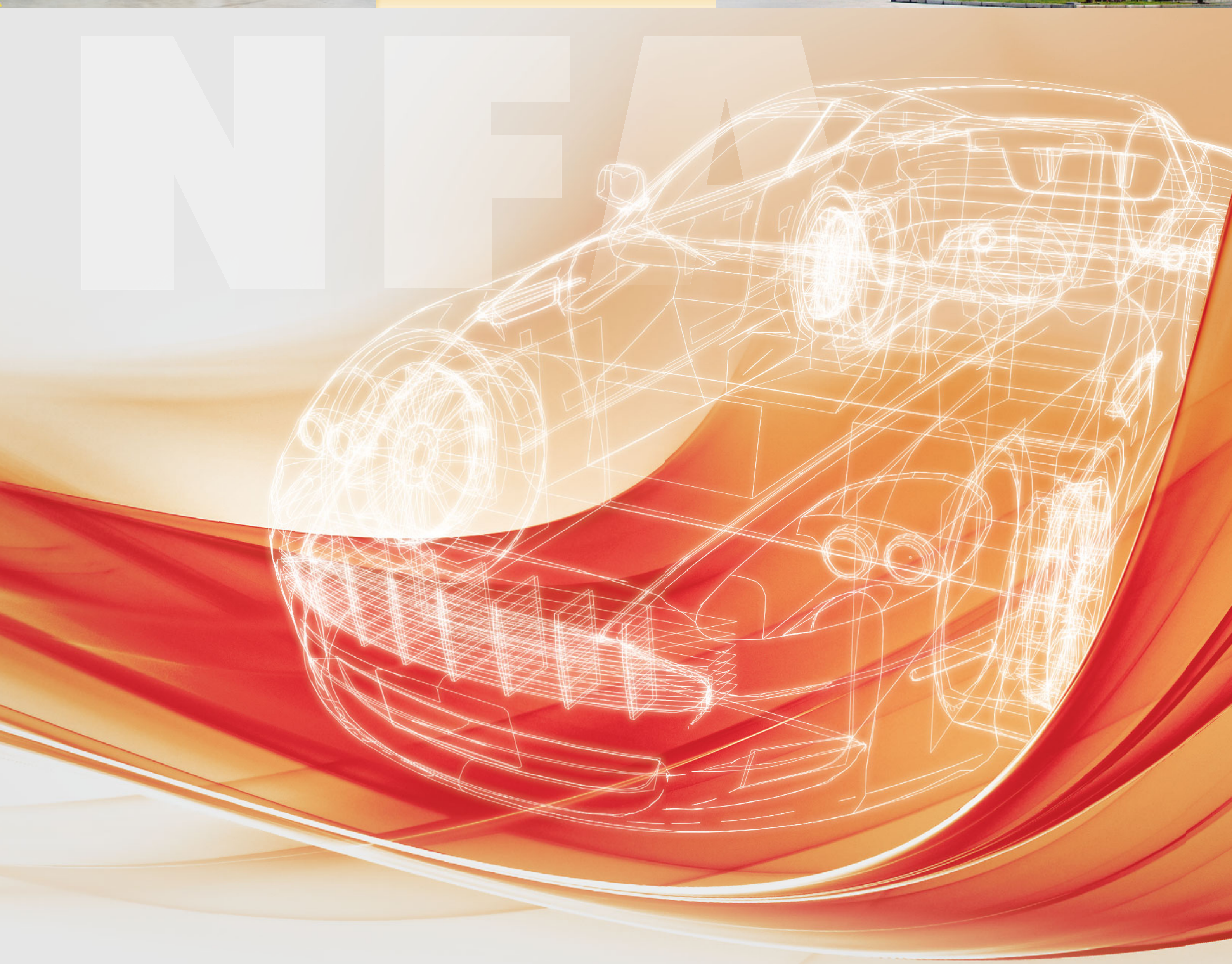
新焦點汽車技術控股有限公司*
New Focus Auto Tech Holdings Limited

(Incorporated in the Cayman Islands with limited liability) Stock Code: 360

ANNUAL REPORT 2018



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In 2018, sales of passenger vehicles in China slightly decreased as compared to 2017. The analysis of China Association of Automobile Manufacturers (中國汽車工業協會) suggests that the auto dealership business in China has faced great pressure in 2018, with the sales of passenger vehicles falling below the expectations set at the beginning of the year. The major reasons include factors such as the decline of macro-economic growth rates, Sino-US Trade War and the complete withdrawal of preferential tax policy on automobile purchase. However, the number of passenger vehicles in China continued to grow steadily in 2018. At present, China's automobile industry is still at the stage of popularization, with still much room for growth in respect of the penetration of passenger vehicles.

The business strategies implemented by New Focus Auto Tech Holdings Limited (the"**Company**") and its subsidiaries (the "**Group**") in 2018 mainly involved developing the Group's traditional advantageous business steadily and searching for new profit growth points constantly. While striving to promote the development of the Group's own business, we also vigorously sought financing and acquisition opportunities in order to quickly expand the Group and enhance the value of the Company in the capital market. In June 2018, the Group completed the issuance of new shares with the amount of HK$800 million, which expanded the shareholder base of the Company and raised funds for the Group's acquisition. In September 2018, the Group completed the acquisition of several automotive dealership stores under Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.* (內蒙古利豐鼎盛汽車有限公司), which enlarged the business scope of the Group and led to a significant growth of the Group's operating revenue.

Looking ahead, the automobile industry in China continues to face numerous challenges such as the slowdown in macro-economic growth and consumption upgrade. Yet, the industry is also full of opportunities. The Group will seize the development opportunities of the automotive market, stay customer-oriented, proactively innovate its technology and business models, and persistently improve its operations management efficiency, thereby creating greater value for shareholders.

On behalf of the board (the"**Board**") of directors (the"**Directors**") of the Company, I would like to express my appreciation to the hard work of all our staff and the support from various parties in our society.

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Overview

In 2018, the Group focused on the construction and development of individual automotive service chain networks and automotive product e-commerce platforms. The retail service stores of the Group, which are primarily urban gas stations, provide car owners with automotive cleaning, beauty, maintenance, spraying and repair services, as well as the sales of automotive products. The automotive product e-commerce platform of the Group provides customers with purchase, delivery and warehousing services of automotive repair parts and components and automotive products. The manufacturing business of the Group is principally engaged in the research and development, manufacture and sales of electronic and power-related automotive accessories, and such products are mainly sold to the markets of Mainland China, North America and Europe. On 30 September 2018, the Group completed the acquisition of certain automotive dealership stores under Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.* (內蒙古利豐鼎盛汽車有限公司) (the "**Automotive Dealership Business Acquisition**"), which formed a new business segment of the Group. Its principal businesses include the sales of automotives, provision of after-sales service, and the distribution of automotive insurance products and automotive finance products (the "**automotive dealership and services business**").

Results Highlights

Revenue

During the year ended 31 December 2018 (the "**Year**"), the Group recorded a consolidated revenue of approximately RMB1,792,548,000 (2017: RMB1,267,928,000), representing an increase of approximately 41.38%. The increase was mainly due to the fact that a revenue of approximately RMB546,105,000 was generated from the Group's newly acquired automotive dealership and services business from October to December of the Year. Excluding the effect of the Automotive Dealership Business Acquisition, the consolidated revenue of the Group would have decreased by approximately RMB21,485,000 or approximately 1.69% as compared with 2017.

The consolidated revenue of the Group's retail service business amounted to approximately RMB379,665,000 (2017: RMB364,310,000), representing an increase of approximately 4.21%, which was mainly due to the fact that the new retail service stores opened in 2017 had entered into a maturity development stage.

The consolidated revenue of the wholesale service business of the Group was RMB234,747,000 (2017: RMB320,936,000), representing a decrease of approximately 26.86%. The decrease was due to fierce market competition, resulting in a decline in the sales income of tires and electronic products.

The consolidated revenue of the manufacturing business of the Group was approximately RMB595,182,000 (2017: RMB582,682,000), representing an increase of approximately 2.15%, which was mainly attributable to the sales of newly developed products and the revenue generated from new customers brought by the expansion of domestic and foreign markets.

The consolidated revenue of the Group's automotive dealership and services business was approximately RMB582,954,000 (2017: Nil).

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Gross profit and gross profit margin

The consolidated gross profit for the Year was approximately RMB250,303,000 (2017: RMB222,355,000), representing an increase of approximately 12.57%. The gross profit margin decreased from 17.54% to 13.96%. The increase in gross profit was mainly attributable to the increase of consolidated gross profit of approximately RMB43,075,000 as a result of the Automotive Dealership Business Acquisition. Excluding the effect of the Automotive Dealership Business Acquisition, the consolidated gross profit of the Group would have decreased by approximately 6.80% as compared with 2017 and the gross profit margin would have decreased to 16.63%.

The gross profit of the Group's retail service business was approximately RMB88,606,000 (2017: RMB73,664,000), representing an increase of approximately 20.28%. Its gross profit margin increased from approximately 20.22% to approximately 23.34%. The increase of both gross profit and gross profit margin was mainly due to the fact that the new retail service stores opened in 2017 had entered into a maturity development stage.

The gross profit of the Group's wholesale service business was approximately RMB17,999,000 (2017: RMB30,529,000), representing a decrease of approximately 41.04%. Its gross profit margin decreased from approximately 9.51% to approximately 7.67%. The decrease in gross profit was mainly due to fact that the revenue of the Year decreased as compared with last year. The decrease in gross profit margin was due to the decline in the gross profit margin of tires and electronic products.

The gross profit of the Group's manufacturing business was approximately RMB97,284,000 (2017: RMB118,162,000), representing a decrease of approximately 17.67%. Its gross profit margin decreased from approximately 20.28% to approximately 16.35%. The decrease in both gross profit and gross profit margin was mainly attributable to the increase in raw material cost and labour cost during the Year and the relatively low gross profit margin of new products.

The gross profit of the Group's automotive dealership and services business was approximately RMB46,414,000 (2017: Nil), and its gross profit margin was approximately 7.96% (2017: Nil).

Other revenue and gains and losses

Other revenue for the Year was approximately RMB244,003,000 (2017: a loss of RMB203,571,000). During the Year, due to the fair value change in the embedded derivative financial instruments in relation to the convertible notes in the principal amount of USD35,000,000 due in 2019 (the "**CCBC Convertible Notes**"), which was issued to High Inspiring Limited (the "**Investor**", an indirect wholly-owned subsidiary of China Construction Bank Corporation) on 1 September 2017, the Company recorded a gain due to fair value change in derivative financial instruments of approximately RMB152,588,000 (the "**Gain Due to Fair Value Change in Derivative Financial Instruments for the Year**"). While in 2017, a loss due to fair value change in derivative financial instruments of approximately RMB208,031,000 was recorded as a result of the CCBC Convertible Notes, making a difference of approximately RMB360,619,000 (the "**Difference in Fair Value Change in Derivative Financial Instruments**") as compared with the Year. In addition, other revenue during the Year included the interests income recorded from providing loans from the Group to Shenzhen Jiahong Group Holding Co., Ltd.* (深圳市佳鴻集團控股有限公司) and Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.* (內蒙古利豐鼎盛汽車有限公司) and so forth of approximately RMB60,556,000 (the "**Interests Income from Borrowings**") (2017: RMB1,700,000), and the negative goodwill of approximately RMB13,837,000 (2017: Nil) as the consideration of the Automotive Dealership Business Acquisition was lower than the fair value of its net assets.

Expenses

The distribution costs for the Year were approximately RMB208,701,000 (2017: RMB184,082,000), representing an increase of approximately 13.37%, which was mainly attributable to the expenses incurred by the Group's newly acquired automotive dealership and services business from October to December 2018 of approximately RMB38,610,000. Excluding the effect of the Automotive Dealership Business Acquisition, the distribution costs for the Year would have decreased by approximately 7.60%, which was mainly due to the strict control of the wages and bonuses for sales personnel by our wholesale service business and the postage pre-paid promotion activities of our e-commerce platform during the Year, which resulted in the decrease of wages and bonuses of RMB5,345,000, and the decrease in transportation fee of RMB4,439,000 in our wholesale service business.

The administrative expenses for the Year were approximately RMB160,169,000 (2017: RMB152,619,000), representing an increase of approximately 4.95%, which was mainly attributable to the expenses incurred by the Group's newly acquired automotive dealership and services business from October to December 2018 of approximately RMB4,377,000, and the payment of legal and professional service fees of approximately RMB13,139,000 in relation to the Automotive Dealership Business Acquisition. Excluding the effect of the Automotive Dealership Business Acquisition, the Group's administrative expenses for the Year would have decreased by approximately 6.53%, which was mainly due to the control of the number of management personnel and the squeeze of administrative expenses by our retail service business during the year.

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Operating profit/(loss)

The operating profit of the Group for the Year was approximately RMB125,277,000 (2017: a loss of RMB323,453,000), which was mainly attributable to the Gain Due to Fair Value Change in Derivative Financial Instruments for the Year of approximately RMB152,588,000, Interests Income from Borrowings of approximately RMB60,556,000 and the negative goodwill from the Automotive Dealership Business Acquisition of approximately RMB13,837,000.

Finance costs

Finance costs for the Year were approximately RMB43,508,000 (2017: RMB47,885,000), representing a decrease of approximately 9.14%. It was mainly attributable to the fact that interest expenses from the convertible notes for the Year decreased as compared with 2017.

Taxation

Income tax expenses for the Year were approximately RMB27,964,000 (2017: RMB(1,368,000)). The increase in income tax expenses was mainly attributable to the amortization of deferred income of debit card category sold by Beijing Aiyihang Auto Service Ltd.* (北京愛義行汽車服務有限責任公司), a subsidiary of the Group, resulting in the deferred income tax expenses from the reversal of deferred income tax assets in the Year of approximately RMB25,596,000.

Profit/(loss) attributable to equity shareholders of the Company

The profit attributable to equity shareholders of the Company for the Year was approximately RMB107,833,000 (2017: a loss of RMB315,465,000). Excluding the Difference in Fair Value Change in Derivative Financial Instruments of RMB360,619,000, the difference of approximately RMB58,856,000 in the interests income from borrowings for the year as compared with 2017, the negative goodwill of approximately RMB13,837,000 incurred from the Automotive Dealership Business Acquisition, and the impairment provision made to the intangible assets of RMB3,234,000 due to the failure to meet the anticipated operating results by Changchun Guangda Automobile Trading Co., Ltd., a subsidiary of the Group for 2017, the loss attributable to equity shareholders of the Company would have increased by RMB13,248,000 as compared with 2017. The earnings per share for the Year was approximately RMB1.84 cents (2017: loss per share of RMB6.79 cents).

Financial Position and Liquidity

The Group continued to maintain a stable financial position during the Year and the liquidity of assets of the Group remained healthy. The Group had a net cash outflow from operating activities of approximately RMB99,251,000 (2017: net cash inflow of RMB26,731,000).

The non-current assets were approximately RMB494,651,000 as at 31 December 2018 (31 December 2017: RMB445,846,000).

The net current assets were approximately RMB512,783,000 as at 31 December 2018 (31 December 2017: net current liabilities of RMB205,651,000).

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The gearing ratio as calculated by dividing total liabilities by total assets was approximately 61.66% as at 31 December 2018 (31 December 2017: 84.21%). The decrease in gearing ratio was mainly attributable to the Gain Due to Fair Value Change in Derivative Financial Instruments for the Year.

As at 31 December 2018, the total bank and other borrowings of the Group were approximately RMB552,309,000 (31 December 2017: RMB157,051,000), approximately 4.98% of which were made in United States dollar ("**USD**") and approximately 95.02% were made in RMB. The increase in bank and other borrowings was mainly due to the bank and other borrowings of RMB371,729,000 within the newly acquired automotive dealership and service business. All of the borrowings are repayable within one year and at fixed interest rates. The Group's requirement for borrowings was generally steady during the Year. The Group repaid or renewed the bank borrowings during the Year when they became due. As at 31 December 2018, the committed borrowing facilities available to the Group but unutilized amounted to RMB96,680,000. The Group maintains strong and sufficient operating cash flow, bank deposits and banking facilities to finance its daily operation.

Capital Structure

On 21 August 2017, the Company entered into a convertible note purchase agreement with the Investor, pursuant to which the Company conditionally agreed to issue and the Investor conditionally agreed to purchase the CCBC Convertible Notes. Assuming the full conversion of the CCBC Convertible Notes at the initial conversion price of HK$0.306085 per share, the CCBC Convertible Notes will be convertible into approximately 886,191,744 shares of the Company. The net proceeds from the issue of CCBC Convertible Notes, after deducting all related fees and expenses, were approximately USD34,916,000. The issue of CCBC Convertible Notes was completed on 1 September 2017. Details of the aforementioned transaction were set out in the announcements of the Company dated 21 August 2017 and 8 September 2017.

Upon the receipt of two conversion notices dated 12 September 2017 and 28 September 2017, respectively, from the Investor, each for conversion of part of the CCBC Convertible Notes in the principal amount of USD5,000,000, the Company allotted and issued 126,598,820 conversion shares, respectively, to the Investor at a conversion price of HK$0.306085 per conversion share on 14 September 2017 and 3 October 2017, respectively. In accordance with the relevant terms and conditions of the CCBC Convertible Notes, the conversion price under CCBC Convertible Notes was adjusted from HK$0.306085 per share to HK$0.280511 per share upon the completion of the Subscription (as defined below) on 19 June 2018. Upon the receipt of the conversion notice dated 31 August 2018 from the Investor, for conversion of part of the CCBC Convertible Notes in the principal amount of USD800,000, the Company allotted and issued 22,102,520 conversion shares to the Investor at a conversion price of HK$0.280511 per conversion share on 4 September 2018. As at 31 December 2018, the aggregate outstanding principal of the CCBC Convertible Notes was USD24,200,000.

Assuming that the outstanding principal of the CCBC Convertible Notes of USD24,200,000 is fully converted at an adjusted conversion price of HK$0.280511 per share, subject to the amendments pursuant to the deed of waiver and amendments dated 25 April 2018 (the "**Amendments**") entered into between the Company, the Investor and CDH Fast Two Limited (further details of which were set out in the announcement of the Company dated 25 April 2018), an additional 454,601,375 shares will be issued to the Investor, which would cause the number of issued shares of the Company to increase to 7,222,237,590 shares from 6,767,636,215 shares, while the earnings per share of the Company for the Year will remain the same.

The shareholding structure of the Company (i) as at 31 December 2018 and (ii) immediately after full conversion of the outstanding principal of the CCBC Convertible Notes of USD24,200,000 at the adjusted conversion price of HK$0.280511 per share, subject to the Amendments, is set out below:

Name of shareholder	As at 31 December 2018		Immediately after full conversion of the outstanding principal of the CCBC Convertible Notes of USD24,200,000 at the adjusted conversion price of HK$0.280511 per share, subject to the Amendments	
	Number of shares	Approximate percentage (%)	Number of shares	Approximate percentage (%)
CDH Fast Two Limited	2,889,580,226	42.70	2,889,580,226	40.01
High Inspiring Limited	266,900,160	3.94	721,501,535	9.99
Fame Mountain Limited	1,904,761,905	28.15	1,904,761,905	26.37
Other public shareholders	1,706,393,924	25.21	1,706,393,924	23.63
TOTAL ISSUED SHARES *(Note)*	6,767,636,215	100	7,222,237,590	100

Note: The approximate percentage of the issued shares is rounded to the nearest two decimal places and the total percentage of the total issued shares may not add up to 100% due to rounding.

As mentioned above, the Group continued to maintain a stable financial position and healthy liquidity of assets. The Group has the ability to meet its redemption obligations under the CCBC Convertible Notes.

In accordance with the subscription agreement dated 21 December 2017 (as amended and supplemented by the supplementary agreement dated 25 April 2018, "**Subscription Agreement**") entered into with Fame Mountain Limited (the "**Subscriber**"), the Company allotted and issued 1,904,761,905 new ordinary shares of HK$0.10 each in the share capital of the Company (the "**Subscription Shares**", and each a "**Subscription Share**") to the Subscriber at the subscription price of HK$0.42 per Subscription Share (the "**Subscription**"). The aggregate nominal value of the Subscription Shares was HK$190,476,190.5. The Subscription was completed on 19 June 2018. The net proceeds from the Subscription, after deducting all related fees and expenses of approximately RMB26,293,000, was approximately RMB629,533,000. The net price of each Subscription Share was approximately HK$0.41. The closing price of the shares of the Company was HK$0.68 on the date of the Subscription Agreement. Further details of the Subscription were set out in the announcements of the Company dated 21 December 2017, 25 April 2018 and 19 June 2018, and the circular of the Company dated 28 May 2018.

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy position of liquidity throughout the Year. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

The Group's retail and wholesale service businesses mainly took place in Mainland China and approximately 80% of the revenue of the Group's manufacturing business was generated from the export of its products which was settled in USD. As such, the Group's cash and cash equivalents and borrowings are mainly denominated in RMB and USD.

As at 31 December 2018, the Group's total assets were RMB2,570,157,000 (31 December 2017: RMB1,380,184,000), comprising: (1) share capital of RMB556,286,000 (31 December 2017: RMB398,481,000); (2) reserves of RMB429,138,000 (31 December 2017: RMB(180,554,000)); and (3) debts of RMB1,584,733,000 (31 December 2017: RMB1,162,257,000).

Financial Guarantees and Pledge of Assets

As at 31 December 2018, the net book values of inventory, investment properties, property, plant and equipment and leasehold land and land use rights pledged as security for the Group's bank borrowings amounted to approximately RMB398,065,000 (31 December 2017: RMB111,226,000). The increase in pledged assets was mainly due to the pledged assets within the newly acquired automotive dealership and services business of RMB290,441,000.

Material Acquisition and Disposal of Subsidiaries

On 2 March 2018, Ningbo Meishan Bonded Port Area Chifeng Investment Management Co., Ltd* (寧波梅山保稅港區馳豐投資管理有限公司), a wholly-owned subsidiary of the Company, as purchaser (the "**Purchaser**"), and Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.* (內蒙古利豐鼎盛汽車有限公司), as vendor (the "**Vendor**"), entered into the equity transfer agreement (the "**Equity Transfer Agreement**"), pursuant to which, the Purchaser agreed to acquire 100% of the equity interests in Inner Mongolia Chuangying Automobile Co., Ltd.* (內蒙古創贏汽車有限公司) wholly owned by the Vendor, and all of the equity interests in 35 operating companies directly or indirectly owned by the Vendor (the "**Acquisition**"). As further negotiated between the Purchaser and the Vendor, both parties agreed not to transfer to the Purchaser the equity interests in three operating companies (namely Inner Mongolia Lifeng Taixin Automobile Service Co., Ltd.* (內蒙古利豐泰鑫汽車服務有限公司), Erdos Tianchi Automobile Sales & Service Co., Ltd.* (鄂爾多斯市天馳汽車銷售服務有限公司) and Erdos Tianwei Automobile Sales & Service Co., Ltd.* (鄂爾多斯市天為汽車銷售服務有限公司)) owned by the Vendor. Therefore, the consideration was reduced from the RMB660,000,000 to RMB635,219,328. The percentage of decrease in the acquisition consideration equals to the shareholders' interests attributable to the Vendor of the above three operating companies as a percentage of the shareholders' interests attributable to the Vendor in aggregate of the 35 operating companies.

Given the total revenue of these three operating companies in 2015, 2016 and 2017 only accounted for 4.14%, 3.97% and 4.53% of the total revenue of the 35 operating companies respectively, these three operating companies in aggregate recorded losses in 2015 and 2016, and the total profit attributable to the Vendor of these three operating companies in 2017 only accounted for 2.71% of the total profit attributable to the Vendor of the 35 operating companies, the Board is of the view that not acquiring the equity interests of the Vendor in these three operating companies was immaterial to the above Acquisition, and there was no substantive impact on the Group in achieving the purposes of the Acquisition.

The Acquisition has been completed on 30 September 2018. Please refer to the announcement of the Company dated 2 March 2018 and the circular of the Company dated 24 August 2018 for more details about the Acquisition.

Significant Investments

The Group had no significant investments during the Year. The Group has no specific plans for material future investments or acquisition of business.

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Exchange Risk

The Group's retail and wholesale service businesses and the automotive dealership and services business are mainly conducted in the People's Republic of China (the "**PRC**") and their settlement currency is RMB, so there is no exchange risk.

Approximately 80% of the revenue of the Group's manufacturing business was generated from the export of its products which was settled in USD. Most of the materials used to produce those exports were purchased in RMB. The depreciation of USD against RMB would normally adversely affect the profitability of the Group's manufacturing business. The Group managed its exposure to USD foreign currency risk by making USD borrowings to lower exchange risk. As at 31 December 2018, the amount of the Group's USD borrowings was approximately USD4,000,000 (31 December 2017: USD4,000,000).

In addition, the principal and interest payable under the CCBC Convertible Notes of approximately USD28,355,000 in 2019 will be paid out of the revenue generated from the export of the Group's manufacturing business. This will help hedge against the exchange risk faced by the Group's manufacturing business.

Other Material Risks and Uncertainties

The Group operates its major business in the PRC and faces other material risks and uncertainties, mainly including the future prospect of the PRC's economy. Should the PRC's economy suffer from downturn, the consumption sentiment of car owners will be affected, which will in turn reduce the revenue of the Group. The Group has adopted a development plan of establishing stores within gas stations with strategic partners to reduce its costs. It will pay close attention to the economic trend of the PRC and deal with those risks and uncertainties in a timely manner.

Contingent Liabilities

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

Employees and Remuneration Policy

As at 31 December 2018, the Group employed a total of 4,181 full-time employees (31 December 2017: 3,928), of which 627 (31 December 2017: 552) were managerial staff. The total employee benefit expenses (including the remuneration of the Directors) for the year ended 31 December 2018 were approximately RMB326,740,000. The Group's remuneration policies are formulated to attract talent and retain quality staff. The remuneration package for the Group's employees includes wages, incentives (such as performance-based bonus) and allowances. The Group also provides social security insurance and benefits to its employees, and formulates and implements share option schemes as a long-term incentive scheme of the Group. Details of the share options scheme will be disclosed in the "Report of the Directors" of this annual report. The Group emphasizes the importance of staff development and provides training programs on an ongoing basis with reference to its strategic objectives and performance of its staff.

Environmental Policies and Performance

The Group has been continuously promoting the establishment and improvement of environment related management mechanism and system. Those systems require all the employees of the Group to comply with the applicable environmental laws and regulations in their daily work. The automobile distributions branches and individual after-sales service stores of the Group had obtained the approval from environmental protection authorities prior to commencement of operations and strictly complied with applicable environmental laws and regulations in the subsequent operation to minimize the damages to the environment. The manufacturing business of the Group proactively incorporates the concept of environmental protection into the design and production process of the products, aiming at providing energy-saving and environmentally friendly products to our customers. The Group encourages its employees to save energy and treasure resources.

Compliance with Laws and Regulations

During the Year, the Group has in all material respects complied with the relevant laws and regulations that have a significant impact on the operations of the Group which cover various aspects such as labor, fire prevention, environmental protection and products liability, including, but not limited to, the Law of Environmental Protection of the People's Republic of China (中華人民共和國環境保護法), the Environmental Impact Assessment Law of the People's Republic of China (中華人民共和國環境影響評價法), the Law of Prevention and Control of Environmental Noise Pollution of the People's Republic of China (中華人民共和國環境噪聲污染防治法), the Labour Contract Law of the People's Republic of China (中華人民共和國勞動合同法), the Law on Product Quality of the People's Republic of China (中華人民共和國產品質量法), the Law on Trademark of the People's Republic of China (中華人民共和國商標法), the Law on Advertising of the People's Republic of China (中華人民共和國廣告法) and the Listing Rules.

Relationship with Employees, Customers and Suppliers

The Group attaches great importance to its relationships with its employees, customers, suppliers and other relevant parties since such relationships are the core element for the Group's sustainable development. The Group adheres to the principle of legality, fairness, reasonableness and mutual benefit in its daily operation and duly handles its relationships with its employees, customers, suppliers and other relevant parties.

Industrial Development, Business Progress and Outlook

According to the statistics of China Association of Automobile Manufacturers, the sales volume of passenger vehicles in the PRC was approximately 23.71 million for the Year, representing a decrease of approximately 4.08% as compared with 2017. Based on the analysis of China Association of Automobile Manufacturers, the domestic automobile industry was under great pressures in 2018 and the sales volume of passenger vehicles was lower than that was expected at the beginning of the Year, which was mainly due to factors including full withdrawal of preferential policies for automobile purchase tax, diminishing macro economy growth and the Sino-US trade war. The number of passenger vehicles licensed during 2018 in Inner Mongolia Autonomous Region reached approximately 338,000, representing a decrease of approximately 19.3% as compared to last year.

The automobile industry in the PRC is still at the stage of popularization and there is still ample room for growth in the retention of passenger vehicles. Based on the statistics of the Ministry of Public Security of the PRC, the number of retained small passenger cars in the PRC has exceeded 200 million at the end of 2018. The considerable number of retained vehicles provided a great development opportunity for the Group's individual after-sales service chain stores and wholesale business of automotive products.

Along with the increasing average age of passenger vehicles in the PRC, the proportion of vehicles with expired warranties which are in the peak of need for replacement of naturally ageing accessories (normally 5-10 years after sales of vehicles) has been increasing. Many vehicle owners have shifted to individual automotive after-sales service chain networks and e-commerce platforms for alternative maintenance and repair solutions that are more economical, reliable and secure. Currently, other than the large-scale 4S dealership groups and small-scale individual stores, large-scale economical automotive after-sales chain networks are very scarce in the market. The strong demand for such economical chain networks in the market is materially similar to the consumption demand for budget hotel chains in the hospitality industry and for fast-food chains in the food and beverage industry in the PRC market. In mature markets, such as the United States and Japan, their development history of large-scale individual after-sales chain networks has also proven this development trend. The Group will continue to maintain our position of developing reasonably priced products, our operations of branded chains and our principles of standardized and customized servicing, and gradually increase the number of our individual after-sales service chain stores and branding influence of the Group.

In the meantime, there are more than 300,000 individual small after-sales stores in the PRC market, of which the parts and accessories required in the maintenance and repair business still rely on the traditional dealership system and the distribution model in automotive parts malls, and the efficiency of supply chains is relatively low. For regular maintenance parts and accessories and modification products, there is a significant need for comprehensive one-stop suppliers for these small after-sales stores to address the currently low efficiency of scattered supply chains. We consider that online product search and ordering, integrated categories of products and optimized one-stop storage and delivery are the main solutions to the problems in the supply of automotive parts and accessories to those small-scale after-sales stores. In the B2B field, the Group will provide one-stop parts and accessories wholesale and delivery service to those small-scale stores through ordering via computers and mobile devices on the “Auto Make” e-commerce platform.

As at 31 December 2018, the Group had a total of 33 automobile distribution branches (2017: Nil), 233 individual after-sales service stores (2017: 227), nine wholesale service branches (2017: nine) and two manufacturing factories (2017: two).

Automotive Dealership and Services Business of the Group

The Group's automotive dealership and services business network is located in the Inner Mongolia Autonomous Region, and its main businesses include automobile sales and after-sales service, as well as the distribution of car insurance products and financial products.

In response to the relatively unfavorable macroeconomic environment and industry conditions, the Group had implemented the following operating strategies in the automotive dealership and services business:

Firstly, we cut down part of the brands with low profit margin to optimize the structure of automotive brands under dealership of the Group, so as to focus its resources on automotive brands with better sales performances.

Secondly, we established the position of brand general manager for the management of automobile sales networks on brand basis, with an aim to enhance the effectiveness of management and resource integration.

Thirdly, we improved the operation method and business model of second-hand automobile business and automotive product business, so as to generate more underlying business revenue.

It is estimated that the automotive dealership industry will still remain under great pressure in the short run. To improve the operating results, the Group intends to adopt the following operating strategies in 2019:

Firstly, we will continue to optimize the structure of automotive brands under dealership of the Group to be in line with the trend of consumption upgrade in automobiles by introducing premium vehicles brands, such as Volvo, and midrange automotive brands featuring market potential.

Secondly, we will modify the design of retail products portfolio and the usage of marketing approach of differentiation during sales process. For after-sales service, we will enhance the management and development of existing customer resources and refine and control the after-sales business process to improve customer satisfaction.

Thirdly, we will focus on quality management and optimize the system of responsibility to reach performance targets in each of the automotive dealership networks and organize the operation and management processes in an all-rounded manner, with an aim of enhancing the operating efficiency.

The Group's Individual Automobile After-sales Service and Automotive Products Wholesale Business

In respect of extension of individual automobile service chain networks as well as establishment and expansion of e-commerce platforms for automotive products, the operating strategies implemented by the Group during the Year mainly include:

Firstly, the automobile integrated service chain business focused its resources on gas station stores. Pursuant to the strategic cooperation agreement with Hubei branch of Sinopec Chemical Products Sales Company ("**Sinopec**"), the Group and Sinopec Hubei branch jointly operated automobile retail service stores in the gas stations within the network of Sinopec Hubei branch and maintained a leading position in terms of market share and brand awareness in the automobile after-sales market in Central China region. The Group also joined hands with Sinopec Tianjin branch, Sinopec Jiangxi branch, Sinopec Anhui branch, Sinopec Guangdong branch, Sinopec Hunan branch, Gansu marketing branch of PetroChina Company Limited ("**PetroChina**"), Beijing marketing branch of PetroChina, Chongqing marketing branch of PetroChina and Sichuan marketing branch of PetroChina for operating certain service stores.

Secondly, the Group invested a lot of resources to improve the e-commerce platform "Auto Make" and attracted new customers from the platform. Targeting small retail service stores, the e-commerce platform provides customers with repair and maintenance parts and accessories and the purchase, delivery and warehouse storage services of automotive products. At the same time, it also attracts relevant manufacturers and large-scale wholesalers to set up stores on the "Auto Make" platform for the purpose of providing the services of sales, collection of payment and delivery. Through these functions, the Group has set up an e-commerce platform combining self-operation and third-party sales for the wholesale business of automotive products.

The Group's Manufacturing Business

The foreign trade business classified existing markets and customers, and optimized the current customer base. However, influenced by currency fluctuations, adjustment of tariff and higher price of materials, the gross margin fell short of expectations. For domestic trade business, product structure has been further adjusted, which increased the sales proportion of own brand products. In addition, the strategic layout of the pre-installed new energy market has achieved initial success with steady business progress.

The Group's manufacturing business will continue adhering to its customer-oriented and product innovation-driven market strategies, increasing investment in research and development and manufacturing capability improvement, and enhancing market competitiveness. For foreign trade business, we will continue to optimize the customer and product structures, with an aim to improving the overall gross profit level. For domestic trade business, the market share of core products will be enhanced by strengthening the operation and management strategies of own brand construction improvement, product structure organization and product manager system establishment. In the pre-installation market, it will continue to be driven by customer needs with major development in new energy pre-installation business, all-in-one high-performance digital power products and expansion of numbers of specified first-tier automaker customers.

Financing and Acquisition

While developing the Group's own business, the management also invested plenty of resources in exploring financing and acquisition opportunities in a bid to accelerate the expansion of the Group and enhance the Company's value in the capital market. In June 2018, the Group completed the issuance of new shares with a subscription amount of HK$800 million, which expanded the shareholder base of the Company and raised funds for the acquisition by the Group. In September 2018, the Group completed the acquisition of certain automotive dealership branches of Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.* (內蒙古利豐鼎盛汽車有限公司), which expanded the business scope of the Group and substantially increased the Group's operating revenue.

The Group will continue to actively search for and negotiate with potential acquisition targets and cooperation partnership, which will help achieve the strategic objectives of the Group.

* *For identification purposes only*

Profiles of the directors of the Company (the "**Directors**") and senior management as at the date of this annual report are set out below:

Executive Director

Mr. Du Jinglei (Chairman)

Mr. Du, aged 41, is an executive Director and Chairman of the Company. He graduated with a bachelor's degree in mechanical engineering and a master's degree in measurement technology and instrumentation from Tsinghua University (清華大學) in July 2000 and July 2002, respectively. Mr. Du was employed by CDH Investments Management (Hong Kong) Limited ("**CDH Investments**") since August 2006 as a managing director and he was in charge of deal sourcing and executions. Prior to joining CDH Investments, Mr. Du worked as an assistant manager in KPMG China and was responsible for certain IPO audit and other audit assurance engagements from August 2002 to August 2006. Mr. Du also serves as a director and executive deputy general manager of Ningbo Akin Electronic Technology Corporation Limited (寧波亞錦電子科技股份有限公司) (a company listed on the National Equities Exchange and Quotations System of the People's Republic of China ("**NEEQ**"), Stock Code: 830806). From 2 July 2018 to 22 August 2018, Mr. Du worked as the general manager of Dr. Peng Telecom and Media Group Co., Ltd. (鵬博士電信傳媒集團股份有限公司, "**Dr. Peng**"), a company listed on the Shanghai Stock Exchange (Stock Code: 600804). From 22 August 2018 up to now, Mr. Du has served as the director of Dr. Peng. Mr. Du joined the Group in August 2013.

Non-executive Directors

Mr. Wang Zhenyu

Mr. Wang, aged 55, is a non-executive Director. He graduated from Hefei University of Technology (合肥工業大學) with a bachelor's degree in machinery engineering in 1985 and a master's degree in industrial management engineering in 1988. Mr. Wang has been employed by CDH Investments since 2008, and he is currently its managing director. Since 2002, he has been serving as the vice president and managing director in several affiliates of CDH Investments. Prior to joining CDH Investments, Mr. Wang served as an associate in the investment consultancy department of China International Capital Corporation Limited (中國國際金融有限公司) from 2000 to 2002. Mr. Wang served as a non-executive director of Xiezhong International Holdings Limited (協眾國際控股有限公司) (Stock Code: 3663) from June 2012 to July 2014. Mr. Wang joined the Group in August 2013.

Mr. Zhang Jianxing

Mr. Zhang, aged 52, is a non-executive Director and serves as a director of several subsidiaries of the Company. Mr. Zhang graduated from Tongji University (同濟大學) and received a Bachelor of Science degree in civil engineering. He has been employed by CDH Investments since 2011, and he is currently its managing director. Prior to joining CDH Investments, Mr. Zhang served as the managing operation director of China Resources Asset Management Limited (華潤資產管理有限公司) from 2009 to 2011. Mr. Zhang joined the Group in August 2013.

Independent Non-executive Directors

Mr. Hu Yuming

Mr. Hu, aged 53, is an independent non-executive Director. He received a bachelor's degree in economics, a master's degree in economics and a doctor's degree in economics from Xiamen University (廈門大學) in 1986, 1989 and 1995, respectively. He is also a non-practicing member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會). He has been a professor at the School of Management of Jinan University (暨南大學管理學院) since 2000 and held various teaching positions in Xiamen University (廈門大學) from 1989 to 2000. He worked for China Resources Jinhua Co., Ltd. (華潤錦華股份有限公司) (a company listed on the Shenzhen Stock Exchange ("**SZSE**"), Stock Code: 000810, re-named as Skyworth Digital Co., Ltd. (創維數字股份有限公司)) as an independent director from 2004 to 2010. Mr. Hu also worked for Guangzhou Zhujiang Brewery Co., Ltd. (廣州珠江啤酒股份有限公司) (SZSE Stock Code: 002461) and Guangdong HongDa Blasting Co., Ltd. (廣東宏大爆破股份有限公司) (SZSE Stock Code: 002683) as an independent director from 2009 to 2012 and from 2010 to 2013, respectively. Subsequently, he worked for Guangzhou Canudilo Fashion and Accessories Co., Ltd. (廣州卡奴迪路服飾股份有限公司) (SZSE Stock Code: 002656, re-named as Modern Avenue Group Co., Ltd (摩登大道時尚集團股份有限公司)) as an independent director from December 2008 to January 2015. He served as an independent director of By-health Co., Ltd. (湯臣倍健股份有限公司) (SZSE Stock Code: 300146) and Guangzhou Shiyuan Electronic Technology Company Limited (廣州視源電子科技股份有限公司) (SZSE Stcok Code: 002841) from 26 September 2011 to 22 September 2017 and from 1 January 2013 to 26 December 2017, respectively. Currently, Mr. Hu is an independent director of Guangdong PAK Corporation Co., Ltd. (廣東三雄極光照明股份有限公司) (SZSE Stock Code: 300625) and Shenzhen Tellus Holding Co., Ltd. (深圳市特力(集團)股份有限公司) (SZSE Stock Code: Tellus A, 000025; Tellus B, 200025). Mr. Hu joined the Group in August 2013.

Mr. Lin Lei

Mr. Lin, aged 51, is an independent non-executive Director. He received a bachelor's degree in applied economic mathematics from Renmin University of China (中國人民大學) in 1990. He is the founder and chairman of the board of Sinotrust International Information & Consulting (Beijing) Co., Ltd. (新華信國際信息諮詢(北京)有限公司) (re-named as TNS Sinotrust Market Research Consulting (Beijing) Co., Ltd. (特恩斯新華信市場諮詢(北京)有限公司, "**Sinotrust**"). Prior to founding Sinotrust in 1992, Mr. Lin worked at the Ministry of Foreign Economic Relations and Trade (對外經濟貿易部) from 1990 to 1992. From 18 August 2014 to 27 February 2018, Mr. Lin is an independent non-executive director of CAR Inc. (神州租車有限公司) (Stock Code: 00699). Currently, Mr. Lin is an independent non-executive director of Xiezhong International Holdings Limited (協眾國際控股有限公司) (Stock Code: 3663), a director of Lepu Medical Technology (Beijing) Co., Ltd. (樂普(北京)醫療器械股份有限公司) (SZSE Stock Code: 300003), an independent director of BAIC BluePark New Energy Technology Co., Ltd. (北汽藍穀新能源科技股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600733) and the managing director of Beijing Centurium Management Advisory Co., Ltd. (北京大鉦管理諮詢有限公司). In respect of professional memberships and qualifications, Mr. Lin was the vice president of China Association of Market Information and Research (CAMIR) (中國市場信息調查業協會) and a council member of China Society of Automotive Engineers (SAE) (中國汽車工程學會), and is currently a commissioner of the expert committee of China Automobile Dealers Association (CADA) (中國汽車流通協會). Mr. Lin joined the Group in August 2013.

Mr. Zhang Xiaoya

Mr. Zhang, aged 56, is an independent non-executive Director. He is a graduate of Shangdong University (山東大學) and the School of Management at Beijing University of Aeronautics and Astronautics (北京航空航天大學) and is a senior engineer. Mr. Zhang is the chairman of Zhong Ding United Dairy Farming Co., Ltd. (中鼎聯合牧業股份有限公司), a manager of Beijing Xindajiading Investment Company Limited (北京信達嘉鼎投資有限公司), an independent non-executive director of China Mengniu Dairy Company Limited (中國蒙牛乳業有限公司) (Stock Code: 02319) and an independent director of Guangzhou Digital Media Co., Ltd. (廣州珠江數碼集團股份有限公司), a company listed on NEEQ (Stock Code: 871828). Mr. Zhang was a director and the president of AirMedia Group Inc. (航美傳媒集團) (NASDAQ: AMCN), the chairman of Unibank Media (銀廣通傳媒集團) and an independent director of Syswin Inc. (思源經紀), which was listed on the New York Stock Exchange until April 2013. Mr. Zhang joined the Group in March 2015.

Senior Management

Mr. Lin Ming

Mr. Lin, aged 39, is the chief executive officer of the Company and has overall responsibilities for the operation and management of the Company. He is also a director of several subsidiaries of the Company.

Mr. Lin graduated from Nankai University (南開大學) in 2002. He holds a bachelor's degree in accountancy and is a non-practicing member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會). From 2002 to 2007, he served as an audit manager in KPMG Huazhen (畢馬威華振會計師事務所) and was responsible for certain IPO audit and other audit assurance engagements. From 2007 to 2013, he served as the chief financial officer and senior vice president of Towona Mobile TV Media Group (China) Limited (世通華納移動電視傳媒集團(中國)有限公司). Mr. Lin joined the Group in August 2013 as the chief financial officer. He was re-designed as the chief executive officer of the Company with effect from 15 September 2017.

Ms. Hung Ying-Lien

Ms. Hung, aged 53, vice president and chief operating officer of the Company, is responsible for the operations of the Group.

She graduated from Fu Jen Catholic University (輔仁大學) in Taiwan with a bachelor's degree in accountancy in 1988. She has extensive experience in the wholesale and retail service sector and in the finance field. Prior to joining the Group, Ms. Hung held various positions at a supermarket chain store in Taiwan from 1991 to 2001, responsible for wholesale operations, human resource management, product management, inventory logistics and financial management. Ms. Hung joined the Group in July 2001.

Mr. Zuo Yungui

Mr. Zuo, aged 46, vice president of the Company, is responsible for the operations and management of the Group's manufacturing industry, IT department and strategic investment department. Mr. Zuo is also a director of certain subsidiaries of the Company.

Mr. Zuo obtained his bachelor's degree in weaving and product design from Chengdu Textile College (成都紡織高等專科學校) in 1996. He holds the professional title of engineer. Mr. Zuo worked for China Resources Jinhua Co., Ltd. (華潤錦華股份有限公司), China Resources Textiles (Holdings) Company Limited (華潤紡織(集團)有限公司) and Meihua Holdings Group Co., Ltd. (梅花生物科技集團股份有限公司). He has extensive management experience in the manufacturing sector, as well as seven consecutive years of group strategic management experience. Mr. Zuo joined the Group in August 2013.

Mr. Xing Aiyi

Mr. Xing, aged 57, is a vice president of the Company and a director and general manager of Beijing Aiyihang Auto Service Co., Ltd. (北京愛義行汽車服務有限責任公司) ("**Beijing Aiyihang**"), a subsidiary of the Group, and is responsible for the retail service business of the Northern China region and the operating and management of Beijing Aiyihang. Mr. Xing received a master's degree in business administration from the Party School of Beijing Municipal Committee (北京市委黨校) in 2009. He established Aiyihang Auto Service Centre from 1992 to 1997, and founded Beijing Aiyihang and started the automotive chain operation in 1997. Mr. Xing joined the Group in February 2007.

Mr. Li Haidong

Mr. Li, aged 49, is the chairman and executive general manager of Liaoning Xin Tian Cheng Industrial Co., Ltd. ("**Liaoning XTC**"), a subsidiary of the Group, and is responsible for the operation and management of the Group's wholesale service business. He founded Liaoning XTC in 1994. Mr. Li joined the Group in June 2010.

Mr. Wu Yande

Mr. Wu, aged 49, is a director and executive general manager of Changchun Guangda Automobile Trading Co., Ltd. ("**Changchun Guangda**"), a subsidiary of the Group, and is responsible for the operation and management of Changchun Guangda. Mr. Wu founded Changchun Guangda in 1996, and joined the Group in July 2012.

CORPORATE GOVERNANCE REPORT

The board of Directors (the "**Board**") hereby presents this Corporate Governance Report in the Company's annual report for the year ended 31 December 2018.

Corporate Governance Practices

The Board believes good corporate governance practice is the key to business growth and management of the Group.

The Company has applied the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") throughout the year ended 31 December 2018.

In the opinion of the Board, the Company has complied with the code provisions set out in the CG Code throughout the year ended 31 December 2018.

Securities Transactions of Directors

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct for dealings in securities of the Company by the Directors or relevant employees as defined in the Model Code. Having made specific enquiry to all Directors by the Company, all Directors confirmed that they had complied with the requirements set out in the Model Code during the financial year ended 31 December 2018.

Board of Directors

Responsibilities and Delegation

The Board is responsible for the overall management and control of the Company. Its main roles are to provide leadership and to approve strategic policies and plans with a view to enhancing shareholder value. All Directors carry out their duties in good faith and in compliance with applicable laws and regulations, taking decisions objectively, and acting in the interests of the Company and its shareholders at all times.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary of the Company (the "**Company Secretary**") and senior management. Any Director may request independent professional advice in appropriate circumstances at the Company's expense, upon making reasonable request to the Board. The Board has implemented appropriate measures and internal control procedures to ensure that the Company runs its business pursuant to all applicable legal and regulatory requirements with prudence and integrity.

The senior management are obliged to supply the Board with adequate information in a timely manner to enable the Board to make informed decisions in a timely manner. Each of the Directors is entitled to obtain such records of the Company as are necessary to enable them to make informed decisions. Biographical details of the Directors and their relationships are set out under the section headed "Profiles of the Directors and Senior Management" in this annual report.

Issues reserved for discussion and approval by the Board include the following: (i) corporate strategies; (ii) annual budget and annual business plan; (iii) annual and interim results; (iv) internal control and risk management; (v) major acquisitions, disposals and capital transactions; and (vi) other significant operational and financial matters.

Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim financial statements for the Board's approval before publication, execution of business strategies and initiatives adopted by the Board, implementation of adequate internal control and risk management system, and compliance with relevant statutory requirements and rules and regulations. The executive Director should assume individual responsibilities to oversee and monitor the operations of a specific business unit, and to implement the strategies and policies set by the Board. The independent non-executive Directors will provide independent advice to the Board and share their knowledge and experience with other members of the Board.

Board Composition

The Board currently comprises one executive Director and five non-executive Directors with three of them being independent non-executive Directors:

Executive Director
Mr. Du Jinglei *(Chairman)*

Non-executive Directors
Mr. Wang Zhenyu
Mr. Zhang Jianxing

Independent non-executive Directors
Mr. Hu Yuming
Mr. Lin Lei
Mr. Zhang Xiaoya

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

All Directors have brought a wide range of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Moreover, through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

Appointment and Re-election of Directors

All Directors are appointed for a fixed term of three years. The articles of association of the Company (the "**Articles**") require that one-third of the Directors (including executive and non-executive Directors) retire each year. The Directors to retire each year shall be those appointed by the Board during that year and those who have been longest in office since their election or re-election. A retiring Director is eligible for re-election.

Apart from the service agreement or letter of appointment (as the case may be) entered into by each non-executive Director, none of them has signed any form of service contract with the Company or any of its subsidiaries.

Chairman and Chief Executive Officer

A.2.1 of the CG Code requires the roles of the Chairman and the Chief Executive Officer should be separate and should not be performed by the same individual. The Chairman of the Company is Mr. Du Jinglei and the functions of Chief Executive Officer are performed by Mr. Lin Ming. The Chairman of the Board is responsible for the leadership and effective running of the Board, while the Chief Executive Officer is delegated with the authorities to manage the daily business of the Group in all aspects effectively.

Continuous Professional Development of Directors

Under code provision A.6.5, 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 relevant.

All Directors are encouraged to attend relevant training courses at the Company's expense. During the year ended 31 December 2018, the Company organized briefings conducted by the Company Secretary for the Directors including Mr. Du Jinglei, Mr. Wang Zhenyu, Mr. Zhang Jianxing, Mr. Hu Yuming, Mr. Lin Lei and Mr. Zhang Xiaoya, on corporate governance and provided reading materials on regulatory update to them for their reference and studying. Directors are requested to provide their training records to the Company Secretary for record-keeping.

Board Committees & Corporate Governance Functions

On 28 August 2013, the Board has established the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**"), the nomination committee (the "**Nomination Committee**") and the strategy committee (the "**Strategy Committee**") for overseeing particular aspects of the Company's affairs. The Audit Committee, the Remuneration Committee and the Nomination Committee have been established with defined written terms of reference, which are posted on the Company's website "www.nfa360.com" and the Stock Exchange's website "www.hkexnews.hk" and are available to shareholders upon request. All Board committees report to the Board on their decisions or recommendations.

All Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

Audit Committee

The Audit Committee comprises a total of three members, being two independent non-executive Directors, namely, Mr. Hu Yuming (Chairman) and Mr. Lin Lei, and one non-executive Director, namely, Mr. Wang Zhenyu (appointed to replace Mr. Ying Wei with effect from 29 March 2018). The chairman of the Audit Committee is Mr. Hu Yuming who possesses the appropriate accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The terms of reference of the Audit Committee have been determined with reference to the CG Code. The main duties of the Audit Committee are to (i) review the financial statements and reports and consider any significant or unusual items raised by the financial officers of the Group or external auditors before submission to the Board; (ii) review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process; (iii) make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and (iv) review the adequacy and effectiveness of the Company's financial reporting system, internal control system, risk management system, internal audit function and associated procedures and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

On 10 December 2015, the Board adopted the updated terms of reference of the Audit Committee so that the Audit Committee shall also oversee the risk management system of the Group starting from 1 January 2016.

During the year ended 31 December 2018, the Audit Committee, through its meetings held on 29 March 2018, 25 May 2018 and 30 August 2018 respectively, has performed, among others, the following:

- review and discussion of the annual financial results and report in respect of the year ended 31 December 2017 and interim financial results and report for the six months ended 30 June 2018 and discussion with the management of the accounting principles and practices adopted by the Group;

- discussion on and recommendation of the appointment of new external auditors; and

- review of the internal control, financial reporting and risk management systems and effectiveness of internal audit function of the Group.

The external auditors were invited to attend the meetings of the Audit Committee held during the Year to discuss with the Audit Committee members issues arising from the audit and financial reporting matters.

Remuneration Committee

The Remuneration Committee comprises a total of three members, being two independent non-executive Directors, namely, Mr. Hu Yuming (Chairman) and Mr. Zhang Xiaoya; and one executive Director, namely, Mr. Du Jinglei (appointed to replace Mr. Ying Wei with effect from 29 March 2018).

The terms of reference of the Remuneration Committee have been determined with reference to the CG Code. Under the terms of reference of the Remuneration Committee, the responsibilities of the Remuneration Committee include, among others, (i) to make recommendations to the Board on the Company's policy and structure for directors and senior management's remuneration and the establishment of a formal and transparent procedure for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration; and (ii) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and the Company's senior management.

During the year ended 31 December 2018, the Remuneration Committee, through its meetings held on 29 March 2018 has performed, among others, the following:

- review and discussion of the remuneration policy of the Group, the remuneration packages of the Directors and senior management of the Company, and assessed performance of executive Directors.

The remuneration of the Directors is determined by the Board which receives recommendations from the Remuneration Committee. Under our current compensation arrangements, the executive Directors are entitled to compensation in the form of salaries and performance-related bonus to be determined by the Board. Non-executive Directors are entitled to a Directors' fees and annual bonus payment to be determined by the Board. All the independent non-executive Directors are entitled to remuneration of a fixed amount.

There has been no remuneration paid or payable to the Directors or the five highest paid individuals as inducement to join or upon joining the Group or as a compensation for loss of office in connection with the management of the affairs of any member of the Group in respect of the year ended 31 December 2018.

Details of the remuneration of each Director and the remuneration of the five highest paid individuals for the year ended 31 December 2018 are set out in note 10 to the financial statements in this annual report.

Remuneration paid to senior management staff of the Company in 2018 by band is as follows:

	Number of staff
Nil to HK$1,000,000	3
HK$1,000,000 to HK$1,500,000	3
HK$1,500,001 to HK$2,000,000	–
HK$2,000,001 to HK$2,500,000	–
HK$2,500,001 to HK$3,000,000	–

Nomination Committee

The Nomination Committee comprises a total of three members, being two independent non-executive Directors, namely, Mr. Zhang Xiaoya and Mr. Lin Lei and one executive Director, namely, Mr. Du Jinglei (Chairman).

The terms of reference of the Nomination Committee have been determined with reference to the CG Code. Under the terms of reference of the Nomination Committee, the principal duties of the Nomination Committee are mainly to (i) review the structure, size and composition of the Board annually; (ii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; (iii) assess the independence of independent non-executive Directors; and (iv) make recommendations to the Board on the appointment or re-appointment of Directors.

When evaluating the appropriateness of candidates to be appointed as Directors, the Nomination Committee will take into consideration factors such as character, integrity, accomplishment, experience, qualification and time commitment to the Group's business. After Nomination Committee's nomination of suitable Director candidates, the Board shall make the final decision on all matters relating to the appointment of candidates as Directors and its recommendation of candidates for election in any general meeting.

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board in August 2013. Accordingly, selection of candidates to the Board is based on a range of measurable objectives, including but not limited to gender, age, cultural and educational background, professional experience and qualifications, skills, knowledge and length of service, having due regard to the Company's own business model and specific needs from time to time. As at the date of this annual report, the Board comprises six directors, among which three are independent non-executive Directors, who are independent from the management of the Group and promote the supervision of management process. In terms of gender, age, cultural and educational background, professional experience and qualifications, skills, knowledge and length of service, the current Board members possess a variety of business and professional background and are distributed in different age groups, therefore the Board characterized by significant diversity. Biographical details of each Board member are set out in the section headed "Profiles of the Directors and Senior Management" in this annual report.

During the year ended 31 December 2018, the Nomination Committee, through its meeting held on 29 March 2018 and 27 July 2018 respectively performed the followings:

- review of the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company;

- recommendation of the re-appointment of those directors standing for re-election at the 2018 annual general meeting of the Company; and

- resignation of Mr. Li Ngai as a non-executive Director with effect from 27 July 2018.

Strategy Committee

The Strategy Committee comprises of three members, namely Mr. Zhang Xiaoya, Mr. Wang Zhenyu, and Mr. Lin Lei (Chairman). The duties of the Strategy Committee include formulating and revising the Group's future development strategies, carrying out procedures and enhancing the efficiency and quality of important decision-making procedures. The Strategy Committee shall convene meetings to discuss important investment and financing matters.

During the Year, the Group has not been involved in any corporate action that requires the involvement of the Strategy Committee.

Corporate Governance Functions

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

Up to the date of this annual report, the Board met once to review the Company's corporate governance policies and practices, training and continuous professional development of the Directors and senior management, the Company's policies and practices on the compliance of the Model Code, the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Attendance Record of Directors and Committee Members

During the year ended 31 December 2018, the Board held 6 Board meetings. The attendance record of each director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2018 is set out in the table below:

Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Mr. Du Jinglei *(Note 1)*	6/6	–	–	1/2	1/1
Mr. Ying Wei *(Note 2)*	1/2	–	–	–	–
Mr. Wang Zhenyu	6/6	3/3	–	–	1/1
Mr. Zhang Jianxing	6/6	–	–	–	1/1
Mr. Li Ngai *(Note 3)*	5/5	–	–	–	1/1
Mr. Hu Yuming	6/6	3/3	1/1	–	1/1
Mr. Lin Lei	6/6	3/3	–	2/2	1/1
Mr. Zhang Xiaoya	6/6	–	1/1	2/2	1/1

Notes:

1. Mr. Du Jinglei was appointed as a member of the Remuneration Committee with effect from 29 March 2018.

2. Mr. Ying Wei has resigned as a non-executive Director with effect from 29 March 2018.

3. Mr. Li Ngai has resigned as a non-executive Director with effect from 27 July 2018.

Directors' and Auditors' Responsibilities for the Financial Statements

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2018. The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on pages 57, 58 and 59.

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

Internal Control and Risk Management

The internal control and risk management systems of the Group have been designed to safeguard the assets of the Group, minimise the risks to which the Group is exposed and used as a management tool for the day-to-day operation of business. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against misstatement or losses. During the Year, an internal audit function has been in place within the Group to review the adequacy and effectiveness of its systems of internal control and risk management.

The Board is responsible for maintaining and reviewing the effectiveness of the risk management and internal control systems of the Group. During the Year, the Group's internal audit personnel assessed in detail the effectiveness of the risk management and internal control systems of the Group by reviewing each important steps and procedures of the systems and evaluating the possible operational and compliance risks which may exist in the Group's business. The Audit Committee reviewed and discussed the findings of the Group's internal audit personnel, as well as the comments and suggestion from the Company's external auditors regarding the effectiveness of the risk management and internal control systems of the Group. With reference to the report from the Audit Committee, the Board has held a meeting to conduct a review of the effectiveness of the risk management and internal control systems of the Group, which covered all material control including internal control, financial, operational and compliance control and risk management functions. The Board considered that the risk management and internal control systems of the Group are effective and adequate.

The Group has established systems and procedures for disseminating inside information so as to ensure that inside information is promptly identified. Directors and the management of the Group understand that inside information should be handled and disseminated in accordance with the requirements under the Listing Rules and the Securities and Futures Ordinance (Cap. 571). During the Year, the dissemination of inside information of the Group has been efficiently and consistently made with the assistance of the company secretary and, when necessary, outside legal counsel.

During the Year, The Board has also assessed the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting, internal audit and financial reporting functions of the Group and considered that they are effective and adequate.

External Auditors and Auditors' Remuneration

During the Year, the fees paid/payable to HLB Hodgson Impey Cheng Limited (the "**Auditor**") in respect of their audit services for the year 2018 amounted to RMB6,680,000, of which RMB2,930,000 represents the annual audit service fees and RMB3,750,000 represents the audit service fees in relation to the Automotive Dealership Business Acquisition..

During the Year, the performance of the Auditor has been reviewed by the Audit Committee.

Company Secretary

The Company does not engage an external service provider as the Company Secretary. Mr. Liu Xiaohua, being the Company Secretary, has taken no less than 15 hours of relevant professional training during the year ended 31 December 2018.

Communications with Shareholders and Investors Relations

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 also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

To promote effective communication, the Company maintains a website at "www.nfa360.com", where extensive information and updates on the Group's business developments and operations, financial information, corporate governance practices and other information are available for public access. For enquiries, shareholders and investors may write directly to the Company's head office at Room 1907, 19/F, Tower 1, Raffles City Changning, 1133 Changning Road, Changning District, Shanghai, the People's Republic of China and all enquiries will be dealt with in an informative and timely manner.

The Board welcomes views of shareholders and encourages them to attend general meetings to raise any concerns they might have with the Board or the management directly. Board members of the Group are available at the general meetings to answer any questions raised by shareholders.

The Company continues to enhance communication and relationship with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them informed of the Group's developments.

Shareholders' Rights

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, pursuant to the Articles, shareholder(s) holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings may request the Company to convene an extraordinary general meeting by sending a written requisition to the Board or the Company Secretary. The objects of the meeting must be stated in the written requisition.

Shareholders may send written enquiries to the Company for putting forward any enquiries or proposals to the Board. Contact details are as follows:

Address: Room 1907, 19/F, Tower 1, Raffles City Changning, 1133 Changning Road, Changning District, Shanghai, the People's Republic of China (For the attention of the Company Secretary)
Fax: 86-(0)21-6140 8810
Email: gavin_liu@nfa360.com

For the avoidance of doubt, shareholder(s) 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.

During the Year, the Company has not made any changes to its Articles. An up-to-date version of the Articles is available on the Company's website (www.nfa360.com) and the Stock Exchange's website (www.hkexnews.hk). Shareholders may refer to the Articles for further details of their rights.

All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.nfa360.com) immediately after the relevant general meetings.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

About the Report

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "**ESG Guide**") set out in Appendix 27 to the Listing Rules. This report, which is the third one issued by the Company to the public, aims to describe the Company's polices in the year ended 31 December 2018 that were designed to fulfill the Company's obligation with respect to sustainable development and social responsibilities as required by the ESG Guide. The Board is of the view that the Company has complied with the "comply or explain" provision set out in the ESG Guide for the Year.

The Company believes that sound environmental, social and governance performance is important to the sustainable development of its business and communities. The Company is committed to not only creating value for its shareholders, but promoting environmental protection, social responsibility and effective corporate governance. Certain environmental, social and governance standards have been integrated into the operations and activities of different members of the Group. The management of the Group monitors on an on-going basis the development, implementation and effectiveness of various environmental, social and governance initiatives carried out by different members of the Group.

The information disclosed in this report primarily concerns the two production plants, the retail service business, the wholesale service business and the automotive dealership and services business of the Group.

1. Environmental Protection

To demonstrate the Company's commitment to sustainable development and compliance with the laws and regulations relating to environmental protection, we strive to minimize the environmental impact of our business activities and maintain green operations and green office practices.

1.1 Use of Resources

The Group's main consumption of resources comprises of water, electricity and paper, including office paper and packaging paper. In the course of operation, the Group actively advocates the idea of green office and reduces the consumption of resources by various measures. For example:

- reduce the consumption of disposable packaging materials, and gradually change the packaging materials for accessories from paper boxes to recyclable plastic boxes;

- adopt computer automatic car wash technology to save the consumption of water and electricity;

- post water-saving and electricity-saving slogans in public area;

- turn off water and electricity in advance during festivals and holidays and assign designated staff for management to avoid unnecessary waste of resources during non-working days;

- adopt LED light-saving light bulbs in both office area and business place, with separate control by area and row;

- give priority to adopt internet telephone conference to minimize the unnecessary carbon emissions generated from long and short-haul business travels; and

- adopt the OA (office automation) system to carry out document approval and write-off, and use fingerprints for attendance roll, to realize paperless office.

By adopting various energy-saving measures, the electricity consumption of the Group decreased significantly in 2018. The total water consumption of the Group was 256,554.7 tonnes in 2018, representing an increase of 16.74% compared to 2017. Of the total amount, the Automotive Dealership Business Acquisition resulted in an increase of 138,580.71 tonnes in water consumption. Other than that factor, water consumption decreased by 101,788.01 tonnes compared to 2017. The Group's water is mainly from municipal water supply pipelines and there is no difficulty in sourcing water. The Group consumed a total of 1,745,597 sheets of office paper in 2018 representing an increase of 41.12% as compared with 2017. Excluding the Automotive Dealership Business Acquisition which led to an increase of 520,000 sheets of office paper, office paper consumption saw a decline of 11,403 sheets compared to 2017. The packaging materials used by the Group are primarily cardboard, paper and plastic, which totaled 3,537.5 tonnes in 2018 (2017: 2,184 tonnes) and represented an increase of 1,353.5 tonnes as compared to 2017. The intensity of the Group's packaging material of the Year (calculated per employee) was 0.85 tonnes per person.

	2017	**2018**	Year-on-year increase (%)	Intensity of the Year (per employee)
Water (tonnes)	219,762	**256,554.7**	16.74	61.36
Electricity (kWh)	16,129,936	**8,894,087**	–44.86 *(note 1)*	2,127.26
Office paper (sheet)	1,237,000	**1,745,597**	41.12	417.51

Note 1: The electricity consumption of the Group in 2018 registered a year-on-year decline of 44.86% as compared to 2017.

1.2 *Emissions*

The Group is governed by, and has complied with, the Law on Environmental Protection of the People's Republic of China (中華人民共和國環境保護法), the Environmental Impact Assessment Law of the People's Republic of China (中華人民共和國環境影響評價法), and the Law on Prevention and Control of Environmental Noise Pollution of the People's Republic of China (中華人民共和國環境噪聲污染防治法). A set of relevant guidelines has been prepared by the headquarters of the Group with reference to relevant regulations and national standards, to procure members of the Group to observe such rules and requirements in their daily operations. During the Year, the Group was not subject to any fines or related litigations arising out of any alleged environmental pollution.

The greenhouse gas emissions of the Group are on one hand generated from the electricity consumed by the Group's office, the two factories of manufacturing business, operation of retail stores and automotive dealership stores, and on the other hand generated from the vehicle fuel consumption, paper waste and wastewater of the Group. To reduce carbon emissions, other than taking electricity-saving measures, the Group also actively promotes green energy and adopts photovoltaic systems in production plants. In addition, the Group highly advocates green practices among the staff, promotes paper reuse and continuously reuses the wastewater after treatment, which has resulted in effective reduction of carbon dioxide emission. The Group's emission of carbon dioxide was 11,291 tonnes in 2018, representing a decrease of 4.295 tonnes as compared to 2017. The intensity of carbon dioxide emission of the Year (calculated per employee) was 2.7 tonnes per person.

The air emissions of the Group (including nitrogen oxides, sulfur oxides and particulate matters) are mainly derived from the use of vehicles. In order to reduce emissions, the Group regularly repairs and cleans vehicles, uses high-quality gasoline, and encourages employees to use public transportation. The air emissions of the Group in 2018 increased as compared with that of 2017 due to the Automotive Dealership Business Acquisition. The Group's air emissions data in 2018 are as follows:

	2017	**2018**	Year-on-year increase (%)	Intensity of the Year (per employee)
Nitrogen oxides (tonnes)	0.213	**0.251**	17.84	0.00006
Sulfur dioxide (tonnes)	0.002	**0.006**	200	0.000001
Particulate matters (tonnes)	0.016	**0.019**	18.75	0.000005

Among various wastes generated from the operation of the Group, hazardous wastes mainly include office trash (including used toner cartridges and ink cartridges) produced in the office of each of the subsidiaries, and the waste oil generated from vehicle maintenance business; non-hazardous wastes mainly include waste tires, waste batteries and wastewater generated from the operation of retail service business. The Group conducts waste separation for hazardous waste and non-hazardous waste. For wastes that can be recycled and reprocessed, they would be recycled and sold to relevant suppliers to save energy. As for other wastes, the Group would deliver them to qualified third parties for legal treatment so as to reduce the environmental impact. The Group laid emphasis on wastewater emission management and adopted measures such as recycle and reuse to reduce wastewater emission. The Group's hazardous wastes and non-hazardous wastes in 2018 increased compared to 2017 due to the Automotive Dealership Business Acquisition. The table below sets forth the volume of various wastes generated by the Group in 2018 and 2017 respectively.

Hazardous wastes:

	2017	**2018**	Year-on-year increase (%)	Intensity of the Year (per employee)
Used toner cartridges (tonnes)	0.24	**0.41**	70.83	0.0001
Used ink cartridges (tonnes)	0.30	**1.35**	350	0.0003
Waste oil (tonnes)	62	**59**	–4.84	0.01

Non-hazardous wastes:

	2017	**2018**	Year-on-year increase (%)	Intensity of the Year (per employee)
Waste tires (tonnes)	207	**227**	9.66	0.05
Waste batteries (tonnes)	38	**43**	13.16	0.01
Wastewater (tonnes)	175,809.6	**205,243.76**	16.74	49.09

1.3 The Environment and Natural Resources

The material effect of the Group on the environment and natural resources during the course of production is mainly caused by water and electricity consumption as well as carbon emission. To minimize its impact on the environment and natural resources, the Group not only strictly complies with environmental laws and regulations, but also implements clean operation by sustaining technology innovation, improving resource efficiency continuously and reducing the emissions of wastes.

2. Social Responsibility

2.1 Employment and Labor Practices

The Group believes that one of the key aspects of its success lies in its good relationship with the employees. With the aim of ensuring employee satisfaction, the Group provides competitive employee benefits and comprehensive training programs to encourage employees to tap into their potential and put their abilities to good use.

The practices and policies adopted within the Group relate to: (i) recruitment and promotion; (ii) working hours; (iii) rest periods; (iv) equal opportunity; (v) diversity; (vi) antidiscrimination; (vii) welfare and other benefits; and (viii) compensation and dismissal are in compliance with the Labor law of the People's Republic of China (中華人民共和國勞動法), the Labor Contract Law of the People's Republic of China (中華人民共和國勞動合同法) and other relevant laws and regulations. Through these practices and policies, the Group aims to treat each staff member equally and ensure that no staff, including potential candidates of the Group, will be discriminated due to their social identities such as ethnicity, race, nationality, gender, religion, age, sexual orientation and marital status.

Each member of the Group has adopted an employee handbook, which contains the information regarding employment management, rights on termination, business conduct, social security funds, compensation, employee benefits, leave benefits, working hours/overtime and performance management and other policies on employee benefits. The Group provides employees with competitive remuneration packages. Other than statutory benefits, the Group has also set up the "Share Option Scheme" to provide the Directors and employees with incentives and rewards for their contributions to the success of the Group.

To raise employees' sense of belonging and happiness, the Group also organizes a variety of recreational and sports activities to enrich employees' work and life and improve the experience of employees at work.

2.2 *Health & Safety*

To protect employees' occupational health and safety, the Group works hard to provide a safe, healthy and comfortable working environment and complies with the Labor Law of the People's Republic of China (中華人民共和國勞動法), the Regulations on Work-Related Injury Insurance (工傷保險條例) and other applicable regulations. Employees are required to strictly abide by all safety rules and regulations, and utilize the available and applicable protection measures at all times to avoid accidents and protect themselves and coworkers from safety risks. For newly recruited employees, relevant training will be arranged to ensure that such employees fully understand the rules of the employee handbook, including those concerning work-related risks and corresponding protective measures. As for the Group's factories, retail service business and automotive dealership and service business, the supervisors of the new employees are responsible for closely monitoring their activities in production plants and stores to protect the health and safety of such new employees. Adequate safety equipment is also provided to the employees by the Group.

We organize fire safety seminars annually to ensure that employees understand and are familiar with fire safety and fire rescue knowledge. Fire drills are arranged when necessary and appropriate.

All employees of the Group are covered by work-related injury insurance, which would provide our employees who suffer work-related injuries with certain compensation as provided by relevant laws and regulations.

2.3 *Development & Trainings*

To encourage employee development, the Group provides human resource trainings, including customized training courses, to help employees develop managerial knowledge and other professional skills that help advance their careers.

New employees are provided with on-board trainings to help them familiarize themselves with the culture, business and operations of their respective subsidiaries of the Group. In addition, to enhance the occupational techniques of its employees, the Group also organizes different business trainings on a regular basis. Below are the photos of the training activities organized by different subsidiaries of the Group.

The Group has developed a scientific performance evaluation management system to ensure that the criteria of performance evaluation are open and the processes and results of evaluation are just and fair. Individual performance results are linked with the employee's income and opportunities for promotion within the Group. For outstanding employees who have certain management potential and match corporate cultural standards, the retail service business of the Group carries out plans to cultivate such employees to be store managers. As of the end of 2018, the retail service business of the Group had provided a number of trainings on the management ability of store managers.

2.4 *Labor Standard*

The Group strictly prohibits child labor and forced labor and has complied with the Labor Contract law of the People's Republic of China (中華人民共和國勞動合同法). We audit and verify staff identity during the recruitment process to ensure that no child labor is employed. The Group also strictly complies with the 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 and are entitled to overtime pay in accordance with local regulations.

2.5 *Supply Chain Management*

In the selection of our suppliers, the Group has certain criteria in place to examine supplier qualifications, including review of the qualifications of the enterprise's legal person, qualification level, registered capital, ISO quality certification, ISO environmental certification, ISO occupational health and safety certification, production safety and financial conditions. We also conduct on-site inspection on the suppliers' production plants and review the authenticity of the information provided by our suppliers.

The Group is also committed to ensuring that its suppliers are socially responsible. Suppliers are urged to take measures to mitigate environmental and social risks. The Group closely monitors the performance of its suppliers and conduct assessment on a regular basis.

2.6 *Product Responsibility*

The Group complies with various PRC regulations relating to its business operations in such aspects as health and safety, advertising, labeling and privacy matters relating to its products and services, including the Product Quality Law of the People's Republic of China (中華人民共和國產品質量法), the Trademark Law of the People's Republic of China (中華人民共和國商標法) and the Advertising Law of the People's Republic of China (中華人民共和國廣告法).

The Group recognizes the importance of guaranteeing the safety of its products and services. The manufacturing business of the Group adopts strict quality control systems throughout its design and production of auto accessories, and has purchased product liability insurance for its products in accordance with applicable laws and regulations and the requirements of our customers. The service business of the Group carefully inspects the qualifications of its suppliers to ensure the quality of the products provided by those suppliers.

The Group's customer information is centrally managed through a customer relationship management system. All employees of the Group, particularly those engaged in the Group's service business, are required to keep the information of our customers strictly confidential. Any unauthorized use of the customer information is strictly prohibited.

During the Year, the Group was not aware of any violation of the laws and regulations on products and services (including product and service quality, advertising, labeling, customer privacy, and consumer rights and interests) which had a material impact on the Group.

2.7 Anti-corruption

The Group maintains a high level of business integrity throughout its operations, has zero tolerance over corruption or bribery in any form, and strictly complies with the Criminal Law of the People's Republic of China (中華人民共和國刑法), the Anti-Unfair Competition Law of the People's Republic of China (中華人民共和國反不正當競爭法) and other laws and regulations relating to anti-corruption, bribery, extortion, fraudulent behavior and money laundering.

The Group has also established a code of conduct to combat and prevent the occurrence of bribery, corruption, extortion and other illegal activities within the Group. A whistle-blowing policy is included in the code of conduct to encourage employees, suppliers and customers of the Group to report any such alleged illegal activities within the Group.

2.8 Community Investment

The Group has been committed to its social responsibility and community communication, and has undertaken related community activities according to the needs of the community. With social responsibility in mind, the Group has been ramping up its efforts in charity work. The Group strives to promote social development and progress by contributing to education, charity and other areas.

Beijing Aiyihang, a subsidiary of the Company, has integrated the Group's resources to promote the products from the mountainous areas of Guizhou Province, by launching a consumption-driven poverty relief campaign named "Supporting Poverty Alleviation, Aiyixing in Action" in November 2018.

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

Group Reorganisation, Subsidiaries and Basis of Presentation

The Company was incorporated in the Cayman Islands on 15 May 2002 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to the group reorganisation as detailed in section 4 headed "Corporate Reorganisation" in Appendix VI to the prospectus dated 17 February 2005 of the Company, in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, the Company became the holding company of other companies comprising the Group on 13 February 2005.

Principal Activities

The Group focuses on the construction of automotive chain service network in China (the Group's service business), the innovative production of environmentally friendly automotive lighting and automotive electronic power products (the Group's manufacturing business) as well as sales of automobile, provision of after sales services and distribution of automobile insurance and financial products (the automotive dealership and services business of the Group), with an aim to providing automobile consumers with products and services with premium performance-price ratio.

Details of the principal activities of the subsidiaries of the Company are set out in note 20 to the Financial Statements.

Business Review

Discussions and reviews of the Group's business are contained in the Management Discussion and Analysis of this annual report. These discussions and reviews form part of this Report of the Directors.

Dividend Policy

The objective of the Company's dividend policy is to share the Company's profits with its shareholders whilst retaining adequate reserves for the Group's future growth. The Directors shall submit a resolution at the general meeting on whether to distribute a dividend based on various factors, including but not limited to the profit, liquidity, working capital, capital expenditure and future plans of the Group. The Group shall also comply with the related requirements of the Companies Law of the Cayman Islands, the Articles and any applicable laws and regulations.

Results and Dividends

The consolidated results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 60 of this annual report. An analysis of turnover and segmental results for the Year by geographical and business segments is set out in note 6 to the Financial Statements.

The Directors do not recommend the payment of a final dividend for the Year (2017: Nil).

Property, Plant and Equipment

Details of the movements of property, plant and equipment of the Group during the Year are set out in note 15 to the Financial Statements.

Investment Properties

Details of the movements of investment properties of the Group during the Year are set out in note 17 to the Financial Statements.

Issuance of CCBC Convertible Notes

On 21 August 2017, the Company entered into a convertible note purchase agreement with High Inspiring Limited (the "**Investor**", an indirect wholly-owned subsidiary of China Construction Bank Corporation), pursuant to which the Company conditionally agreed to issue and the Investor conditionally agreed to purchase the convertible notes in the principal amount of US$35,000,000 due in 2019 (the "**CCBC Convertible Notes**"). Assuming full conversion of the CCBC Convertible Notes at the initial conversion price of HK$0.306085 per ordinary share of the Company with a par value of HK$0.10 each (the "**Share(s)**"), the CCBC Convertible Notes would be convertible into approximately 886,191,744 Shares (the "**Conversion Shares**"). The closing price of the Shares on Stock Exchange on 21 August 2017 was HK$0.233 per Share. The aggregate nominal value of the Conversion Shares is HK$88,619,174.4. The net proceeds from the issue of CCBC Convertible Notes, after deducting all related fees and expenses, were approximately US$34,916,000 and the net price per Conversion Shares was approximately US$0.039. The issue of CCBC Convertible Notes was completed on 1 September 2017.

The Directors are of the view that the issue of CCBC Convertible Notes represented a good opportunity for the Company to raise funds to strengthen its capital base and financial position and to finance the Group's future development and expansion.

The Company used the proceeds from the issue of the CCBC Convertible Notes for the expansion of the Group's retail distribution of automotive parts and accessories and the Group's wholesale business, as well as the full redemption of the convertible bonds with an aggregate principal amount of US$25,000,000 due in 2017 issued by the Company to Haitong International Financial Products Limited on 13 July 2015. The actual use of proceeds was consistent with the intended use of proceeds as stated in the announcement of the Company dated 21 August 2017.

Issuance of CCBC Convertible Notes (Continued)

CDH Fast Two Limited ("**CDH**"), being the controlling shareholder of the Company, entered into a deed of share charge with the Investor on 1 September 2017 (the "**Share Charge**"), pursuant to which CDH charged 2,889,580,226 Shares held by it in favour of the Investor to secure, among other things, the due and punctual payment and discharge of all present and future liabilities of the Company and CDH under the relevant transaction documents including the terms and conditions as attached to the CCBC Convertible Notes certificate (the "**Terms and Conditions**"). The Terms and Conditions imposed specific performance obligations on CDH and breach of such obligations will cause an event of default as defined therein (the "**Event of Default(s)**"). The charges created pursuant to the Share Charge shall become immediately enforceable if an Event of Default has occurred. Pursuant to the Terms and Conditions, an Event of Default occurs if, among other things, the number of Shares legally and beneficially owned by CDH is less than 51% of the total issued and outstanding Shares on a fully-diluted basis at any time.

Further details of the issuance of the CCBC Convertible Notes and the transactions contemplated thereunder are set out in the announcements of the Company dated 21 August 2017 and 8 September 2017.

Pursuant to a partial conversion of the CCBC Convertible Notes in an aggregate principal amount of US$10,000,000 at the conversion price of HK$0.306085 per Share, the Company allotted and issued a total of 253,197,640 Shares to the Investor. In accordance with the relevant terms and conditions of the CCBC Convertible Notes, the conversion price under CCBC Convertible Notes has adjusted from HK$0.306085 per Share to HK$0.280511 per Share upon the completion of the Subscription on 19 June 2018. Upon the receipt of the conversion notice dated 31 August 2018 from the Investor, for conversion of part of the CCBC Convertible Notes in the principal amount of US$800,000, the Company allotted and issued 22,102,520 conversion Shares to the Investor at the conversion price of HK$0.280511 per conversion Share on 04 September 2018. Following the partial conversion of the CCBC Convertible Notes, subject to the amendments pursuant to the deed of waiver and amendments dated 25 April 2018 (the "**Amendments**") entered into between the Company, the Investor and CDH Fast Two Limited (further details of which are set out in the announcement of the Company dated 25 April 2018), 454,601,375 Shares may be issued to the Investor upon full conversion of the remaining CCBC Convertible Notes.

Issuance of New Shares

In accordance with the subscription agreement dated 21 December 2017 (as amended and supplemented by the supplementary agreement dated 25 April 2018, the"**Subscription Agreement**") entered into with Fame Mountain Limited (the "**Subscriber**"), the Company allotted and issued 1,904,761,905 new ordinary shares of par value HK$0.10 each in the share capital of the Company (the"**Subscription Shares**" and each a "**Subscription Share**") to the Subscriber at the subscription price of HK$0.42 per Subscription Share (the "**Subscription**"). The aggregate nominal value of the Subscription Shares was HK$190,476,190.5. The Subscription was completed on 19 June 2018. The net proceeds from the Subscription, after deducting all related fees and expenses of approximately RMB26,293,000, was approximately RMB629,533,000. The net price of each Subscription Share, after deducting all such related fees and expenses, was approximately HK$0.41. The closing price of the shares of the Company was HK$0.68 on the date of the Subscription Agreement.

Issuance of New Shares (Continued)

The Company used approximately RMB391,006,000 of the net proceeds from the Subscription for the settlement of the consideration under the acquisition of certain automotive dealership stores under Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.* (內蒙古利豐鼎盛汽車有限公司) (the "**Automotive Dealership Business Acquisition**") and approximately RMB238,527,000 was used as the general working capital of the Group. As stated in the section headed "Material Acquisition and Disposal of Subsidiaries" in the Management Discussion and Analysis of this annual report, as the acquisition consideration under the Acquisition was reduced from the RMB660,000,000 to RMB635,219,328, the actual use of proceeds from the Subscription for the payment of the consideration of Automotive Dealership Business Acquisition and the general working capital of the Group, respectively, were slightly different from the amount stated in the circular of the Company dated 28 May 2018.

The Directors are of the view that the Subscription represents a good opportunity for the Company to raise funds to strengthen its capital base and financial position and to finance the development and expansion of the Group, including the Automotive Dealership Business Acquisition.

Further details of the Subscription are set out in the announcements of the Company dated 21 December 2017, 25 April 2018 and 19 June 2018, and the circular of the Company dated 28 May 2018.

Share Capital

Details of the issued share capital of the Company and its movements during the Year along with the relevant reasons are set out in note 28 to the Financial Statements.

Reserves

Movements of reserves of the Group and the Company are set out in the consolidated statement of changes in equity and note 29 to the Financial Statements.

Distributable Reserves

Under the Companies Law of the Cayman Islands, share premium amounting to approximately RMB1,482,219,000 is distributable to shareholders, provided that immediately following the date on which the distribution or dividend is proposed to be made, the Company is able to settle its debts as they fall due in the ordinary course of business.

As at 31 December 2018, the reserve available for distribution to shareholders of the Company (the "**Shareholders**") was nil.

Closure of Register of Members

The register of members will be closed from 25 June 2019 to 28 June 2019 (both days inclusive), during which period no transfer of shares will be registered. In order to be entitled to attend the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 24 June 2019.

* *For identification purposes only*

Directors

The Directors who held office during the Year and up to the date of this annual report were:

Executive Director

Du Jinglei

Non-executive Directors

Ying Wei
(resigned as a non-executive Director, a member of the Audit Committee and a member of the Remuneration Committee of the Company with effect from 29 March 2018)
Wang Zhenyu
Zhang Jianxing
Li Ngai *(resigned as a non-executive Director with effect from 27 July 2018)*

Independent Non-executive Directors

Hu Yuming
Lin Lei
Zhang Xiaoya

Biographical details of the Directors are set out in the section headed "Profiles of the Directors and Senior Management" in this annual report.

The Company has received from each of its independent non-executive Directors an annual confirmation or confirmation of his independence. The Company considers that all of its independent non-executive Directors are independent.

Directors' Service Contracts

Each of Mr. Du Jinglei, Mr. Wang Zhenyu, has entered into a service agreement with the Company for a term of three years commencing from 28 August 2016, and Mr. Zhang Jianxing has entered into a service agreement with the Company for a term of three years commencing from 15 September 2017, subject to retirement by rotation in accordance with the Articles.

Pursuant to the respective letters of appointment of two independent non-executive Directors, namely, Mr. Hu Yuming and Mr. Lin Lei, each of them was appointed for a term of three years commencing from 28 August 2016, subject to retirement by rotation in accordance with the Articles.

Mr. Zhang Xiaoya, an independent non-executive Director, has entered into a letter of appointment with the Company for a term of three years commencing from 20 March 2018, subject to retirement by rotation in accordance with the Articles.

Save as disclosed above, none of the Directors had entered into service contracts with the Company which are not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Changes in Information of Directors

Pursuant to Rule 13.51(B)(1) of the Listing Rules, the changes in information of Directors subsequent to the date of the 2017 Annual Report are set out below:

Name of Director	Details of Changes
Mr. Du Jinglei	– Resigned as the general manager of Dr. Peng Telecom and Media Group Co., Ltd. (鵬博士電信傳媒集團股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600804) with effect from 22 August 2018. – Appointed as a director of Dr. Peng Telecom and Media Group Co., Ltd. (鵬博士電信傳媒集團股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600804) with effect from 22 August 2018.
Mr. Wang Zhenyu	– Zhong Ding United Dairy Farming Co., Ltd (中鼎聯合牧業股份有限公司) with which Mr. Wang Zhenyu is a director terminated its listing on NEEQ on 19 April 2018.
Mr. Li Ngai	– Resigned as a non-executive Director with effect from 27 July 2018.
Mr. Lin Lei	– Resigned as an independent non-executive director of CAR Inc. (神州租車有限公司) (Stock Code: 699), with effect from 27 February 2018 – Appointed as an independent director of BAIC BluePark New Energy Technology Co., Ltd. (北汽藍谷新能源科技股份有限公司) (a company listed on the Shanghai Stock Exchange, Stock Code: 600733), with effect from 08 November 2018.
Mr. Hu Yuming	– Appointed as an independent director of Shenzhen Tellus Holding Co., Ltd. (深圳市特力(集團)股份有限公司) (a company listed on SZSE, Short form of the stock and Stock Code: Tellus A, 000025; Tellus B, 200025), with effect from 07 September 2018.
Mr. Zhang Xiaoya	– Zhong Ding United Dairy Farming Co., Ltd (中鼎聯合牧業股份有限公司) with which Mr. Zhang Xiaoya is the chairman terminated its listing on NEEQ on 19 April 2018.

Directors' Interests in Contracts

Save as disclosed in the section headed "Connected Transactions" in this report, there was not any transaction, arrangement or contract of significance subsisting during or at the end of the Year in which any Director or an entity connected with the Director is or was materially interested, either directly or indirectly.

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 subsisted during the Year.

Share Option Scheme

The Company terminated the old share option scheme and adopted a new share option scheme (the "**Scheme**") pursuant to a shareholders' resolution passed on 25 June 2014 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. Eligible participants of the Scheme include the Directors, employees, suppliers, customers and business or strategic alliance partners of the Group. The Scheme became effective on 25 June 2014 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. A summary of the principal terms of the Scheme was included in the circular dated 30 April 2014 despatched to the Shareholders.

The maximum number of shares which may be issued upon exercise of all share options granted and to be granted under the Scheme is 376,116,501 shares, representing 10% and 5.56% of the shares of the Company in issue as at the date of adoption of the Scheme and as at the date of this annual report respectively, unless approval for refreshing the 10% limit from the Company's shareholders has been obtained. The maximum number of shares issued and may be issued under share options granted to each eligible participant in the Scheme (including both exercised and outstanding share options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The grant of share options to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to prior approval 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 associates, in the 12-month period up to and including the date of the grant of share options in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, are subject to shareholders' prior approval in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a nominal consideration of HK$10 in total by the grantee. The exercise period of the share options granted is determined by the Board, save that such a period shall not be more than 10 years from the date of grant of the share options subject to the provisions for early termination as set out in the Scheme. Unless otherwise determined by the Directors at their sole discretion, there is no requirement of a minimum holding period or a performance target which must be achieved before a share option can be exercised.

The exercise price of the share options shall be the highest of (i) the nominal value of a share of the Company on the date of grant; (ii) the closing price of the Company's shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant of the share options; and (iii) the average Stock Exchange closing price of the Company's shares for the five business days immediately preceding the date of grant.

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

Share Option Scheme *(Continued)*

As at 31 December 2018, options had been granted by the Company under the Scheme which, if exercised in full, would entitle the grantees to subscribe for 88,659,720 shares. The total number of shares available for issue under the Scheme (excluding share options already granted) is 274,555,590 shares, representing approximately 4.06% of the total issued share capital of the Company as at that date.

As at 31 December 2018, details of share options granted under the Scheme are as follows:

Name of option holder	Date of grant	Exercise period	Exercise price (per share)	Closing price of share on date of grant (per share)	Number of underlying shares subject to options outstanding as at 1 January 2018	Number of underlying shares subject to options granted since 1 January 2018	Number of options exercised/ lapsed/ cancelled since 1 January 2018	Number of underlying shares subject to options outstanding as at 31 December 2018
Mr. Lin Ming *(Note 1)*	14 October 2014	15 October 2014 to 14 October 2019	HK$0. 50	HK$0. 50	16,666,668	–	–	16,666,668
Ms. Hung Ying-Lien *(Note 2)*	14 October 2014	15 October 2014 to 14 October 2019	HK$0.50	HK$0.50	11,959,435	–	–	11,959,435
Continuous contractual employees (in aggregate)	14 October 2014	15 October 2014 to 14 October 2019	HK$0. 50	HK$0. 50	64,084,620	–	4,051,003	60,033,617
Total					92,710,723		4,051,003 *(Note 3)*	88,659,720

Note 1: Mr. Lin Ming was appointed as chief executive officer of the Company with effect from 15 September 2017.

Note 2: Ms. Hung Ying-Lien resigned as an executive Director and the chief financial officer of the Company with effect from 28 August 2013 and was appointed as vice president and chief operating officer of the Company.

Note 3: All 4,051,003 share options lapsed during the period from 1 January 2018 to 31 December 2018.

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2018, the interests and short positions of each of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were required to be recorded in the register maintained by the Company under Section 352 of the SFO, or required 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 in which they are taken or deemed to have under such provisions of the SFO) and the Model Code, were as follows:

Name	Capacity/Nature of interest	Number of shares interested (other than under equity derivatives)	Number of underlying shares in respect of options granted	Total number of shares/ underlying shares under equity derivatives	Percentage of issued shares
Mr. Lin Ming	Beneficial Owner	–	16,666,668(L)	16,666,668(L)	0.25%

Note:

The letter "L" denotes a long position in underlying shares.

Save as disclosed above, as at 31 December 2018, to the best knowledge of the Directors and chief executives of the Company, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be recorded in the register maintained by the Company under Section 352 of the SFO, or required 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 in which they are taken or deemed to have under such provisions of the SFO) and the Model Code.

Substantial Shareholders' Interests and Short Positions in the Shares of the Company

So far as is known to the Directors and chief executives of the Company, as at 31 December 2018, the following persons (other than Directors and chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company, which are required to be notified to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity/ Nature of interest	Number of shares interested (other than under equity derivatives) *(Note 1)*	Number of shares interested under equity derivatives *(Note 1)*	Total number of shares and underlying shares under equity derivatives *(Note 1)*	Percentage of issued shares
CDH Fast Two Limited *(Note 2)*	Beneficial Owner	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
CDH Fast One Limited *(Note 3)*	Interest in a controlled corporation	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
CDH Fund IV, L.P. *(Note 3)*	Interest in a controlled corporation	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
CDV IV Holdings Company Limited *(Note 3)*	Interest in a controlled corporation	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
China Diamond Holdings IV, L.P. *(Note 3)*	Interest in a controlled corporation	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
China Diamond Holdings Company Limited *(Note 3)*	Interest in a controlled corporation	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
High Inspiring Limited	Person having a security interest in shares *(Note 4)*	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
	Beneficial Owner *(Note 5)*	266,900,160 (L)	454,601,375 (L)	721,501,535 (L)	10.66%

Substantial Shareholders' Interests and Short Positions in the Shares of the Company (Continued)

Name	Capacity/ Nature of interest	Number of shares interested (other than under equity derivatives) *(Note 1)*	Number of shares interested under equity derivatives *(Note 1)*	Total number of shares and underlying shares under equity derivatives *(Note 1)*	Percentage of issued shares
CCBI Investments Limited *(Note 6)*	Person having a security interest in shares	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
	Interest in a controlled corporation	266,900,160 (L)	454,601,375 (L)	721,501,535 (L)	10.66%
CCB International (Holdings) Limited *(Note 6)*	Person having a security interest in shares	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
	Interest in a controlled corporation	266,900,160 (L)	454,601,375 (L)	721,501,535 (L)	10.66%
CCB Financial Holdings Limited *(Note 6)*	Person having a security interest in shares	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
	Interest in a controlled corporation	266,900,160 (L)	454,601,375 (L)	721,501,535 (L)	10.66%
CCB International Group Holdings Limited *(Note 6)*	Person having a security interest in shares	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
	Interest in a controlled corporation	266,900,160 (L)	454,601,375 (L)	721,501,535 (L)	10.66%
China Construction Bank Corporation *(Note 6)*	Person having a security interest in shares	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
	Interest in a controlled corporation	266,900,160 (L)	454,601,375 (L)	721,501,535 (L)	10.66%

Substantial Shareholders' Interests and Short Positions in the Shares of the Company *(Continued)*

Name	Capacity/ Nature of interest	Number of shares interested (other than under equity derivatives) *(Note 1)*	Number of shares interested under equity derivatives *(Note 1)*	Total number of shares and underlying shares under equity derivatives *(Note 1)*	Percentage of issued shares
Central Huijin Investment Ltd. *(Note 6)*	Person having a security interest in shares	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
	Interest in a controlled corporation	266,900,160 (L)	454,601,375 (L)	721,501,535 (L)	10.66%
Fame Mountain Limited *(Note7)*	Beneficial owner	1,904,761,905 (L)	–	1,904,761,905 (L)	28.15%
Mo Keung *(Note 8)*	Interest in a controlled corporation	1,904,761,905 (L)	–	1,904,761,905 (L)	28.15%

Notes:

1. The letter "L" denotes a long position in the shares.

2. CDH Fast Two Limited entered into an investment agreement (the "**Investment Agreement**") with the Company on 25 June 2013 pursuant to which CDH Fast Two Limited agreed to subscribe for 1,262,564,333 new shares and convertible bonds (the "**Convertible Bonds**") in principal amount of US$48,685,000 issued by the Company. Transactions contemplated under the Investment Agreement were completed on 28 August 2013. On 12 June 2014, pursuant to a partial conversion of the Convertible Bonds in the principal amount of US$24,342,500, the Company allotted and issued a total of 813,507,946 shares to CDH Fast Two Limited at the conversion price of HK$0.2328 per Share. On 28 December 2015, pursuant to the full conversion of the remaining Convertible Bonds, the Company allotted and issued 813,507,947 shares at the conversion price of HK$0.2328 per share to CDH Fast Two Limited.

3. Each of CDH Fast One Limited (as the sole shareholder of CDH Fast Two Limited); CDH Fund IV, L.P. (as the sole shareholder of CDH Fast One Limited); CDH IV Holdings Company Limited (as the general partner of CDH Fund IV, L.P.); China Diamond Holdings IV, L.P. (as the controlling shareholder of CDH IV Holdings Company Limited); and China Diamond Holdings Company Limited (as the general partner of China Diamond Holdings IV, L.P.) is deemed to be indirectly interested in the Company under the SFO.

4. As disclosed in the announcement of the Company dated 21 August 2017, the Company entered into a convertible note purchase agreement (the "**Convertible Note Purchase Agreement**") with High Inspiring Limited, pursuant to which the Company has conditionally agreed to issue and High Inspiring Limited has conditionally agreed to purchase the convertible notes in an aggregate principal amount of US$35,000,000 due in 2019 (the "**CCBC Convertible Notes**"). As a condition of the Convertible Note Purchase Agreement, CDH Fast Two Limited entered into a share charge with High Inspiring Limited pursuant to which CDH Fast Two Limited, being the controlling shareholder of the Company, charged 2,889,580,226 shares held by it to High Inspiring Limited.

Substantial Shareholders' Interests and Short Positions in the Shares of the Company *(Continued)*

Notes: (Continued)

According to the terms of the CCBC Convertible Notes, unless waived by High Inspiring Limited, the Company may be required to redeem the whole or part of the outstanding principal amount of the CCBC Convertible Notes at the redemption amount as stated in the CCBC Convertible Notes in the event that CDH Fast Two Limited fails to maintain the power to control the composition of, or to appoint or remove, a majority of the directors of the Company or to remain the largest shareholder of the Company during the term of the CCBC Convertible Notes which will mature on 1 September 2019. As at 31 December 2018, the outstanding principal amount of the CCBC Convertible Notes was US$24,200,000.

5. Pursuant to the Convertible Note Purchase Agreement, the CCBC Convertible Notes are convertible at the initial conversion price of HK$0.306085 per share (subject to adjustment) and will be convertible into approximately 886,191,744 shares upon its full conversion. Pursuant to the partial conversion of the CCBC Convertible Notes in an aggregate principal amount of US$10,000,000 at the conversion price of HK$0.306085 per share, the Company allotted and issued a total of 253,197,640 shares, of which 8,400,000 shares were subsequently disposed of by High Inspiring Limited.

   The Company, High Inspiring Limited and CDH Fast Two Limited entered into the Amendments to amend the terms and conditions in relation to the CCBC Convertible Notes.

   Upon completion of the Subscription as stated on note 7, the conversion price under the CCBC Convertible Notes has been adjusted from HK$0.306085 per share to HK$0.280511 per share.

   Upon the receipt of the conversion notice dated 31 August 2018 from the Investor, for conversion of part of the CCBC Convertible Notes in the principal amount of US$800,000, the Company allotted and issued 22,102,520 conversion Shares to the Investor at the conversion price of HK$0.280511 per conversion Share on 04 September 2018.

   Assuming that the remaining amount of the CCBC Convertible Notes will be fully converted at the adjusted conversion price of HK$0.280511 per share, subject to the Amendments, an additional 454,601,375 shares will be issued to High Inspiring Limited.

6. Each of CCBI Investments Limited (as the sole shareholder of High Inspiring Limited); CCB International (Holdings) Limited (as the sole shareholder of CCBI Investments Limited); CCB Financial Holdings Limited (as the sole shareholder of CCB International (Holdings) Limited; CCB International Group Holdings Limited (as the sole shareholder of CCB Financial Holdings Limited); China Construction Bank Corporation (as the sole shareholder of CCB International Group Holdings Limited); and Central Huijin Investment Ltd (as the controlling shareholder of China Construction bank Corporation) is deemed to be indirectly interested in the Company under the SFO.

7. Fame Mountain Limited entered into the Subscription Agreement with the Company, pursuant to which the Company conditionally agreed to allot and issue, and Fame Mountain Limited agreed to subscribe for an aggregate of 1,904,761,905 subscription shares at the subscription price of HK$0.42 per subscription share. Completion of the Subscription (the "**Completion**") took place on 19 June 2018. Upon Completion, an aggregate of 1,904,761,905 subscription shares have been duly allotted and issued to Fame Mountain Limited at the subscription price of HK$0.42 per subscription share.

8. Mo Keung (as the sole director and sole shareholder of Fame Mountain Limited) is deemed to be indirectly interested in the Company under the SFO.

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

Arrangements to Purchase Shares or Debentures

Save as disclosed above and under the section headed "Share Option Scheme", at no time during the Year were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, nor were there any such rights exercised by them. Also, there was no arrangement to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries is a party that would enable the Directors to acquire such rights in any other body corporate.

Equity-linked Agreements

Save for the CCBC Convertible Notes disclosed in this Report of the Directors, the Management Discussion and Analysis of this annual report and note 25 to the Financial Statements, and the Scheme as disclosed in section "Share Option Schemes" of this Report of the Directors, no equity-linked agreement was entered into or subsisted during the year ended 31 December 2018.

Pre-emptive Rights

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

Connected Transactions

During the Year, the following connected transactions were carried out by the Company and its subsidiaries pursuant to Chapter 14A of the Listing Rules.

(i) Financial Assistance received by Liaoning XTC from Mr. Li Haidong

In 2018, Mr. Li Haidong ("**Mr. Li**") provided a guarantee to a supplier of Liaoning XTC, a subsidiary of the Company, to secure the debt up to RMB18,013,000 owed to such supplier by Liaoning XTC by using the properties owned by Mr. Li as mortgage ("**Financial Assistance from Mr. Li**"). Mr. Li is a director of and holds approximately 27.63% equity interests in Liaoning XTC. Accordingly, Mr. Li is a connected person of the Company at its subsidiary level. The Financial Assistance from Mr. Li constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Financial Assistance from Mr. Li was conducted on normal commercial terms and it was not secured by the assets of the Group. As such, it is fully exempt from shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.90.

(ii) Financial Assistance Received by Beijing Aiyihang from Mr. Xing Aiyi

In 2018, Mr. Xing Aiyi ("**Mr. Xing**") provided a guarantee to secure the loan of RMB20,000,000 issued by a bank to Beijing Aiyihang, a subsidiary of the Company ("**Financial Assistance from Mr. Xing**"). Mr. Xing is a director of Beijing Aiyihang. In addition, Mr. Xing and his spouse indirectly hold 38.8% equity interests in Beijing Aiyihang. Accordingly, Mr. Xing is a connected person of the Company at its subsidiary level. The financial assistance from Mr. Xing constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Financial Assistance from Mr. Xing was conducted on normal commercial terms and it was not secured by the assets of the Group. As such, the Financial Assistance from Mr. Xing is fully exempt from shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.90.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules for all connected transactions and continuing connected transactions conducted during the Year.

Permitted Indemnity

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

Directors' Interests in Competing Business

As at 31 December 2018 and up to the date of this annual report, none of the Directors are considered to be in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

Sale, Purchase or Redemption of the Company's Listed Securities

During the Year, the Company did not repurchase any ordinary shares of the Company on the Stock Exchange under the general mandate granted at the annual general meeting held on 29 June 2018, and, there were no purchases, sales or redemption of the Company's listed securities by the Company or any of its subsidiaries during the Year.

Major Customers and Suppliers

Sales to our five largest customers were less than 30% of the total revenue for the Year. Purchases from the five largest suppliers were less than 30% of the total purchases for the Year.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

Basis of Determining the Emolument Payable to the Directors

The remuneration of the Directors is determined by the Board which receives recommendations from the Remuneration Committee. In determining the remuneration of the Directors, the Company take into account of each Director's qualifications, experience, duties and responsibilities with the Company, as well as the Company's performance and the prevailing market conditions.

Tax Relief

The Company is not aware of any relief from taxation available to the shareholders of the Company by reason of their holdings in the shares of the Company.

Public Float

As at the date of this annual report, based on public information available to the Company and to the best knowledge of the Directors, the Company maintained sufficient public float, being 25% of the issued share capital of the Company, as required under the Listing Rules.

Auditor

The Financial Statements have been audited by HLB Hodgson Impey Cheng Limited, the auditor of the Company.

HLB Hodgson Impey Cheng Limited was appointed by the Company as its new auditor in place of KPMG at its annual general meeting held on 29 June 2018. For further details about the change of auditor of the Company, please refer to the circular of the Company dated 30 May 2018.

On behalf of the Board
Du Jinglei
Chairman

Hong Kong, 29 March 2019

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F Gloucester Tower
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11 Pedder Street
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Hong Kong

TO THE SHAREHOLDERS OF
NEW FOCUS AUTO TECH HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of New Focus Auto Tech Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 60 to 159, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Boards ("IASB") 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 Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditors' 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 these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. 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.

Key audit matter *(Continued)*

Key audit matter	How the matter was addressed in our audit
Impairment of goodwill, other intangible assets and property, plant and equipment ("PPE")	
Refer to notes 15, 18 and 19 to the consolidated financial statements The Group has goodwill, other intangible assets and PPE of approximately RMB43,919,000, RMB48,578,000 and RMB234,588,000 respectively relating to the manufacture and sale of electronic and power-related automotive parts and accessories; and the provision of automobile repair, maintenance and restyling services and retail distribution of merchandise goods through its service chain stores network in the People's Republic of China as at 31 December 2018. Management performed impairment assessment of goodwill, other intangible assets and PPE and concluded that no impairment is necessary to provide. This conclusion was based on value-in-use model that required significant management judgement with respect to the discount rate and the underlying cashflows, in particular future revenue growth and capital expenditure. Independent external valuation were obtained in order to support management's estimates.	Our procedures in relation to management's impairment assessment included: • Evaluation of the independent valuer's competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the relevant industry, and using our valuation experts; • Challenging the reasonable of key assumptions based on our knowledge of the business and industry; and • Checking, on sampling basis, the accuracy and relevance of the input data used. We found the key assumptions were supported by the available evidence.

Key audit matter *(Continued)*

Key audit matter	How the matter was addressed in our audit
Impairment assessment of trade receivables	
Refer to note 22(a) to the consolidated financial statements As at 31 December 2018, the Group had gross trade receivables of approximately RMB238,805,000 (2017:RMB175,210,000) and allowance for credit losses of approximately RMB17,567,000 (2017: RMB13,578,000). In general, the credit terms granted by the Group to the customers is, in general, 0 to 360 days. Management performed periodic assessment on the recoverability of the trade receivables and the sufficiency of allowance for credit losses based on information including credit profile of different customers, ageing of the trade receivables, expected future receipts from customers based on past payment trend, subsequent settlement status and on-going trading relationships with the relevant customers. Management also considered forward-looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the expected credit losses ("ECL") for the impairment assessment. We focused on this area due to the impairment assessment of trade receivables under the expected credit losses model involved the use of significant management judgements and estimates.	Our procedures in relation to management's ECL assessment on trade receivables included: • Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk, and validating the control effectiveness on a sample basis; • Checking, on a sample basis, the ageing profile of the trade receivables as at 31 December 2018 to the underlying financial records and post year-end settlements to bank receipts; • Inquiring of management for the status of each of the material trade receivables past due as at year end and corroborating explanations from management with supporting evidence, such as performing public search of credit profile of selected customers, understanding ongoing business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the customers; and • Assessing the appropriateness of the ECL provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses. We found that the management judgment and estimates used to assess the recoverability of the trade receivables and determine the impairment provision to be supportable by available evidence.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another independent auditors who expressed an unmodified opinion on those consolidated financial statements on 29 March 2018.

Other Information

The directors are responsible for the other information. The other information comprises all the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon (the "Other Information").

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 and the audit committee for the consolidated financial statements

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditors' responsibility 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 auditors' report that includes our opinion. We report our opinion 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.

Auditors' responsibility for the audit of the consolidated financial statements *(Continued)*

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

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

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

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

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

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

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

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

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

Auditors' responsibility for the audit of the consolidated financial statements *(Continued)*

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 auditors' 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 director on the audit resulting in this independent auditors' report is Shek Lui.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895

Hong Kong, 29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018 *(Expressed in Renminbi)*

	Note	2018 RMB'000	2017 RMB'000
Revenue	6	**1,792,548**	1,267,928
Cost of sales and services		**(1,542,245)**	(1,045,573)
Gross profit		**250,303**	222,355
Other revenue and gains and losses	7	**244,003**	(203,571)
Distribution costs		**(208,701)**	(184,082)
Administrative expenses		**(160,169)**	(152,619)
Impairment loss on goodwill and other intangible assets		**–**	(5,302)
Finance costs	8	**(43,508)**	(47,885)
Share of loss of an associate		**(159)**	(234)
Profit/(loss) before taxation	9	**81,769**	(371,338)
Income tax	11	**(27,964)**	1,368
Profit/(loss) for the year		**53,805**	(369,970)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	14	**20,190**	9,831
Items that will not be reclassified to profit or loss:			
Financial assets at fair value through other comprehensive income: net movement in the fair value reserve	14	**30,933**	–
Other comprehensive income for the year, net of tax		**51,123**	9,831
Total comprehensive income/(loss) for the year		**104,928**	(360,139)
Profit/(Loss) for the year attributable to			
– Equity shareholders of the Company		**107,833**	(315,465)
– Non-controlling interests		**(54,028)**	(54,505)
		53,805	(369,970)
Total comprehensive income/(loss) attributable to			
– Equity shareholders of the Company		**158,956**	(305,634)
– Non-controlling interests		**(54,028)**	(54,505)
		104,928	(360,139)
Earnings/(loss) per share	13		
Basic (RMB cents)		**1.84**	(6.79)
Diluted (RMB cents)		**1.84**	(6.79)

The notes on pages 66 to 159 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 12.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018 *(Expressed in Renminbi)*

	Note	31 December 2018 RMB'000	31 December 2017 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*15*	**234,588**	206,033
Leasehold land and land use rights	*16*	**28,083**	29,152
Investment properties	*17*	**46,481**	46,398
Goodwill	*18*	**43,919**	43,919
Other intangible assets	*19*	**48,578**	49,660
Interest in an associate		**–**	159
Amounts due from related parties	*32(b)*	**24,262**	24,262
Deferred tax assets	*26*	**18,498**	37,627
Financial assets at fair value through other comprehensive income	*27*	**44,232**	–
Other non-current assets		**6,010**	8,636
		494,651	445,846
Current assets			
Inventories	*21*	**516,886**	177,986
Tax recoverable		**2,400**	6
Trade receivables	*22(a)*	**221,238**	161,632
Deposits, prepayments and other receivables	*22(b)*	**517,206**	442,264
Amounts due from related parties	*32(b)*	**678,816**	15,006
Pledged time deposits	*30*	**4,500**	4,500
Cash and cash equivalents	*30*	**134,460**	132,944
		2,075,506	934,338
Current liabilities			
Bank and other borrowings, secured	*23*	**552,309**	157,051
Trade payables	*24(a)*	**316,168**	242,755
Contract liabilities	*24(c)*	**214,320**	–
Accruals and other payables	*24(b)*	**218,444**	428,163
Amount due to related parties	*32(c)*	**66,523**	2,719
Tax payable		**12,439**	4,041
Convertible bonds	*25*	**182,520**	305,260
		1,562,723	1,139,989
Net current assets/(liabilities)		**512,783**	(205,651)
Total assets less current liabilities		**1,007,434**	240,195

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018 *(Expressed in Renminbi)*

	Note	**31 December 2018 RMB'000**	31 December 2017 RMB'000
Non-current liability			
Deferred tax liabilities	*26*	**22,010**	22,268
		22,010	22,268
NET ASSETS		**985,424**	217,927
CAPITAL AND RESERVES			
Share capital	*28*	**556,286**	398,481
Reserves	*29*	**443,162**	(202,060)
Total equity attributable to equity shareholders of the Company		**999,448**	196,421
Non-controlling interests		**(14,024)**	21,506
TOTAL EQUITY		**985,424**	217,927

Approved and authorised for issue by the board of directors on 29 March 2019.

Du jinglei
Director

Wang Zhenyu
Director

The notes on pages 66 to 159 from part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital	Share premium	Statutory reserve fund	Enterprise expansion fund	Convertible bonds reserve	Capital redemption reserve	Exchange reserve	Others	Accumulated losses	Attributable to equity shareholders of the Company	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 28)	*(Note 29(i)(a)*	*(Note 29(i)(b))*	*Note 29(i)(c))*	*(Note 29(i)(f))*	*(Note 29(i)(d))*	*(Note 29(i)(e))*	*(Note 29(i)(g))*				
Balance at 1 January 2018	398,481	1,002,899	56,873	2,756	–	1,545	(28,062)	34,133	(1,272,204)	196,421	21,506	217,927
Impact on initial application of IFRS 9	–	–	–	–	–	–	–	–	(3,863)	(3,863)	(249)	(4,112)
Adjusted balance at 1 January 2018	398,481	1,002,899	56,873	2,756	–	1,545	(28,062)	34,133	(1,276,067)	192,558	21,257	213,815
Profit for the year	–	–	–	–	–	–	–	–	107,833	107,833	(54,028)	53,805
Other comprehensive income	–	–	–	–	–	–	20,190	30,933	–	51,123	–	51,123
Total comprehensive income/(loss) for the year, net of tax	–	–	–	–	–	–	20,190	30,933	107,833	158,956	(54,028)	104,928
Transfer of reserves	–	–	4,877	–	–	–	–	–	(4,877)	–	–	–
Conversion of convertible bonds *(Note 25)*	1,919	5,673	–	–	–	–	–	–	–	7,592	–	7,592
Shares issued under share subscription agreement	155,886	473,647	–	–	–	–	–	–	–	629,533	–	629,533
Capital injection from non-controlling shareholders	–	–	–	–	–	–	–	10,809	–	10,809	1,190	11,999
Forfeited share options *(Note 35)*	–	–	–	–	–	–	–	(647)	647	–	–	–
Acquisition of subsidiary *(Note 41)*	–	–	–	–	–	–	–	–	–	–	18,028	18,028
Disposal of subsidiary	–	–	–	–	–	–	–	–	–	–	(471)	(471)
At 31 December 2018	556,286	1,482,219	61,750	2,756	–	1,545	(7,872)	75,228	(1,172,464)	999,448	(14,024)	985,424
Balance at 1 January 2017	376,184	876,899	55,151	2,756	1,619	1,545	(37,893)	36,011	(957,985)	354,287	74,880	429,167
Loss for the year	–	–	–	–	–	–	–	–	(315,465)	(315,465)	(54,505)	(369,970)
Other comprehensive income	–	–	–	–	–	–	9,831	–	–	9,831	–	9,831
Total comprehensive income for the year, net of tax	–	–	–	–	–	–	9,831	–	(315,465)	(305,634)	(54,505)	(360,139)
Transfer of reserves	–	–	1,722	–	–	–	–	–	(1,722)	–	–	–
Conversion of convertible bonds *(Note 25)*	21,365	121,029	–	–	–	–	–	–	–	142,394	–	142,394
Capital injection from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	1,200	1,200
Redemption of convertible bonds *(Note 25)*	–	–	–	–	(1,619)	–	–	–	1,619	–	–	–
Dividends declared to non-controlling owners of subsidiaries	–	–	–	–	–	–	–	–	–	–	(69)	(69)
Recognition of equity-settled share-based payments *(Note 35)*	–	–	–	–	–	–	–	716	–	716	–	716
Forfeited share options *(Note 35)*	–	–	–	–	–	–	–	(1,349)	1,349	–	–	–
Shares issued under share option scheme *(Note 35)*	932	4,971	–	–	–	–	–	(1,245)	–	4,658	–	4,658
At 31 December 2017	398,481	1,002,899	56,873	2,756	–	1,545	(28,062)	34,133	(1,272,204)	196,421	21,506	217,927

The notes on pages 66 to 159 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Operating activities:			
Profit/(loss) before taxation		**81,769**	(371,338)
Adjustments for:			
– Write-down of inventories	*9*	**439**	2,765
– Recoverable of inventory impairment		**(1,558)**	–
– Depreciation and amortisation	*9*	**45,939**	39,917
– Allowance for doubtful debts	*9*	**1,414**	7,143
– Allowance for credit losses	*9*	**7,814**	–
– Impairment of other intangible assets and goodwill	*18*	**–**	5,302
– Equity-settled share-based payments	*9*	**–**	716
– Interest income	*7*	**(62,140)**	(4,529)
– Interest expenses	*8*	**43,508**	47,885
– Loss on disposal of property, plant and equipment	*7*	**1,703**	722
– Fair value change on investment properties	*17*	**(83)**	(2,534)
– Gain on disposal of subsidiaries and an associate	*7*	**(178)**	–
– Gain on bargain purchase	*7*	**(13,837)**	–
– Fair value change of conversion option	*25*	**(152,588)**	208,031
– Share of loss of an associate		**–**	234
Operating cash flows before working capital changes		**(47,798)**	(65,686)
Decrease/(increase) in inventories		**23,995**	(2,962)
Decrease/(increase) in trade receivables		**34,671**	(6,988)
Decrease in deposits, prepayments and other receivables		**125,047**	179
Decrease in amounts due from related parties		**–**	14,016
Increase in trade payables		**25,198**	57,044
(Decrease)/increase in accruals and other payables		**(214,238)**	33,238
(Decrease)/increase in amounts due to related parties		**(45,423)**	2,719
Decrease in deferred tax assets		**23,009**	–
Cash (used in)/generated from operations		**(75,539)**	31,560
Income tax paid		**(23,712)**	(4,829)
Net cash (used in)/generated from operating activities		**(99,251)**	26,731

	Note	2018 RMB'000	2017 RMB'000
Investing activities:			
Purchase of property, plant and equipment	*15*	**(54,578)**	(74,667)
Investment in financial assets at fair value through other comprehensive income		**(13,299)**	–
Proceeds from disposal of property, plant and equipment and investment properties		**10,236**	537
Loans to third parties		**(154,430)**	–
Loans to a related party	*32(a)*	**–**	(25,651)
Loans to Lifeng Dingsheng	*22(b)*	**–**	(242,512)
Loans repaid by a third party	*22(b)*	**123,500**	66,500
Net cash (out)/in for acquiring of subsidiaries	*41*	**(349,801)**	124
Net cash in for disposal of subsidiaries		**4,192**	19,500
Interest received		**59,202**	2,828
Net cash used in investing activities		**(374,978)**	(253,341)
Financing activities			
Proceeds from issue of convertible bonds	*25*	**–**	230,128
Capital received from non-controlling owners of a subsidiary		**11,999**	6,200
Proceeds from investment of a third party	*24*	**–**	188,975
Proceeds from exercise of share options		**–**	4,658
Proceeds from new bank loans		**630,340**	172,051
Repayment of bank loans		**(614,985)**	(193,475)
Repayment of convertible bonds	*25*	**–**	(191,324)
Dividend paid to non-controlling owners of subsidiaries		**–**	(69)
Interest paid		**(17,034)**	(18,099)
Proceeds from issue of share under subscription agreements, net		**450,121**	–
Net cash generated from financing activities		**460,441**	199,045
Net decrease in cash and cash equivalents		**(13,788)**	(27,565)
Cash and cash equivalents at the beginning of the year		**132,944**	164,269
Effect of foreign exchange rate changes		**15,304**	(3,760)
Cash and cash equivalents at the end of the year		**134,460**	132,944
Analysis of the balances of cash and cash equivalents			
Cash at bank and in hand		**134,460**	132,944

The notes on pages 66 to 159 form part of these financial statements.

1. ORGANISATION AND PRINCIPAL ACTIVITIES

New Focus Auto Tech Holdings Limited (the "Company") was incorporated in the Cayman Islands with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and its registered office is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands. Its principal place of business is in Shanghai, the People's Republic of China (the "PRC").

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture and sale of electronic and power-related automotive parts and accessories; and the provision of automobile repair, maintenance and restyling services and retail distribution of merchandise goods through its service chain stores network in the Greater China Region and trading of automobile accessories. The Company and its subsidiaries are collectively referred to as the Group.

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the IASB, and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, these financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

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

– Investment properties;

– Financial assets at fair value through other comprehensive income; and

– Derivative financial instruments included in convertible bonds.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

2. BASIS OF PREPARATION *(Continued)*

(c) Functional and presentation currency

The financial statements are presented in Renminbi ("RMB"), which is the currency of the primary economic environment in which the major entities of the Group operate. The functional currency of the Company is US dollar.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Application of new and revised IFRSs – effective on 1st January 2018

In the current year, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (collectively referred to as the "new and revised IFRSs") issued by the IASB, which are effective for the Group's financial year beginning from 1st January 2018. A summary of the new and revised IFRSs applied by the Group is set out as follows:

IAS 28 (Amendments)	As part of the Annual Improvements to IFRSs 2014-2016 Cycle
IAS 40 (Amendments)	Transfers of Investment Property
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
IFRS 4 (Amendments)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

Except as described below, the application of the New and Amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in the Consolidated Financial Statements.

The above new IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below:

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

(a) Impact on the consolidated financial statements

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the application of new IFRSs have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below

Consolidated statement of financial position (extract)	31 December 2017 RMB'000	IFRS 9 RMB'000	IFRS 15 RMB'000	1 January 2018 RMB'000
Non-current assets				
Deferred tax assets	37,627	407	–	38,034
Current assets				
Trade receivables	161,632	(1,183)	–	160,449
Deposits, prepayments and other receivables	442,264	(3,336)	–	438,928
Current liabilities				
Accruals and other payables	428,163	–	(140,413)	287,750
Contract liabilities	–	–	140,413	140,413
Reserves				
Reserves	(202,060)	(3,863)	–	(205,923)
Non-controlling interests	21,506	(249)	–	21,257

(b) IFRS 9 Financial instruments

In the current year, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised at 1 January 2018. The difference between carrying amounts at 31 December 2017 and the carrying amounts at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

(b) IFRS 9 Financial instruments *(Continued)*

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of IFRS 9 are disclosed in note 4.

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1st January 2018.

(i) Classification and measurement

There is no impact on the Group's accounting for financial liabilities. The Group accounts for the convertible bonds at financial liabilities previously carried at amortised costs remained to be measured at amortised costs under IFRS 9.

There is no reclassification or remeasurement of the financial assets, including cash and cash equivalents, deposit and prepayments for the adoption of IFRS 9.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

(ii) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under IAS 39, the remaining balances are grouped based on internal credit rating. The Group has therefore estimated the expected loss rates for the trade receivables on the same basis.

Except for those which had been determined as credit impaired under IAS 39, ECL for other financial assets at amortised cost, including amounts due from related parties, deposits and other receivables are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition, which are assessed and measured on lifetime ECL basis as those credit risk had increased significantly since initial recognition.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

(b) IFRS 9 Financial instruments *(Continued)*

Summary of effects arising from initial application of IFRS 9 (Continued)

(ii) Impairment under ECL model (Continued)

All loss allowances including trade receivables and other financial assets at amortised cost as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Deposits, prepayments and other receivables RMB'000	**Trade receivables** RMB'000
At 31 December 2017 – IAS 39	(950)	(13,578)
Remeasurement increase in provision		
Opening accumulated losses	(3,156)	(1,101)
Opening non-controlling interest	(180)	(82)
At 1 January 2018	(4,286)	(14,761)

	At 31 December 2017 RMB'000	**Impact of initial application of IFRS 9** RMB'000	**At 1 January 2018** RMB'000
Deferred tax assets	37,627	407	38,034
Trade receivables	161,632	(1,183)	160,449
Deposits, prepayments and other receivables	442,264	(3,336)	438,928
Reserves	(202,060)	(3,863)	(205,923)
Non-controlling interests	21,506	(249)	21,257

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

(c) IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 15, prior period comparative figures have not been restated. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

	IAS 18 carrying amount 31 December 2017	Impact of Reclassification	IFRS 15 Carrying amount 1 January 2018
	RMB'000	RMB'000	RMB'000
Contract liabilities	–	140,413	140,413
Accruals and other payables	428,163	(140,413)	287,750

IFRS 15 requires that revenue from contracts with customers be recognised upon the transfer of control over goods or services to the customer. As such, upon adoption, this requirement under IFRS 15 resulted in immaterial impact to the financial statements as the timing of revenue recognition on sale of goods is nearly unchanged. Thus there was no impact on the Group's consolidated statement of financial position as of 1 January 2018.

Significant Financing Component

As permitted by practical expedient under IFRS 15, the Group need not adjust the promised amount of consideration for the effects of a significant financing component as the director expected that, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the Group's customer pays for that good or service will be one year or less.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

At the date of initial application, the Group assessed the classification of certain properties based on conditions existing at that date. There is no impact to the classification at 1 January 2018. The application of amendments to IAS 40 has resulted in the transfer of certain properties held for sale to investment properties as at 1 January 2018 as a result of the inception of leases instead of the commencement of the leases.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

New and revised IFRSs that have been issued but are not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

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

1 Effective for annual periods beginning on or after 1st January 2019.
2 Effective for business combination and assets acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1st January 2020.
3 Effective for annual periods beginning on or after 1st January 2020.
4 Effective for annual periods beginning on or after 1st January 2021.
5 Effective for annual periods beginning on or after a date to be determined.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

New and revised IFRSs that have been issued but are not yet effective *(Continued)*

IFRS 16 Leases (Continued)

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Furthermore, extensive disclosures are required by IFRS 16.

At 31 December 2018, the Group has non-cancellable operating lease commitments of approximately RMB569,163,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

Except disclosed above, the directors of the Company do not anticipate that the application of other new and revised IFRSs will have a material impact on the Group's financial performance and financial positions.

4. PRINCIPAL ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transactionby – transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by IFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that presently are exercisable are taken into account.

Interests in subsidiaries are included in the Company's statement of financial position at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position depending on the nature of the liability.

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

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

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

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

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

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses, unless classified as held for sale (or included in a disposal group that is classified as held for sale).

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other asset of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent period.

On the disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Depreciation of these assets commences when the assets are ready for their intended use.

The historical 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 profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(e) Property, plant and equipment *(Continued)*

Depreciation is charged so as to write off the cost of assets, other than construction in progress, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at end of each reporting period, with the effect of any change in estimate accounted for on a prospective basis. The principal estimated useful lives are as follows:

Freehold land	Not depreciated
Buildings	20 years
Leasehold improvements	Over the remaining term of the lease but not exceeding 10 years
Plant and machinery	3~10 years
Motor vehicles	5 years
Office equipment, furniture and fixtures	3~5 years

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction as well as borrowing costs capitalised during the period of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sales proceeds and its carrying amount, and is recognised in profit or loss.

(f) Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured initially at their costs, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in fair value of investment properties are included in profit or loss for the year in which they arise.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Research and development

Expenditure on research activities is recognised in profit or loss as incurred.

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

(h) Other intangible assets

Other intangible assets are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, other intangible assets with indefinite useful lives are carried at cost less any impairment losses and other intangible assets with finite useful lives are carried at cost less accumulated amortisation and impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any change in estimate being accounted for on a prospective basis. The principal annual rates of other intangible assets with definite useful lives are as follows:

Trademarks with definite useful lives	6.6% to 10%
Technical know-how	20%

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables (prior to 1 January 2018)

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

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

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

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

– For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see Note 4(c)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 4(j). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 4(j).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables (prior to 1 January 2018) *(Continued)*

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Impairment of other assets

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

- property, plant and equipment (other than properties carried at revalued amounts);
- pre-paid interests in leasehold land classified as being held under an operating lease;
- intangible assets;
- goodwill; and
- investments in subsidiaries, associates and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Impairment of other assets *(Continued)*

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

(k) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching with them and that the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of providing immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(l) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost, including an appropriate portion of fixed and variable overhead expenses, is assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued using a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sale.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 4(dd)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Convertible bonds

(i) Convertible bonds that contain an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the bond is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is released directly to retained profits.

(ii) Other convertible bonds

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bond are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Convertible bonds *(Continued)*

(ii) Other convertible bonds (Continued)

The derivative component is subsequently remeasured in accordance with Note 4(o). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(iii) Reclassification due to amendment of contractual terms or change of effective terms

The Company may amend the contractual terms of an instrument such that the classification of the instrument changes from a financial liability to equity or vice versa. In other cases, the effective terms of an instrument are considered to have changed if relevant contractual provisions of an instrument become effective or cease to be effective as a result of:

– the passage of time;

– the action of a party; or

– other contingent events that are anticipated in the contractual terms of the instrument.

When the classification of an instrument changes from a financial liability to equity due to an amendment of the contractual terms or change of effective terms, this represents the extinguishment of a financial liability and the issue of equity instruments. In this case, the resulting gain or loss on the extinguishment of the liability should be recognised in profit or loss.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Derivative financial instruments

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

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Trade and other payables

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

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statements.

(s) Operating leases

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 profit or loss on the straight-line basis over the lease terms. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight line basis over the lease term. Where the Group is the lessee, operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Leasehold land and land use rights held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense and less any impairment losses.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(t) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(u) Income taxes

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Interest and penalties related to income taxes, including uncertain tax treatments, are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

(i) temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

(ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

(iii) taxable temporary differences arising on the initial recognition of goodwill.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(u) Income taxes *(Continued)*

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

Deferred tax assets and liabilities are offset only if certain criteria are met:

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

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

  - The same taxable entity; or

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(v) Foreign currencies

Transactions entered into by the Group entities in currencies other than the currency of the primary economic environment in which it/they operate(s) (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as exchange reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the exchange reserve.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(w) Employees' benefits

(i) Short-term benefits

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

(ii) Defined contribution pension obligations

Contributions to defined contribution retirement plans are expensed when the services are rendered by the employees. The Group has no further payment obligation once the contributions have been paid.

(iii) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(x) Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (i.e. share options reserve), based on the Group's estimate of equity instruments that will eventually vest. At end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the share options reserve.

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

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Group obtains the goods or the counterparty renders the service.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(y) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(z) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(aa) Revenue and other income

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 3)

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group 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.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. A contract asset and a contract liability relating to a contract are accounted for an presented on a net basis.

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(aa) Revenue and other income *(Continued)*

(i) Sale of goods

Revenue is recognised when the control of the automobile accessories are considered to have been transferred to the customer.

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

(ii) Service income

Revenue arised from provision of automobile repair, maintenance and restyling services is recognised in the accounting period in which the provision of services occurs. Customers are invoiced upon the completion of services.

Service income is recognised in the accounting period in which the provision of automobile repair, maintenance and restyling services occurs. Customers are invoiced upon the completion of services or on a regular basis.

Some contracts include multiple performance obligations and do not include any integration services. They are therefore accounted for as separate performance obligations. Revenue from each of the performance obligations is recognised at the stand-alone service price.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

(iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are initially recognised as deferred income and subsequently recognised in profit or loss upon on a systematic basis over the useful life of the asset by way of reduced depreciation expense.

(v) Dividends income from equity instruments

Dividend income from unlisted equity investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed equity investments is recognised when the share price of the investment goes ex-dividend.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(aa) Revenue and other income *(Continued)*

Revenue recognition (for the year ended before 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

(i) Revenue from the sale of products is recognised when the Group has delivered products to the customer, the customer has accepted the products and collectability of the related receivable is reasonably assured.

(ii) Revenue for providing services is recognised to the extent of services rendered and according to the terms of the agreement.

(iii) Interest income is accrued on a time-apportioned basis by reference to the principal outstanding using the effective interest method.

(iv) Rental income from operating leases is recognised in equal instalments over the accounting periods covered by the lease terms.

(v) Subsidies from the government are recognised at their fair values when there is reasonable assurance that the subsidies will be received and the Group will comply with all attached conditions.

(vi) Sponsorship income is recognised on an accrual basis when the right to receive has been established.

(bb) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(cc) Segment reporting

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

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

(dd) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest and dividend income which are derived from the financial assets and shareholders' rights are presented as other revenue and other income.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(dd) Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transition in note 3)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(dd) Financial instruments *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transition in note 3) (Continued)

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the “other revenue and other income” line item.

Impairment of financial assets (upon application of IFRS 9 in accordance with transition in note 3)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables, deposits and other receivables, amounts due from related parties and cash and bank balances). The amount of ECL is updated at each reporting period to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting period. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting period as well as the forecast of future conditions.

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(dd) Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application of IFRS 9 in accordance with transition in note 3) (Continued)

Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

4. *PRINCIPAL ACCOUNTING POLICIES* *(Continued)*

(dd) Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application of IFRS 9 in accordance with transition in note 3) (Continued)

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 2 years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(dd) Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application of IFRS 9 in accordance with transition in note 3) (Continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);

- Past-due status;

- Nature, size and industry of debtors; and

- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

(a) Critical judgments in applying accounting policies

The following is the critical judgement that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect of the amounts recognised in financial statements.

(i) Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

(ii) Other intangible assets and amortisation

The Group determines the estimated useful lives and related amortisation for the Group's other intangible assets. The useful lives of other intangible assets are assessed to be either finite or indefinite, based on the expected usage and technical obsolescence from the changes in the market demands or services output from the assets. Other intangible assets with finite useful lives are amortised over the expected useful economic lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for the intangible assets with finite useful lives are reviewed by the management at least at the end of each reporting period.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty

Information about assumption and estimation uncertainties that has a significant risk of resulting in a material adjustment in the year ended 31 December 2018 includes the following:

(i) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires management to estimate the future cash flows expected to arise from the cash generating units and a suitable discount rate in order to calculate the present value.

(ii) 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 to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(iii) Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 22(a).

(iv) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of competitors' actions in response to severe industry cycles. Management will reassess the estimations at the end of each reporting period.

6. REVENUE AND SEGMENT INFORMATION

Revenue represents the sales value of goods supplied and services provided to customers and is analysed as follows:

	2018 RMB'000	2017 RMB'000
Sales of goods	**1,378,989**	942,186
Services income	**413,559**	325,742
	1,792,548	1,267,928

The Group derives revenue from sales of goods and service income over time and at a point in time are presented as follow:

	2018 RMB'000
Recognised at a point in time:	
– Sale of goods	**1,322,195**
– Service income	**90,688**
	1,412,883
Recognised at over time:	
– Sale of goods	**56,794**
– Service income	**322,871**
Total	**1,792,548**

(a) Reportable segment

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions.

The Group operates in four reportable segments: (i) the manufacture and sale of automobile accessories (the "Manufacturing Business"); (ii) trading of automobile accessories (the "Wholesale Business"); (iii) the provision of automobile repair, maintenance and restyling services (the "Retail Service Business") and (iv) operating the 4S dealership stores and related business (the "Automobile Dealership and Service Business").

Inter-segment transactions are priced with reference to prices charged to external parties for similar orders. Central expenses are not allocated to the operating segments as they are not included in the measure of the segments' results that is used by the chief operating decision-makers for assessment of segment performance.

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(a) Reportable segment *(Continued)*

Set out below is an analysis of segment information:

	The Manufacturing Business		The Wholesale Business		The Retail Service Business		Automobile Dealership and Service Business		Total	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
External revenue	**595,182**	582,682	**234,747**	320,936	**379,665**	364,310	**582,954**	–	**1,792,548**	1,267,928
Inter-segment revenue	**77**	200	**4**	75	**–**	–	**–**	–	**81**	275
Segment revenue	**595,259**	582,882	**234,751**	321,011	**379,665**	364,310	**582,954**	–	**1,792,629**	1,268,203
Reportable segment results	**3,860**	14,180	**(29,218)**	(29,817)	**(52,431)**	(88,195)	**5,206**	–	**(72,583)**	(103,832)
Interest income	**740**	355	**137**	1,559	**451**	359	**168**	–	**1,496**	2,273
Unallocated interest income									**60,644**	2,256
Total interest income									**62,140**	4,529
Interest expenses	**(1,097)**	(1,038)	**–**	–	**(853)**	(269)	**(2,947)**	–	**(4,897)**	(1,307)
Unallocated interest expenses									**(38,611)**	(46,578)
Total interest expenses									**(43,508)**	(47,885)
Impairment loss on other intangible assets	**–**	–	**–**	–	**–**	(5,302)	**–**	–	**–**	(5,302)
Depreciation and amortisation charges	**(11,578)**	(10,664)	**(1,864)**	(3,160)	**(26,985)**	(23,756)	**(4,039)**	–	**(44,466)**	(37,580)
Unallocated depreciation and amortisation charges									**(1,473)**	(2,337)
Total depreciation and amortisation charges									**(45,939)**	(39,917)
Reportable segment assets	**424,736**	396,133	**85,600**	103,586	**361,459**	409,368	**1,351,099**	–	**2,222,894**	909,087
Additions to non-current assets	**11,751**	14,057	**871**	3,703	**26,083**	40,895	**15,161**	–	**53,866**	58,655
Unallocated additions to non-current assets									**712**	3,905
Total additions to non-current assets									**54,578**	62,560
Reportable segment liabilities	**352,558**	184,562	**54,230**	76,139	**304,113**	363,633	**671,177**	–	**1,382,078**	624,334

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Reconciliation of reportable segment profit or loss, and assets and liabilities

	2018 RMB'000	2017 RMB'000
Loss before taxation		
Reportable segment loss	**(72,583)**	(103,832)
Unallocated other revenue and gains and losses	**223,521**	(205,143)
Unallocated corporate expenses	**(30,558)**	(15,785)
Unallocated finance costs	**(38,611)**	(46,578)
Consolidated profit/(loss) before taxation	**81,769**	(371,338)

	31 December 2018 RMB'000	31 December 2017 RMB'000
Assets:		
Reportable segment assets	**2,222,894**	909,087
Unallocated corporate assets	**347,263**	471,097
Consolidated total assets	**2,570,157**	1,380,184
Liabilities:		
Reportable segment liabilities	**1,382,078**	624,334
Unallocated corporate liabilities	**202,655**	537,923
Consolidated total liabilities	**1,584,733**	1,162,257

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(c) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's investment properties, property, plant and equipment, leasehold land and land use rights, other intangible assets, goodwill and interest in an associate ("specified non-current assets"):

	Revenue from external customers		Specified non-current assets	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC (Place of domicile)	**1,336,118**	792,713	**401,649**	375,321
America	**402,623**	422,750	**–**	–
Europe	**19,772**	23,414	**–**	–
Asia Pacific	**34,035**	29,051	**–**	–
	1,792,548	1,267,928	**401,649**	375,321

The above revenue information is based on the locations of the customers.

(d) Major customers

During the year, the Group's customer base is diversified and there was no customer (2017: Nil) with whom transactions exceeded 10% of the Group's revenue.

7. OTHER REVENUE AND GAINS AND LOSSES

	2018 RMB'000	2017 RMB'000
Fair value change of conversion option	**152,588**	(208,031)
Gain on bargain purchase	**13,837**	–
Exchange gain/(loss), net	**12,098**	(9,109)
Interest income	**62,140**	4,529
Valuation gains on investment properties	**83**	2,534
Gross rentals from investment properties and other rental income	**2,431**	2,198
Loss on disposal of property, plant and equipment	**(1,703)**	(722)
Government subsidies	**1,152**	578
Gain on disposal of subsidiaries	**178**	–
Others	**1,199**	4,452
	244,003	(203,571)

8. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interests on convertible bonds	**33,006**	39,977
Interests on bank borrowings repayable within five years	**10,502**	7,908
	43,508	47,885

9. *PROFIT/(LOSS) BEFORE TAXATION*

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

	2018	2017
	RMB'000	RMB'000
Cost of inventories*	**1,405,689**	888,124
Write-down of inventories	**439**	2,765
	1,406,128	890,889
Depreciation of property, plant and equipment	**43,788**	37,772
Amortisation of leasehold land and land use rights	**1,069**	1,069
Amortisation of other intangible assets	**1,082**	1,076
Total depreciation and amortisation charges	**45,939**	39,917
Allowance for credit losses on trade receivables, other receivables and related parties	**9,228**	7,143
Impairment loss on other intangible assets	**–**	5,302
	9,228	12,445
Auditors' remuneration		
– audit services	**2,930**	2,000
– other services	**3,750**	–
Operating lease charges	**57,659**	58,312
Employee benefit expenses (including directors' remuneration)		
Salaries and allowances	**270,759**	269,699
Retirement scheme contributions	**35,290**	22,694
Equity-settled share-based payments	**–**	716
Other benefits	**20,691**	33,230
Total employee benefit expenses	**326,740**	326,339

* Costs of inventories includes RMB61,208,000 (2017: RMB68,901,000) relating to employee benefit expenses, depreciation and amortisation charges, which are also included in the respective total amounts disclosed separately above.

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

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

	2018					
	Directors' fees RMB'000	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Retirement Scheme contributions RMB'000	Share-based payments RMB'000	Total RMB'000
Executive director:						
Du Jinglei (Chairman)	–	–	–	–	–	–
Non-executive directors:						
Wang Zhenyu	–	–	–	–	–	–
Zhang Jianxing	–	–	–	–	–	–
Independent non–executive directors:						
Hu Yuming	100	–	–	–	–	100
Lin Lei	100	–	–	–	–	100
Zhang Xiaoya	100	–	–	–	–	100
	300	–	–	–	–	300

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

(a) Directors' remuneration *(Continued)*

	2017					
	Directors' fees RMB'000	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Retirement Scheme contributions RMB'000	Share-based payments RMB'000	Total RMB'000
Executive director:						
Du Jinglei (Chairman)	–	–	–	–	–	–
Non-executive directors:						
Ying Wei	–	–	–	–	–	–
Wang Zhenyu	–	–	–	–	–	–
Zhang Jianxing	–	–	–	–	–	–
Li Ngai*	–	–	–	–	–	–
Independent non–executive directors:						
Hu Yuming	100	–	–	–	–	100
Lin Lei	100	–	–	–	–	100
Zhang Xiaoya	100	–	–	–	–	100
	300	–	–	–	–	300

* appointed on 21 August 2017

No discretionary bonus, inducement fee, employer's contribution to retirement scheme or compensation for loss of office as directors was given to any of the directors during the year (2017: Nil).

No director has waived or agreed to waive any emolument paid by the Group during the year (2017: One). The details are set out below:

	2018 RMB'000	2017 RMB'000
Zhang Jianxing	**–**	705

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 included no director (2017: Nil) whose emolument is reflected in the analysis presented in Note 10(a) above.

The emoluments paid or payment to the five non-director (2017: five) highest paid employees are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other allowances	**4,625**	6,630
Retirement scheme contributions	**142**	139
Share-based payments	**–**	242
Total	**4,767**	7,011

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

	2018 Number of Individuals	2017 Number of Individuals
Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**4**	3
HK$1,500,001 to HK$2,000,000	**–**	–
HK$2,000,001 to HK$2,500,000	**–**	2
Total	**5**	5

11. INCOME TAX

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2018 RMB'000	2017 RMB'000
Current tax		
Provision for the year	**8,923**	4,269
(Over)/under-provision in respect of prior year	**(4,375)**	178
	4,548	4,447
Deferred tax		
Origination and reversal of temporary differences, net	**23,416**	(5,815)
	27,964	(1,368)

(b) No provision for Hong Kong profits tax has been made as the Group had no taxable profits arising in Hong Kong for the years ended 31 December 2018 and 2017. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

The applicable PRC income tax rate is 25% (2017: 25%) for the year. One major PRC subsidiary of the Company, renewed the qualification of high and new technology enterprise in the PRC, is entitled to a preferential income tax rate of 15% (2017: 15%) for three years from 1 January 2017.

(c) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2018 RMB'000	2017 RMB'000
Profit/(loss) before taxation	**81,769**	(371,338)
Tax calculated at applicable tax rate of 25% (2017:25%)	**20,442**	(92,835)
Tax effect of non-deductible expenses	**903**	1,518
Unrecognised tax losses	**48,314**	27,155
Effect of preferential tax treatments and tax exemptions	**(1,643)**	(2,384)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(35,677)**	64,148
(Over)/under-provision in respect of prior year	**(4,375)**	178
Land appreciation tax arising from the valuation on investment properties	**–**	852
Tax expense/(credit)	**27,964**	(1,368)

12. DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil). No interim dividend was declared in respect of the year ended 31 December 2018 (2017: Nil).

13. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share for the year ended 31 December 2018 is based on the profit attributable to ordinary equity shareholders of the Company of RMB107,833,000 (2017: Loss attributable to ordinary equity shareholders of the Company RMB315,465,000) and the weighted average of 5,870,809,000 ordinary shares (2017: 4,648,954,000) in issue during the year, calculated as follows:

(i) Weighted-average number of ordinary shares

	2018	2017
	'000	'000
Issued ordinary shares at 1 January	**4,840,772**	4,576,606
Effect of share options exercised	**–**	3,326
Effect of conversion of convertible bonds	**7,206**	69,022
Effect of issuance of ordinary shares	**1,022,831**	–
Weighted-average number of ordinary shares at 31 December	**5,870,809**	4,648,954

(b) Diluted earnings/(loss) per share

For the years ended 31 December 2018 and 2017, basic and diluted earnings/(loss) per share were the same as the effect of the potential ordinary shares including the Company's share options and convertible bonds are anti-dilutive.

14. OTHER COMPREHENSIVE INCOME, NET OF TAX

(a) Tax effects relating to each component of other comprehensive income

	2018			2017		
	Before tax amount RMB'000	**Tax expense RMB'000**	**Net of tax amount RMB'000**	Before tax amount RMB'000	Tax expense RMB'000	Net of tax amount RMB'000
Exchange differences on translating foreign operations	**20,190**	**–**	**20,190**	9,831	–	9,831
Financial assets at fair value through other Comprehensive income	**30,933**	**–**	**30,933**	–	–	–
	51,123	**–**	**51,123**	9,831	–	9,831

14. OTHER COMPREHENSIVE INCOME, NET OF TAX *(Continued)*

(b) Components of other comprehensive income, including reclassification adjustments

	2018	2017
	RMB'000	RMB'000
Exchange differences on translation of foreign operations:		
exchange differences recognised during the period	**20,190**	9,831
Net movement in the exchange reserve during the period recognised in other comprehensive income	**20,190**	9,831

	2018	2017
	RMB'000	RMB'000
Financial assets at fair value through other comprehensive income:		
Changes in fair value recognised during the period	**30,933**	778
Reclassification adjustments for amounts transferred to profit or loss:		
gains on disposal	**–**	(1,019)
Net deferred tax credited to other comprehensive income	**–**	241
Net movement in the fair value reserve during the period recognised in other comprehensive income	**30,933**	–

15. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RMB'000	Freehold land and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment furniture and fixtures RMB'000	Total RMB'000
Opening net carrying amount as at 1 January 2017	6,963	55,461	54,023	37,940	5,769	22,294	182,450
Additions	32,623	91	–	17,972	1,497	10,377	62,560
Transfers upon completion	(36,071)	5,398	29,732	909	–	32	–
Disposals	–	–	–	(287)	(444)	(528)	(1,259)
Depreciation charge for the year	–	(4,164)	(13,835)	(9,211)	(2,040)	(8,522)	(37,772)
Acquisition of a subsidiary	–	–	–	9	–	45	54
Net carrying amount as at 31 December 2017 and 1 January 2018	3,515	56,786	69,920	47,332	4,782	23,698	206,033
Additions	26,536	393	–	14,530	8,868	4,251	54,578
Transfers upon completion	(23,737)	–	22,457	1,280	–	–	–
Disposals	–	(33)	(115)	(720)	(9,465)	(1,792)	(12,125)
Depreciation charge for the year	–	(3,896)	(18,512)	(11,099)	(3,389)	(6,892)	(43,788)
Acquisition of a subsidiary *(Note 41)*	–	–	2,490	2,894	22,232	2,274	29,890
Closing net carrying amount as at 31 December 2018	6,314	53,250	76,240	54,217	23,028	21,539	234,588
At 31 December 2017:							
Cost	3,515	92,404	124,187	153,741	21,263	78,339	473,449
Accumulated depreciation and impairment	–	(35,618)	(54,267)	(106,409)	(16,481)	(54,641)	(267,416)
	3,515	56,786	69,920	47,332	4,782	23,698	206,033
At 31 December 2018:							
Cost	6,314	92,408	152,425	190,134	47,720	91,055	580,056
Accumulated depreciation and impairment	–	(39,158)	(76,185)	(135,917)	(24,692)	(69,516)	(345,468)
	6,314	53,250	76,240	54,217	23,028	21,539	234,588

Freehold land and buildings of the Group are located outside Hong Kong. Certain buildings of the Group were pledged to secure the bank borrowings of the Group as detailed in Note 23.

16. LEASEHOLD LAND AND LAND USE RIGHTS

	2018	2017
	RMB'000	RMB'000
Net carrying amount:		
At 1 January	**29,152**	30,221
Amortisation charge for the year	**(1,069)**	(1,069)
At 31 December	**28,083**	29,152
Cost	**37,801**	37,801
Accumulated amortisation	**(9,718)**	(8,649)
Net carrying amount	**28,083**	29,152

The Group's interests in leasehold land and land use rights were held outside Hong Kong under medium term leases.

Certain leasehold land and land use rights of the Group were pledged to secure the bank borrowings of the Group as detailed in Note 23.

17. INVESTMENT PROPERTIES

	Note	2018 RMB'000	2017 RMB'000
At 1 January		**46,398**	43,864
Change in fair value	7	**83**	2,534
At 31 December		**46,481**	46,398

All investment properties of the Group are located outside Hong Kong, of which investment properties of RMB21,870,000 (2017: RMB15,426,000) and RMB24,611,000 (2017: RMB30,972,000) are held under long and medium terms respectively.

As at 31 December 2018, the investment properties were revalued at RMB46,481,000 (2017: RMB46,398,000) by Shanghai Jiace Real Estate Appraisal Co., Ltd., an independent firm of professionally qualified valuers recognised by the relevant PRC association of valuers with recent experience in the location and category of property being valued, on the following basis.

The valuation was arrived of by reference to (i) market evidence of transaction price for similar properties, (ii) current rent of properties being held under existing tenancies and the reversionary income potential of tenancies, and (iii) the value of the land, together with the replacement costs of industrial buildings.

Details of the property rental income earned by the Group from its investment properties, all of which are leased out under operating leases, are set out in Notes 7 and 31.

Certain investment properties were pledged to secure the bank borrowings of the Group as detailed in Note 23.

18. GOODWILL

	2018 RMB'000	2017 RMB'000
As at 1 January and 31 December	**43,919**	43,919

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units ("CGUs") that are expected to benefit from that business combination.

18. GOODWILL *(Continued)*

The carrying amount of goodwill is allocated as follows:

	2018	2017
	RMB'000	RMB'000
Provision of automobile repair, maintenance and restyling services:		
Beijing Aiyihang Auto Services Ltd.	**43,919**	43,919
At 31 December	**43,919**	43,919

The recoverable amounts of the CGU were determined by the directors of the Company with the reference to professional valuation reports issued by RHL Appraisal Limited, independent firm of professionally qualified valuers, which were based on value-in-use calculations. All the calculations of recoverable amounts use cash flow projections based on financial budgets approved by the directors covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rates of 3% (2017: 3%). The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations are as follows:

	31 December 2018	31 December 2017
	%	%
Gross margin	**19-24**	18-30
Growth rate within the forecast period	**3-7**	3-9
Discount rate	**20.03-21.12**	21.24-22.31

The directors determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rate used is consistent with the forecasts generally adopted in the respective industries. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment.

19. OTHER INTANGIBLE ASSETS

	Trademarks RMB'000	Cooperation agreement RMB'000	Total RMB'000
At 1 January 2017	45,857	10,181	56,038
Amortisation charge for the year	–	(1,076)	(1,076)
Impairment during the year	(5,302)	–	(5,302)
At 31 December 2017 and 1 January 2018	40,555	9,105	49,660
Amortisation charge for the year	–	(1,082)	(1,082)
At 31 December 2018	40,555	8,023	48,578
At 31 December 2018:			
Cost	274,843	10,816	285,659
Accumulated amortisation and impairment	(234,288)	(2,793)	(237,081)
Net carrying amount	40,555	8,023	48,578
At 31 December 2017:			
Cost	274,843	10,816	285,659
Accumulated amortisation and impairment	(234,288)	(1,711)	(235,999)
Net carrying amount	40,555	9,105	49,660

Included in the above intangible assets as at 31 December 2018 are (i) certain trademarks, (ii) cooperation agreement in relation to the acquisition of a subsidiary. Details of the impairment assessment of the CGUs are set out in Note 18.

As at end of reporting period, trademarks with cost of RMB274,843,000 (2017: RMB274,843,000) have indefinite useful lives as they are considered renewable at minimal costs. The directors of the Group are of the opinion that the Group would renew the trademarks continuously and has the ability to do so.

20. INTERESTS IN SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2018 are as follows:

Company name	Country/place and date of incorporation/ establishment	Legal form of entities for those established in the PRC	Registered capital/share capital	Issued and fully paid up capital	Percentage of attributable equity interest	Principal activities/place of operation
Interests directly held:						
Perfect Progress Investments Limited ("Perfect Progress")	The British Virgin Islands 8 April 2002	–	US$50,000 Ordinary shares	US$500	100%	Investment Holding/ Hong Kong
New Focus Auto Tech International Limited	The British Virgin Islands 2 April 2007	–	US$1 Registered capital	US$1	100%	Sale of automobile accessories/ Hong Kong
Interests indirectly held:						
New Focus Lighting and Power Technology (Shanghai) Co., Ltd. ("New Focus Lighting & Power")	The PRC 24 April 2001	Wholly-owned foreign enterprise	US$67,800,000 Registered capital	US$67,800,000	100%	Manufacture and sale of automobile Accessories/The PRC
Liaoning Xin Tian Cheng Industrial Co., Limited ("Liaoning XTC")	The PRC 8 January 2009	Limited liability company	RMB20,000,000 Registered capital	RMB20,000,000	50.098%	Trading of automobile products/ The PRC
Shandong New Focus Longsheng Auto Parts Co. Ltd.	The PRC 26 April 2006	Limited liability company	US4,012,700 Registered Capital	US$4,012,700	59%	Manufacture and sale of automobile accessories/The PRC
Beijing Aiyihang Auto Service Ltd. ("Beijing Aiyihang")	The PRC September 1997	Limited liability company	RMB38,500,000 Registered capital	RMB38,500,000	58.2%	Automobile repair, maintenance and restyling services; sales of automobile products/ The PRC

20. *INTERESTS IN SUBSIDIARIES* *(Continued)*

Company name	Country/place and date of incorporation/ establishment	Legal form of entities for those established in the PRC	Registered capital/share capital	Issued and fully paid up capital	Percentage of attributable equity interest	Principal activities/place of operation
Shandong Xingzhe Auto Service Co. Ltd. ("Shandong Xingzhe")	The PRC 25 February 2008	Limited liability company	RMB10,000,000 Registered capital	RMB10,000,000	60%	Automobile repair, maintenance and restyling services; sales of automobile products/ The PRC
Shandong Dingkang Auto Service Ltd.	The PRC 13 October 2005	Limited liability company	RMB10,000,000 Registered capital	RMB10,000,000	60%	Automobile repair, maintenance and restyling services; sales of automobile products/ The PRC
Hubei Aiyihang Auto Service Ltd. ("Hubei Aiyihang")	The PRC 22 December 2014	Limited liability company	RMB30,000,000 Registered capital	RMB30,000,000	36%	Automobile repair, maintenance and restyling services; sales of automobile products/ The PRC
Zhejiang Autoboom Industrial Co., Limited ("Zhejiang Autoboom")	The PRC December 2008	Limited liability company	RMB28,000,000 Registered capital	RMB28,000,000	50.098%	Trading of automobile products/the PRC
Changchun Guangda Automobile Trading Co., Ltd. ("Changchun Guangda")	The PRC 31 January 2002	Limited liability company	RMB47,800,000 Registered capital	RMB47,800,000	61%	Automobile repair, maintenance and restyling services; sales of automobile products/ The PRC
Ningbo Meishan Bonded Port Area Chifeng Investment Management Co., Ltd.	The PRC 29 August 2016	Limited liability company	RMB10,000,000 Registered capital	RMB50,000	100%	Investment Holding/ The PRC
Inner Mongolia Chuangying Automobile Co., Ltd.	The PRC 9 February 2018	Limited liability company	RMB627,339,666 Registered capital	RMB627,339,666	100%	Distribution of automobile insurance and financial products; sales of automobile products/ The PRC

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.

20. INTERESTS IN SUBSIDIARIES *(Continued)*

The following tables listed out the information relating to Liaoning XTC, Beijing Aiyihang and Changchun Guangda, the three subsidiaries of the Group which have a material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

Liaoning XTC

	2018 **RMB'000**	2017 RMB'000
NCI percentage	**49.902%**	49.902%
Current assets	**79,272**	102,418
Non-current assets	**6,534**	7,879
Current liabilities	**(88,207)**	(82,867)
Non-current liabilities	**(692)**	(692)
Net (liabilities)/assets	**(3,093)**	26,738
Carrying amount of NCI	**(1,543)**	13,342
Revenue	**236,195**	322,370
Loss for the year	**(29,461)**	(31,041)
Total comprehensive income	**(29,461)**	(31,041)
Loss attributable to NCI	**(14,701)**	(15,490)
Cash flows generated from/(used in) operating activities	**28,834**	(143)
Cash flows (used in)/generated from investing activities	**(518)**	784
Cash flows (used in)/generated from financing activities	**(30,000)**	5,000

Above financial information represents the consolidated financial information of Liaoning XTC and its fully owned subsidiaries, including Zhejiang Autoboom.

20. *INTERESTS IN SUBSIDIARIES* *(Continued)*

Beijing Aiyihang

	2018	2017
	RMB'000	RMB'000
NCI percentage (effective)	**47.05%**	45.29%
Current assets	**90,729**	101,230
Non-current assets	**132,452**	159,913
Current liabilities	**(357,934)**	(337,485)
Non-current liabilities	**(2,005)**	(2,276)
Net liabilities	**(136,758)**	(78,618)
Carrying amount of NCI	**(72,792)**	(40,976)
Revenue	**324,744**	300,254
Loss for the year	**(70,023)**	(82,439)
Total comprehensive income	**(70,023)**	(82,439)
Loss attributable to NCI	**(32,950)**	(37,338)
Cash flows generated from/(used in) operating activities	**71,937**	(9,815)
Cash flows used in investing activities	**(22,637)**	(38,798)
Cash flows (used in)/generated from financing activities	**(51,799)**	27,148

Above financial information represents the consolidated financial information of Beijing Aiyihang and its subsidiaries, including Shandong Xingzhe, a fully owned subsidiary, and Hubei Aiyihang of which Beijing Aiyihang owns 60% of its shareholdings.

20. INTERESTS IN SUBSIDIARIES *(Continued)*

Changchun Guangda

	2018 RMB'000	2017 RMB'000
NCI percentage	**39%**	39%
Current assets	**37,554**	45,608
Non-current assets	**72,466**	74,235
Current liabilities	**(14,518)**	(14,417)
Non-current liabilities	**(10,798)**	(10,798)
Net assets	**84,704**	94,628
Carrying amount of NCI	**29,466**	35,290
Revenue	**54,921**	64,056
(Loss)/profit for the year	**(9,485)**	763
Total comprehensive income	**(9,485)**	763
Loss attributable to NCI	**(5,409)**	(1,336)
Cash flows (used in)/generated from operating activities	**(2,122)**	3,390
Cash flows used in investing activities	**(1,183)**	(871)
Cash flows used in financing activities	**–**	(69)

Above financial information represents the consolidated financial information of Changchun Guangda and its subsidiaries, including Changchun Guangda Second-hand Car Broker Co., Ltd. of which Changchun Guangda owns 60% of its shareholdings.

21. INVENTORIES

	31 December 2018 RMB'000	31 December 2017 RMB'000
Raw materials	**41,994**	37,660
Work-in-progress	**33,020**	21,643
Finished goods	**62,608**	27,539
Merchandise goods	**379,264**	91,144
	516,886	177,986

22. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

(a) Trade receivables

	31 December 2018 RMB'000	31 December 2017 RMB'000
Trade receivables	**238,805**	175,210
Less: allowance for credit losses	**(17,567)**	(13,578)
	221,238	161,632

(i) The credit period to the Group's customers ranged from 0 to 360 days.

(ii) The ageing analysis of trade receivables at the end of reporting period by invoice date is as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Current to 30 days	**75,828**	73,132
31 to 60 days	**76,308**	49,084
61 to 90 days	**18,051**	22,822
Over 90 days	**68,618**	30,172
	238,805	175,210
Less: allowance for credit losses	**(17,567)**	(13,578)
	221,238	161,632

(iii) Details of ECL assessment are set out in Note 37(a).

22. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

(b) Deposits, prepayments and other receivables

	31 December 2018 RMB'000	31 December 2017 RMB'000
Loan receivables (Note (i))	**196,495**	367,713
Deposits and prepayments	**120,018**	36,746
Deposits and prepayments for 4S dealership business	**45,518**	–
Advances to employees	**3,563**	15,748
Value-added tax recoverable	**18,603**	6,521
Consideration receivables for disposal of a subsidiary	**–**	3,847
Rebate receivables from suppliers	**85,843**	–
Others	**53,429**	12,639
	523,469	443,214
Less: allowance for credit losses	**(6,263)**	(950)
	517,206	442,264

(i) Loan receivables

Loans to Shenzhen Jiahong

Included in the Group's deposits, prepayments and other receivables are loans to Shenzhen Jiahong Group Holdings Limited ("Shenzhen Jiahong") of RMB Nil as at 31 December 2018 (2017: Loan of RMB123,500,000).

Following the entrusted loan of RMB100,000,000 provided to Shenzhen Jiahong on 29 December 2014, the Company, through its subsidiary, New Focus Lighting & Power, provided further loans of RMB190,000,000 to Shenzhen Jiahong during 2015, among which RMB30,000,000 was treated as performance security to Shenzhen Jiahong in connection with a master purchase agreement.

In 2015, 2016 and 2017, Shenzhen Jiahong repaid the loans with amount of RMB40,000,000, RMB60,000,000 and RMB66,500,000, respectively. As at 31 December 2017, all the remaining loans and performance security are overdue. Such loans are subject to an annual interest of 12%, or a penalty interest of 0.05% per day if overdue.

22. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

(b) Deposits, prepayments and other receivables *(Continued)*

(i) Loan receivables (Continued)

Loans to Shenzhen Jiahong (Continued)

As at 31 December 2017, such loans are:

- guaranteed by each of the two shareholders of Shenzhen Jiahong as sureties who collectively owned 85% equity interest in Shenzhen Jiahong as at 31 December 2017;

- guaranteed by thirteen subsidiaries owned by Shenzhen Jiahong as sureties;

- secured by the pledge of 100% of the shares in each of the two subsidiaries wholly owned by Shenzhen Jiahong; and

- secured by the pledge of 30% of shares in a mineral company which was indirectly owned as to 80% by one of the two principal shareholders of Shenzhen Jiahong.

During the year ended 31 December 2018, all outstanding loan had been settled by Shenzhen Jiahong.

Loans to and interest receivable from Lifeng Dingsheng

In December 2017, the Company entered into a loan agreement with Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd. ("Lifeng Dingsheng"), a company established in PRC and of which Mr. Du Jinglei acts as a director, to provide a loan with principal amount of HK$290,000,000 to Lifeng Dingsheng for a term of 12 months. The interest rate is 12% per annum.

Such loan is secured by a corporate guarantee provided by the 35 subsidiaries of Lifeng Dingsheng. The 35 subsidiaries are also the acquisition targets of the Group which is subject to further assessment. If the mentioned acquisition is completed, the Company is entitled to set off the loan balance together with any accrued interest against the consideration payable by the Company. On 2 March 2018, an equity transfer agreement was entered into by a subsidiary of the Company and Lifeng Dingsheng to acquire the 35 subsidiaries of Lifeng Dingsheng.

Loans to independent third parties

Loans receivables represented the interest-bearing loans provided by the Group to four independent third parties with interest rate of 5% per annum.

Subsequent to 31 December 2018, the Group has received RMB131,430,000 from independent third party. The remaining receivable balance is RMB26,053,000 as at the approval date of these consolidated financial statements, without taking in account the interest or penalty interest associated with the overdue loans.

(ii) Details of ECL assessment are set out in Note 37(a).

23. BANK AND OTHER BORROWINGS, SECURED

	31 December 2018 RMB'000	31 December 2017 RMB'000
Bank loans	**552,309**	157,051
Bank borrowings are repayable as follows:		
On demand or within one year	**552,309**	157,051

As at 31 December 2018 and 2017, the banking facilities are secured by (i) the Group's certain buildings with an aggregate net carrying amount of RMB46,480,000 (2017: RMB49,671,000); (ii) the Group's certain land use rights of RMB14,663,000 (2017: RMB15,157,000); (iii) the Group's certain investment properties of RMB46,481,000 (2017: RMB46,398,000); (iv) the Group's certain inventory of RMB287,619,000 (2017: RMB Nil); (v) the Group's certain property, plant and equipment of RMB2,822,000 (2017: RMB Nil); (vi) personal guarantee from a senior management of the Company as well as a director of a subsidiary, and his spouses; (vii) corporate guarantees provided by the Company and its subsidiaries.

Most of the bank loans bear fixed interest rates ranging from 4.00% to 10.80% per annum (2017: 4.00% to 6.09% per annum).

	31 December 2018 RMB'000	31 December 2017 RMB'000
Bank and other borrowings of the Group were denominated in		
RMB	**524,799**	131,000
United States dollars ("US")	**27,510**	26,051
	552,309	157,051

24. TRADE PAYABLES, ACCRUALS AND OTHER PAYABLES

(a) Trade payables

The ageing analysis of trade payables of the Group at the end of reporting period by invoice date is as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Current to 30 days	**140,018**	119,415
31 to 60 days	**39,870**	55,976
61 to 90 days	**38,656**	17,264
Over 90 days	**97,624**	50,100
	316,168	242,755

The average credit period for the Group's trade creditors is 60 days.

(b) Accruals and other payables

	31 December 2018 RMB'000	31 December 2017 RMB'000
Receipts in advance	**–**	140,413
Payroll payable	**34,835**	23,552
Other taxes payable	**7,766**	4,486
Receipt in advance from an investor	**–**	188,975
Others	**141,393**	70,737
Deposit received for 4S dealership business	**34,144**	–
Interest payable	**306**	–
	218,444	428,163

(c) Contract liabilities

	31 December 2018 RMB'000	31 December 2017 RMB'000
Receipts in advance	**214,320**	–

Upon initial adoption of IFRS 15, receipts in advance in relation to automobile repair, maintenance and restyling services of RMB140,413,000 was reclassified to contract liabilities at 1 January 2018. Revenue recognised during the year that was included in the contract liabilities balance at the beginning of the year was approximately RMB135,210,000.

Automobile repair, maintenance and restyling services are typically provided for a period of one year. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is note disclosed.

25. CONVERTIBLE BONDS

The analysis of the carrying amount of convertible bonds is as follows:

	CCBI CBs		Haitong CBs		
	Host contract RMB'000	Conversion option RMB'000	Host contract RMB'000	Conversion option RMB'000	Total RMB'000
As at 1 January 2017	–	–	183,834	–	183,834
Issuance of CCBI CBs	190,999	39,129	–	–	230,128
Imputed interest expenses	10,892	–	29,085	–	39,977
Interest paid	–	–	(10,191)	–	(10,191)
Fair value change of conversion option *(Note 38(b))*	–	208,031	–	–	208,031
Conversion of CCBI CBs	(55,352)	(87,042)	–	–	(142,394)
Redemption of Haitong CBs	–	–	(191,324)	–	(191,324)
Exchange realignment	(1,252)	(145)	(11,404)	–	(12,801)
As at 31 December 2017 and 1 January 2018	145,287	159,973	–	–	305,260
Imputed interest expenses	33,006	–	–	–	33,006
Interest paid	(11,720)	–	–	–	(11,720)
Fair value change of conversion option *(Note 38(b))*	–	(152,588)	–	–	(152,588)
Conversion of CCBI CBs	(5,379)	(2,213)	–	–	(7,592)
Exchange realignment	8,134	8,020	–	–	16,154
As at 31 December 2018	169,328	13,192	–	–	182,520

CCBI CBs

In September 2017, the Company issued redeemable convertible notes (the "CCBI CBs") in the principal amount of US$35,000,000 (equivalent to RMB230,681,500) to High Inspiring Limited ("High Inspiring", a company incorporated with limited liability and an indirect wholly owned subsidiary of CCB International (Holdings) Limited ("CCBI")), pursuant to the convertible note purchase agreement signed by them. The net proceeds of the CCBI CBs available to the Group was RMB230,128,425, after net-off of issuance costs of RMB553,075. The coupon interest rate of CCBI CBs is 7%, payable semi-annually in arrears on 1 March and 1 September in each year. The maturity date of the CCBI CBs will be the second anniversary of the issue date (i.e. September 2019) and the CCBI CBs can be converted into ordinary shares of the Company at the holder's option at initial conversion price of HK$0.306085 per share, subject to certain adjustments.

25. CONVERTIBLE BONDS *(Continued)*

CCBI CBs *(Continued)*

Unless previously redeemed, converted or cancelled in accordance with the conditions, the Company will redeem on the maturity date the entire outstanding principal amount of the convertible bonds to the aggregate of (i) the base redemption amount, (ii) 7% interest accrued and outstanding, (iii) any 15% default interest accrued and outstanding, (iv) a premium, which in the aggregate with the base redemption amount, will provide High Inspiring with an IRR of 12% per annum on the base redemption amount, calculated from the issue date of the convertible bonds to the date of such redemption, taking into account all interest paid on the convertible bonds and any accrued and outstanding interest under clause (ii) above but excluding any default interest paid or any default interest accrued and outstanding, and (v) any other payment accrued and outstanding to the holder pursuant to the transaction documents.

As a security to CCBI, CDH Fast Two Limited, the controlling shareholder of the Company, charged all its owned shares in the Company in favour of CCBI (See Note 32(a)(v)).

The fair value of the conversion option of the CCBI CBs upon issuance is calculated by binominal model based on a professional valuation report issued by RHL Appraisal Limited, an independent firm of professionally qualified valuers, and is treated as a derivative financial liability. The residual amount, representing the value of the host contract, is classified as other financial liability. The initially recognised derivative and host contract of the CCBI CBs amounted to RMB39,129,000 and RMB190,999,000 respectively after net-off of the issuance costs.

On 14 September 2017 and 3 October 2017, High Inspiring partially converted CCBI CBs with total principal amount of US$10,000,000. The Group allotted and issued a total of 253,197,640 shares to CCBI at the conversion price of HK$0.306085. The fair value of conversion option is RMB87,042,000 as at the conversion date, of which changes on fair value of RMB75,833,000 had been charged into profit of loss. As at 31 December 2017, the fair value of remaining conversion option was RMB159,973,000, of which changes on fair value of RMB132,198,000 had been charged into profit or loss. The total changes in fair value of the conversion option are RMB208,031,000.

After taking into account the abovementioned changes in fair value of the conversion option of CCBI CBs, the Group failed to comply with certain of the covenant requirements of the CCBI CBs as at 31 December 2017, including the amount of total equity attributable to the owners of the Company and the ratio of the consolidated total liabilities to the consolidated total assets of the Group. As set out in the convertible note purchase agreement, should the Group be unable to comply with the covenants, the remaining balances in relation to CCBI CBs would become payable on demand. Accordingly, the carrying amount of CCBI CBs of RMB305,260,000 is presented under current liabilities in the consolidated statement of financial position as at 31 December 2017.

25. CONVERTIBLE BONDS *(Continued)*

CCBI CBs *(Continued)*

In accordance with the relevant terms and conditions of the CCBC Convertible Notes, the conversion price under CCBC Convertible Notes was adjusted from HK$0.306085 per share to HK$0.280511 per share upon the completion of the Subscription on 19 June 2018. Upon the receipt of the conversion notice dated 31 August 2018 from High Inspiring, for conversion of part of the CCBC Convertible Notes in the principal amount of USD800,000, the Company allotted and issued 22,102,520 conversion shares to High Inspiring at a conversion price of HK$0.280511 per conversion share on 4 September 2018. As at 31 December 2018, the aggregate outstanding principal of the CCBC Convertible Notes was USD24,200,000.

Haitong CBs

In July 2015, the Company issued redeemable convertible bonds (the “Haitong CBs”) in the principal amount of US$25,000,000 (equivalent to RMB152,832,500) to Haitong International Financial Products Limited (“Haitong International”). The net proceeds of the Haitong CBs available to the Group was RMB152,676,500, after net-off of issuance costs of RMB156,000. The coupon interest rate of Haitong CBs is 6%, payable semi-annually in arrears on 13 January and 13 July in each year. The maturity date of the Haitong CBs will be the second anniversary of the issue date (i.e. July 2017) and the Haitong CBs can be converted into ordinary shares of the Company at the holder’s option at initial conversion price of HK$3.00 per share, subject to certain adjustments.

The fair value of the conversion option of the Haitong CBs upon issuance is calculated by binominal model based on a professional valuation report issued by RHL Appraisal Limited, an independent firm of professionally qualified valuers, and is treated as a derivative financial liability. The residual amount, representing the value of the host contract, is classified as other financial liability. The initially recognised derivative and host contract of the Haitong CBs amounted to RMB23,723,000 andRMB128,954,000 respectively after net-off of the issuance costs. As at 31 December 2015, the fair value of conversion option was RMB5,869,000, of which changes on fair value of RMB19,330,200 had been charged into profit or loss.

On 27 January 2016, certain terms of Haitong CBs were either amended by the Company and Haitong International or changed as a result of the passage of time, resulting in satisfaction of designating as equity. Therefore, the Company reclassified the conversion option with a fair value of RMB1,619,000 from liability to equity.

On 13 September 2017, the Company redeemed all the Haitong CBs with an aggregate amount of US$29,590,000.

26. DEFERRED TAX

The movements in deferred tax assets/(liabilities) are as follows:

Deferred tax assets

	Tax losses RMB'000	Accrued expenses RMB'000	Deferred income RMB'000	Allowances and provisions RMB'000	Total RMB'000
At 1 January 2017	1,174	3,357	24,299	2,336	31,166
Recognised in profit of loss *(Note 11)*	(59)	694	3,340	1,476	5,451
Acquisition of subsidiaries	1,010	–	–	–	1,010
At 31 December 2017 and 1 January 2018	2,125	4,051	27,639	3,812	37,627
Impact of initial application of IFRS 9	–	–	–	407	407
Recognised in profit of loss *(Note 11)*	1,672	489	(25,912)	77	(23,674)
Acquisition of subsidiaries	4,138	–	–	–	4,138
At 31 December 2018	7,935	4,540	1,727	4,296	18,498

Deferred tax assets have been recognised in respect of the above item as the directors, in their opinion, consider it is probable that taxable profits will be available and the above item can be utilised.

As at 31 December 2018, the Group had unrecognised tax losses carried forward of RMB128,840,000 (2017: RMB77,083,000) as the directors are of the view that it was not probable that such benefit of tax losses would be realised before they expire. The years of expiry of the tax losses unrecognised is as below:

	2018 RMB'000	2017 RMB'000
Year of expiry of PRC entities		
2018	**–**	8,702
2019	**19,582**	18,293
2020	**24,211**	19,177
2021	**9,223**	3,742
2022	**27,510**	27,169
2023	**48,314**	–
	128,840	77,083

26. DEFERRED TAX *(Continued)*

Deferred tax liabilities:

	Other intangible assets RMB'000	Fair value gain on investment properties RMB'000	Accrued subsidy income RMB'000	Total RMB'000
At 1 January 2017	(14,034)	(8,406)	(192)	(22,632)
Recognised in profit or loss *(Note 11)*	1,595	(1,231)	–	364
At 31 December 2017 and 1 January 2018	(12,439)	(9,637)	(192)	(22,268)
Recognised in profit or loss *(Note 11)*	270	(12)	–	258
At 31 December 2018	(12,169)	(9,649)	(192)	(22,010)

The above recognised deferred tax assets and liabilities cannot be set off.

A 10% PRC withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

No deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised was approximately RMB23,116,000 as at 31 December 2018 (2017: RMB18,585,000).

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 **RMB'000**	2017 RMB'000
Financial assets at FVOCI		
Unlisted equity securities, at fair value *(Note (i))*	**44,232**	–

Note:

(i) During the year ended 31 December 2018, the Group invested unlisted equity securities at cost of RMB13,299,000. As at 31 December 2018, the fair value change of unlisted equity securities, amounting to approximately RMB30,933,000 was recognised to other comprehensive income. Details of fair value of unlisted equity securities are set out in Note 38 (b).

28. SHARE CAPITAL

	2018		2017	
	Number of shares '000	**Amount HK$'000**	Number of shares '000	Amount HK$'000
Authorised				
Ordinary shares of HK$0.1 each	**10,000,000**	**1,000,000**	10,000,000	1,000,000

		2018			2017		
	Note	**Number of shares '000**	**Amount HK$'000**	**Amount RMB'000**	Number of shares '000	Amount HK$'000	Amount RMB'000
Issued and fully paid:							
At beginning of the year		**4,840,772**	**484,078**	**398,481**	4,576,606	457,661	376,184
Conversion of convertible bonds	*25*	**22,102**	**2,210**	**1,919**	253,198	25,320	21,365
Share issued under share option scheme	*35*	**–**	**–**	**–**	10,968	1,097	932
Share issued under subscription agreement *(Note)*		**1,904,762**	**190,476**	**155,886**	–	–	–
At end of the year		**6,767,636**	**676,764**	**556,286**	4,840,772	484,078	398,481

Note: On 19 June 2018, the Company issued the subscription shares to Fame Mountain Limited of 1,904,761,905 of par value HK$0.10 each at issue price of HK$0.42 for total consideration, before expenses, of HK$800,000,000.

29. RESERVES

(i) Reserves of the Group

(a) Share premium

The balance represents the excess of consideration received for issue of shares over the corresponding par value of the issued shares. The application of the share premium account is governed by the applicable laws of the Cayman Islands.

(b) Statutory reserve fund

The Group's subsidiaries established in the PRC are required to transfer no less than 10% of the profit after taxation, as determined in accordance with the applicable PRC accounting standards, to statutory reserve fund until the fund aggregates to 50% of their respective registered capital.

The statutory reserve fund can only be used, upon approval by the respective board of directors, to offset accumulated losses or increase capital.

(c) Enterprise expansion fund

In accordance with the Law of the People's Republic of China on Chinese-foreign Equity Joint Venture and the articles of association of a subsidiary, a subsidiary shall appropriate 5% of its annual statutory net profit (after offsetting any prior years' losses) to enterprise expansion fund.

(d) Capital redemption reserve

Capital redemption reserve occurs when shares of a company are redeemed or purchased wholly out of the Company's profits, the amount by which the Company's issued share capital is diminished on cancellation of the shares redeemed or purchased, shall be transferred to the capital redemption reserve.

If the shares are redeemed or purchased wholly or partly out of the proceeds of a fresh issue, and the aggregate amount of those proceeds is less than the aggregate nominal value, the amount of the difference shall be transferred to the capital redemption reserve.

29. RESERVES *(Continued)*

(i) Reserves of the Group *(Continued)*

(e) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy in Note 4(v).

(f) Convertible bonds reserve

The balance represents the equity component of outstanding convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds in Note 4(n).

(g) Others

Others comprise the share option reserve, property revaluation reserve, and fair value reserve.

The share options reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company and other parties recognised in accordance with the accounting policy in Note 4(x).

The property revaluation reserve represents the gains/losses arising on the revaluation of property (other than investment property). The balance on this reserve is wholly undistributable.

The fair value reserve represents the cumulative net change in the fair value of financial assets at fair value through other comprehensive income held at the end of the reporting period.

29. RESERVES *(Continued)*

(ii) Reserves of the Company

	Note	Share premium RMB'000	Contributed surplus RMB'000	Convertible bonds reserve RMB'000	Exchange reserve RMB'000	Others RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017		876,899	84,242	1,619	(23,221)	19,363	(805,602)	153,300
Total comprehensive income for the year		–	–	–	8,634	–	(355,407)	(346,773)
Recognition of equity-settled share-based payments	35	–	–	–	–	716	–	716
Forfeited share options transfer		–	–	–	–	(1,349)	1,349	–
Conversion of convertible bonds		121,029	–	–	–	–	–	121,029
Redemption of convertible bonds	25	–	–	(1,619)	–	–	1,619	–
Exercise of share options		4,971	–	–	–	(1,245)	–	3,726
At 31 December 2017 and 1 January 2018		1,002,899	84,242	–	(14,587)	17,485	(1,158,041)	(68,002)
Impact on initial application of IFRS9		–	–	–	–	–	(2,108)	(2,108)
Total comprehensive income for the year		–	–	–	24,171	–	(135,440)	(111,269)
Forfeited share options transfer		–	–	–	–	(647)	647	–
Conversion of convertible bonds		5,673	–	–	–	–	–	5,673
Share issued under share subscription agreement		473,647	–	–	–	–	–	473,647
At 31 December 2018		1,482,219	84,242	–	9,584	16,838	(1,294,942)	297,941

30. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

(a) Cash and cash equivalents

Cash at banks earns interest at floating rates based on daily bank deposit rates and are deposited with creditworthy financial institutions with no recent history of default.

(b) Pledged time deposits

Pledged time deposits can be analysed as follows:

	2018 RMB'000	2017 RMB'000
Guarantee deposits for issuance of bank acceptance	**4,500**	4,500

As at 31 December 2018, there is no deposit pledged to secure any bank loan of the Group (2017: Nil).

30. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS *(Continued)*

(c) Reconciliation of liabilities arising from financing activities:

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

	Note	**Bank borrowings** RMB'000	**Convertible bonds** RMB'000	**Receipt in advance from an investor (included in accruals and other payables)** RMB'000	**Total** RMB'000
Balance at 1 January 2018		157,051	305,260	188,975	651,286
Changes from investing cash flows:					
Net cash flow from acquisition of subsidiaries		374,715	–	–	374,715
Total changes from investing cash flows		374,715	–	–	374,715
Changes from financing cash flows:					
Proceeds from issue of share under share subscription agreement	*24*	–	–	(188,975)	(188,975)
Proceeds from loans and borrowings		630,340	–	–	630,340
Repayment of borrowings		(614,985)	–	–	(614,985)
Interest paid		(5,314)	(11,720)	–	(17,034)
Total changes from financing cash flows		10,041	(11,720)	(188,975)	(190,654)
Exchange adjustments		–	16,154	–	16,154
Changes in fair value		–	(152,588)	–	(152,588)
Other changes:					
Conversion of convertible bonds	*25*	–	(7,592)	–	(7,592)
Interest expense		10,502	33,006	–	43,508
Total other changes		10,502	25,414	–	35,916
Balance at 31 December 2018		552,309	182,520	–	734,829

(d) Major non-cash transaction

Part of the consideration for the purchase of subsidiaries that occurred during the year was settled by the offsetting the other borrowing to the vendors. Further details of the acquisitions are set out in note 41.

31. COMMITMENTS

(a) Capital commitments

As at the end of the reporting period, capital commitments not provided for in the financial statements were as follows:

	2018 RMB'000	2017 RMB'000
Contracted for	**12,841**	2,459
Authorised but not contracted for	**50,576**	59,774
	63,417	62,233

(b) Operating lease commitments

As at the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases are payables as follows:

As leasee

	2018 RMB'000	2017 RMB'000
Within 1 year	**149,318**	55,240
Over 1 year but within 5 years	**302,704**	128,402
Over 5 years	**117,141**	22,472
	569,163	206,114

As lessor

As at 31 December 2018 and 2017, the Group leased out its investment property under operating leases. As at the end of the reporting period, the total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	**1,979**	2,142
Over 1 year but within 5 years	**2,646**	4,247
Over 5 years	**–**	1,134
	4,625	7,523

32. *RELATED PARTIES TRANSACTIONS*

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation in full and are not disclosed in this note. Except for disclosed elsewhere in the notes to financial statements, details of transactions between the Group and other related parties are disclosed below.

(a) Transaction with related parties

(i) During the year and in the ordinary course of business, the Group has the following material transactions with related companies which are not member of the Group:

	2018	2017
	RMB'000	RMB'000
Loan to Car House Investment Limited ("Car House")	**–**	24,651
Sales of goods to the companies with common director:		
Xilinguolemeng Lifeng Taiyu Automobile Service Co., Ltd.* (錫林郭勒盟利豐泰裕汽車服務有限公司)	**2,039**	–
Inner Mongolia Lifeng Qingyu Automobile Service Co., Ltd.* (內蒙古利豐慶宇汽車服務有限公司)	**1,882**	–
Inner Mongolia Lifeng Taiyu Automobile Service Co., Ltd.* (內蒙古利豐泰宇汽車服務有限公司)	**811**	–
Others	**519**	–
Purchase of goods from the companies with common director:		
Inner Mongolia Yusheng Automobile Service Co., Ltd.* (內蒙古鈺盛汽車服務有限公司)	**1,944**	–
Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.* (內蒙古利豐鼎盛汽車有限公司)	**1,742**	–
Bayannur Lifeng Taidi Automobile Sales & Service Co., Ltd.* (巴彥淖爾市利豐泰迪汽車銷售服務有限公司)	**774**	–
Inner Mongolia Lifeng Qingyu Automobile Service Co., Ltd.* (內蒙古利豐慶宇汽車服務有限公司)	**497**	–
Others	**599**	–
Rental expenses paid to the companies with common director:		
Inner Mongolia Lifeng Automobile Co., Ltd.* (內蒙古利豐汽車有限公司)	**2,896**	–
Huhhot Lifeng Holding Co., Ltd.* (呼和浩特市利豐實業有限公司)	**970**	–
Hulun Buir Lifeng Vehicle Store Co., Ltd.* (呼倫貝爾市利豐汽車行有限公司)	**738**	–
Hinggan Lifeng Hengtai Automobile Sales Co., Ltd.* (興安盟利豐恒泰汽車銷售有限責任公司)	**621**	–
Tongliao Tonghua Investment Co., Ltd* (通遼市通華投資有限責任公司)	**590**	–
Others	**815**	–

* *For identification purposes only*

32. RELATED PARTIES TRANSACTIONS *(Continued)*

(a) Transaction with related parties *(Continued)*

(i) *(Continued)*

In February 2017, Perfect Progress, a subsidiary of the Company entered into a loan agreement with Car House, a company established in the British Virgin Islands and wholly owned by one of the senior management of the Company, with principal amount of Taiwan Dollar ("NTD") 110,000,000 for a term of three years. The loan was interest free.

Sales of goods were made at the Group's usual list prices discounted to reflect the quantity of purchase and the relationship between the parties.

(ii) As at 31 December 2018, a non-controlling owner of a subsidiary granted the subsidiary collateral of creditor amounting to RMB18,013,000 (2017: RMB15,183,000) with his own properties.

(iii) As at 31 December 2018, a senior management member of the Company who is also a non-controlling owner of a subsidiary of the Group provided a guarantee, together with other guarantees, for a bank loan of RMB20,000,000 (2017: RMB5,000,000) of the subsidiary.

(iv) *Transaction with key management personnel*

Transaction with the members of key management during the year, including the remuneration for executive directors and non-executive directors as disclosed in Note 10(a), is as follows:

	2018	2017
	RMB'000	RMB'000
Salaries and other allowances	**4,110**	5,329
Retirement scheme contributions	**115**	96
Share-based payments	**–**	410
Total	**4,225**	5,835

Total remuneration is included in "Employee benefit expenses" (see Note 9).

(v) Pursuant to the convertible note purchase agreement, CDH Fast Two Limited ("CDH"), being the controlling shareholder of the Company, has entered into a share charge agreement, pursuant to which CDH will charge, among other things, 2,889,580,226 shares held by it in favour of the High Inspiring for the issuance of CCBI CBs amounting to US$35,000,000.

(vi) *Applicability of the Listing Rules relating to connected transactions*

The related party transactions included in (i), (ii), (iii), (iv) and (v) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. Those transactions, except for (v) are exempt from the disclosure requirements in Chapter 14A of the Listing Rules as they are either below the de minimis threshold under Rule 14A.76(1) or meeting the exemption criterion for financial assistance received by the listed issuer's group under Rule 14A.90. The transaction included in (v) above has been announced by the Company on 21 August 2017.

32. *RELATED PARTIES TRANSACTIONS (Continued)*

(b) Amounts due from related parties

As at the end of the reporting period, the Group had the following material account receivable balance with its related parties:

	2018 RMB'000	2017 RMB'000
Car House	**24,262**	24,262
New Focus Richahaus	**12,679**	15,006
Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.* (內蒙古利豐鼎盛汽車有限公司)	**443,992**	–
Tongliao Tonghua Investment Co., Ltd* (通遼市通華投資有限責任公司)	**49,036**	–
Chifeng Lifeng Automobile Service Co., Ltd.* (赤峰市利豐汽車行有限公司)	**44,132**	–
Hinggan Lifeng Hengtai Automobile Sales Co., Ltd.* (興安盟利豐恒泰汽車銷售有限責任公司)	**42,222**	–
Hulun Buir Vehicle Store Co., Ltd.* (呼倫貝爾市利豐汽車行有限公司)	**25,295**	–
Baotou Lifeng Automobile Trading Co., Ltd.* (包頭市利豐汽車貿易服務有限公司)	**20,860**	–
Ningbo Beilun Huidong Business Service Co., Ltd. * (寧波北輪慧東商務服務有限公司)	**10,800**	–
Xilinguolemeng Lifeng Vehicle Store Co., Ltd* (錫林郭勒盟利豐汽車行有限公司)	**8,581**	–
Inner Mongolia Lifeng Wuling Automobile Sales & Service Co., Ltd.* (內蒙古利豐五菱汽車銷售服務有限公司)	**7,898**	–
Ningbo Shenglan Finance Service Co., Ltd.* (寧波勝藍財務服務有限公司)	**4,280**	–
Erdos Tianyi Automobile Sale Co., Ltd.* (鄂爾多斯市天意汽車銷售有限公司)	**3,382**	–
Hohhot Lifeng Vehicle Store Co., Ltd.* (呼和浩特市利豐汽車行有限公司)	**1,395**	–
Others	**4,264**	–
	703,078	39,268

* *For identification purposes only*

32. RELATED PARTIES TRANSACTIONS *(Continued)*

(c) Amounts due to related parties

As at the end of the reporting period, the Group had the following material account payable balance with its related parties:

	2018 RMB'000	2017 RMB'000
Beijing Yuyang Century Trading Co., Ltd.	**1,211**	1,219
Chifeng Lifeng Vehicle Store Co., Ltd.* (赤峰市利豐汽車行有限公司)	**19,514**	–
Tongliao Tonghua Investment Co., Ltd* (通遼市通華投資有限責任公司)	**17,794**	–
Inner Mongolia Yusheng Automobile Service Co., Ltd.* (內蒙古鈺盛汽車服務有限公司)	**6,389**	–
Inner Mongolia Lifeng Automobile Co., Ltd.* (內蒙古利豐汽車有限公司)	**3,935**	–
Huhhot Lifeng Holding Co., Ltd.* (呼和浩特市利豐實業有限公司)	**1,766**	–
Inner Mongolia Lifeng Taiqi Automobile Service Co., Ltd.* (內蒙古利豐泰奇汽車服務有限公司)_	**1,754**	–
Xilinguolemeng Lifeng Vehicle Store Co., Ltd* (錫林郭勒盟利豐汽車行有限公司)	**1,698**	–
Inner Mongolia Lifeng Wuling Automobile Sales & Service Co., Ltd.* (內蒙古利豐五菱汽車銷售服務有限公司)	**1,524**	–
Baotou Lifeng Automobile Trading Co., Ltd.* (包頭市利豐汽車貿易服務有限公司)	**1,024**	–
Others	**9,914**	1,500
	66,523	2,719

(d) Immediate and ultimate controlling parties

At 31 December 2018, the directors consider the immediate parent and ultimate controlling parties of the Group to be CDH Fast Two Limited and China Diamond Holdings Company Limited respectively, both of which are incorporated in the British Virgin Islands. These equities do not produce financial statement available for public use.

33. SUBSEQUENT EVENTS

There is no significant event of the Company after the Reporting Year.

* *For identification purposes only*

34. EMPLOYEE RETIREMENT BENEFITS

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Company participate in defined contribution retirement schemes (the "Schemes") organised by the PRC municipal government authorities where the subsidiaries are registered whereby these PRC subsidiaries are required to make a contribution at the respective local rates of the eligible employees' salaries to the Schemes. The Group has accrued for the required pension fund contributions which are remitted to the respective social security offices when the contributions become due. The social security offices are responsible for making the benefit payments to the retired employee covered under the Schemes.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

35. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The Company adopted a new share option scheme ("New Scheme") by a resolution of the shareholders passed on 25 June 2014 and terminated on the same date the share option scheme ("Old Scheme") adopted by the Company on 13 February 2005. The principal purpose of the New Scheme is to provide incentives and rewards to eligible participants for their contribution or potential contribution to the Group.

On 14 October 2014, the Company granted share options to eligible persons under the New Scheme to subscribe for a total of 149,500,000 ordinary shares of HK$0.1 of the Company. The exercise price of the granted options is HK$0.5 per share, which is equal to the closing price of the shares on the date of grant. The options granted to each grantee are valid for a period of five years (i.e. valid until 14 October 2019) commencing from the day after the date of grant. Each of the three tranches of the options, representing one third of the options equally, will be excisable on 14 October 2015, 14 October 2016 and 14 October 2017 respectively and shall be vested upon the fulfilment of certain performance targets and other vesting conditions as described in the grant letter issued by the Company to each grantee.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binominal lattice model.

The Group amortised the fair value of the share options calculated above over the relevant vesting period. Accordingly, an amount of RMB Nil was charged as an equity-settled share-based payment to profit or loss for the year of 2018 (2017: RMB716,000).

During 2018, Nil shares options had been exercised by the grantees to the terms of the share option scheme (2017: 10,967,861 shares), and 4,051,003 share options had been forfeited (2017: 15,932,532 shares).

The number of share options exercisable under the New Scheme as at 31 December 2018 is 88,659,720 (2017: 92,710,723).

35. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Share options outstanding as at 31 December 2018 and 2017 have the following expiry dates and exercise prices:

2018

		Share options		
Expiry date	**Exercise price HK$ per share**	**granted to directors '000**	**granted to employees '000**	**Total '000**
14 October 2019	**0.5**	**–**	**88,660**	**88,660**
Weighted average exercise price (HK$)	**–**	**0.5**	**0.5**	**0.5**

2017

		Share options		
Expiry date	Exercise price HK$ per share	**granted** to directors '000	granted to employees '000	Total '000
14 October 2019	0.5	–	92,711	92,711
Weighted average exercise price (HK$)	–	0.5	0.5	0.5

36. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of (i) debts, which includes the borrowings and the convertible bonds as disclosed in Notes 23 and 25, respectively; (ii) cash and cash equivalents and pledged time deposits in Note 30; (iii) equity attributable to equity shareholders of the Company, comprising share capital disclosed in Note 28 and reserves as disclosed in consolidated statement of changes in equity.

The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group manages the capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

36. CAPITAL RISK MANAGEMENT *(Continued)*

The net debt to equity ratio at end of the reporting period was as follows:

	2018 RMB'000	2017 RMB'000
Debts	**734,829**	462,311
Cash and cash equivalents and pledged time deposits	**(138,960)**	(137,444)
Net debt position	**595,869**	324,867
Equity attributable to equity shareholders of the Company	**999,448**	196,421
Net debt to equity ratio	**59.6%**	165.4%

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES

The Group's major financial instruments include equity and debt investments, bank and other borrowings, trade receivables, trade payables and convertible bonds. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

The credit risk of the Group mainly arises from cash and cash equivalents, trade receivables, deposit and other receivables and amounts due from related parties. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be close to zero and no provision was made as of 31 December 2018.

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. It considers available reasonable and supportive forwarding-looking information.

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

(a) Credit risk *(Continued)*

As at 31 December 2018, trade receivables, deposits and other receivables and amounts due from related parties that are individually significant have been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

Majority of the Group's revenue is received from individual customers in relation to sale of electronic and power-related automotive parts and accessories and retail distribution of merchandise goods. As at the end of the year, the top three debtors and the largest debtor accounted for approximately 36.88% and 15.83% (2017: 28.12% and 15.56%), of the Group's trade receivables balance. In view of the history of business dealings with the debtors and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these debtors saved for the debtor related to the impaired trade receivable disclosed in the below. Management makes periodic assessment on the recoverability of the trade and other receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the debtors.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 0 to 360 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

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

(a) Credit risk *(Continued)*

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets/other items (including other receivables and amounts due from related parties)
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	
			RMB'000	RMB'000
Financial assets at amortised costs				
Trade receivables *(note 22(a))*	Low risk (note (a))	Lifetime ECL (not credit impaired)	1,799	
	Doubtful	Lifetime ECL (not credit impaired)	428	
	Loss	Credit-impaired	348	
	Write-off	Amount is written off	14,992	17,567
Other financial assets/other items (including other receivables and amounts due from related parties)	Low risk	12-month ECL	9,663	
	Doubtful	Lifetime ECL (not credit impaired)	–	
	Loss	Credit-impaired	95	
	Write-off	Amount is written off	950	10,708

Note: (a) For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items on an individual balance basis.

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

(a) Credit risk *(Continued)*

The closing loss allowances for including trade receivables, deposits and other receivables and amounts due from related parties as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Trade receivables RMB'000	Other financial assets/ other items (including other receivables and amounts due from related parties) RMB'000
At 31 December 2017-IAS 39	13,578	950
Remeasurement	1,183	3,336
At 1 January 2018-IFRS 9	14,761	4,286
Increase in loss allowance recognized in profit or loss during the year	2,806	6,422
At 31 December 2018-IFRS 9	17,567	10,708

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 60-90 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The credit quality of the amounts due from related parties and deposits and other receivables excluding prepayments has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. The directors are of the opinion that the credit risk of deposits and other receivables and the amounts due from related parties is low due to the sound collection history of the receivables due from them. Therefore, expected credit loss rate of the amounts due from related parties and deposits and other receivables excluding prepayments is assessed to be insignificant and provision for expected credit loss of RMB6,422,000 was made as of 31 December 2018.

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

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

As at 31 December 2018, the Group failed to comply with covenant requirements of CCBI CBs with a carrying amount of RMB182,520,000 (2017: RMB305,260,000) (Note 25). Such breach of the covenant requirements may cause the relevant facilities to become repayable on demand. Based on the latest communication with CCBI, it has not indicated its intention to request an immediate repayment. The Group is also negotiating with CCBI to revise the covenant requirements in order to ensure continuous compliance of the covenant requirements.

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

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2018						
Bank and other borrowings, secured	**552,309**	**586,344**	**586,344**	**–**	**–**	**–**
Trade payables	**316,168**	**316,168**	**316,168**	**–**	**–**	**–**
Other payables	**218,444**	**218,444**	**218,444**	**–**	**–**	**–**
Convertible bonds	**169,328**	**194,603**	**194,603**	**–**	**–**	**–**
Amount due to related parties	**66,523**	**66,523**	**66,523**	**–**	**–**	**–**
Total	**1,322,772**	**1,382,082**	**1,382,082**	**–**	**–**	**–**
2017						
Bank and other borrowings, secured	157,051	160,508	160,508	–	–	–
Trade payables	242,755	242,755	242,755	–	–	–
Other payables	428,163	428,163	428,163	–	–	–
Convertible bonds	145,287	191,939	191,939	–	–	–
Amount due to related parties	2,719	2,719	2,719	–	–	–
Total	975,975	1,026,084	1,026,084	–	–	–

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

(c) Interest rate risk

The Group's fair value interest-rate risk mainly arises from liability component of convertible bonds as disclosed in Note 25. Most of bank borrowings were issued at fixed rates which expose the Group to fair value interest rate risk.

It is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's loss for the year and accumulated losses as at 31 December 2018 by RMB552,309 (2017: by RMB339,674). The Group has not used any financial instrument to hedge potential fluctuations in interest rate. The interest rates and terms of repayment of the Group's borrowings are disclosed in Note 23.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily US$.

The Group is also exposed to foreign currency exchange risk arising from the cash and cash equivalents denominated in US$.

The following table details the Group's exposure at the end of reporting period to currency risk arising from transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	2018			2017
	US$'000	**HK$'000**	**NTD'000**	US$'000
Trade and other receivables	**16,188**	**151,000**	**166,757**	12,772
Trade and other payables	**(407)**	**(500)**	**(4)**	(916)
Cash and cash equivalents and pledged time deposits	**5,657**	**2,771**	**1,458**	3,763
Bank borrowings	**(4,000)**	**–**	**–**	(4,000)
Overall net exposure	**17,438**	**153,271**	**168,211**	11,619

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

(d) Currency risk *(Continued)*

The following table indicates the approximate change in the Group's loss for the year and accumulated losses and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower. A positive number below indicates a decrease in loss or an increase in profit and other equity where the RMB weakens against the relevant currency. For a strengthening of the RMB against the relevant currency, there would be an equal and opposite impact on the profit or loss and other equity, and the balances below would be negative.

	2018			2017		
	Increase in foreign exchange rate	**Effect on loss for the year and accumulated losses RMB'000**	**Effect on other components of equity RMB'000**	Increase in foreign exchange rate	Effect on loss for the year and accumulated losses RMB'000	Effect on other components of equity RMB'000
US$	**5%**	**5,993**	**–**	5%	2,884	–
HK$	**5%**	**6,715**	**–**	5%	2,750	–
NTD	**5%**	**1,251**	**–**	5%	1,034	–
		13,959	**–**		6,668	–

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of reporting period and had been applied to each of the Group entities; exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rate over the period until the end of the next reporting period. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' results for the year and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of reporting period for presentation purposes. The analysis is performed on the same basis for 2017.

38. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts and fair values of the Group's financial assets and financial liabilities as recognised at 31 December 2018 and 2017 may be categorised as follows:

	2018		2017	
	Carrying value RMB'000	**Fair value RMB'000**	Carrying value RMB'000	Fair value RMB'000
Financial assets				
– Loans and receivables (including cash and cash equivalents and pledged time deposits), at amortised cost	**1,561,879**	**1,561,879**	774,037	774,037
Financial liabilities				
– Financial liabilities, at amortised cost	**1,494,876**	**1,494,876**	831,227	831,227
– Conversion option embedded in convertible bonds, at fair value	**13,192**	**13,192**	159,973	159,973

(a) The fair values of financial assets and liabilities are determined as follows:

– The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

– The fair value of other financial assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments and forecast on the financial performance and other measures of the acquirees under the contingent consideration arrangements. The directors are of the opinion that there are no reasonably possible alternative assumptions to the inputs in the fair value measurement.

(b) Fair value hierarchy

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

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

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

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

38. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY *(Continued)*

(b) Fair value hierarchy *(Continued)*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
As at 31 December 2018				
Financial assets at FVTOCI	**–**	**44,232**	**–**	**44,232**
Conversion option embedded in convertible bonds	**–**	**–**	**(13,192)**	**(13,192)**
As at 31 December 2017				
Convertible bonds	–	–	(159,973)	(159,973)

The financial assets at FVTOCI with carrying amount of RMB44,232,000 (2017: N/A) was classified as level 2 measurement at 31 December 2018.

The following table analysed the financial instruments which are measured at fair value at the end of the reporting period into the three-level hierarchy.

	Fair value 2018 RMB'000	**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable inputs**	
Financial assets					
Financial assets at fair value through other comprehensive income	44,232	Level 2	Market comparison	N/A	
Financial liabilities					
Conversion options embedded in convertible bonds	(13,192)	Level 3	Binomial Option Pricing Model	Discount rate	16.43%
				Risk free rate (HK)	1.75%
				Risk free rate (US)	2.584%
				Volatility	54.908%

38. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY *(Continued)*

(b) Fair value hierarchy *(Continued)*

The movement in fair value measurements in Level 2 during the year are as follows:

	2018 RMB'000	2017 RMB'000
Unlisted equity securities:		
At 1 January	**–**	–
Payment for purchase	**13,299**	–
Net unrealised gains and losses recognised in other comprehensive income during the year	**30,933**	–
At 31 December	**44,232**	–

The fair value of conversion option embedded in convertible bonds is determined using binomial option pricing model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2018, it is estimated that with all other variables held constant, an decrease/increase in the expected volatility by 5% would have decreased/increased the Group's profit by RMB2,350,000/RMB1,911,000 (2017: RMB3,657,000/RMB2,157,000).

The movement in fair value measurements in Level 3 during the year are as follows:

	2018 RMB'000	2017 RMB'000
Conversion option embedded in convertible notes:		
At 1 January	**(159,973)**	–
Issuance of convertible bonds *(Note 25)*	**–**	(39,129)
Changes in fair value recognised in profit or loss during the year *(Note 25)*	**152,588**	(208,031)
Conversion of CCBI CBs *(Note 25)*	**2,213**	87,042
Exchange realignment	**(8,020)**	145
At 31 December	**(13,192)**	(159,973)

39. CONTINGENT LIABILITIES

At the end of 31 December 2017 and 2018, the Group had no significant contingent liability.

40. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	31 December 2018 RMB'000	31 December 2017 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Interest in subsidiaries		**804,501**	504,205
Amounts due from related parties	*32(b)*	**24,262**	24,262
		828,763	528,467
Current assets			
Deposits, prepayments and other receivables		**211,060**	258,590
Cash and cash equivalents		**13,569**	47,475
		224,629	306,065
Current liabilities			
Accruals and other payables		**11,030**	198,793
Convertible bonds	*25*	**182,520**	305,260
Amount due to related parties		**5,615**	–
		199,165	504,053
Net current assets/(liabilities)		**25,464**	(197,988)
Total assets less current liabilities		**854,227**	330,479
NET ASSETS		**854,227**	330,479
CAPITAL AND RESERVES			
Share capital	*28*	**556,286**	398,481
Reserves	*29(ii)*	**297,941**	(68,002)
TOTAL EQUITY		**854,227**	330,479

41. ACQUISITION OF SUBSIDIARIES

On 30 September 2018, the wholly-owned subsidiary of the Group acquired 100% of the issued share capital of Inner Mongolia Chuangying Automobile Co., Ltd. ("Chuangying") (內蒙古創贏汽車有限公司) from Inner Mongolia Lifeng Dingsheng Auto Co., Ltd ("Lifeng") (內蒙古利豐鼎盛汽車有限公司) at total consideration approximately RMB635,219,000. Chuangying is principally engaged in 4S dealership stores and related businesses which included (i) sales of automobile and provision of after-sales services,including primarily repair and maintenance services; and (ii) distribution of automobile insurance products and automobile financial products.

Details of the purchase consideration and the net assets acquired are as follows:

Purchase consideration

	RMB'000
Cash paid	391,006
Offset by other borrowing to the vendor	244,213
Total purchase consideration	635,219

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value RMB'000
Property, plant and equipment	29,890
Deferred tax asset	4,138
Trade receivables	23,810
Inventories	361,751
Prepayments, deposits and other receivables	174,798
Rebate receivable from suppliers	74,328
Tax recoverable	2,082
Amount due from related parties	650,963
Cash and cash equivalents	41,205
Trade and bills payables	(56,416)
Other payables and accruals	(168,981)
Tax payables	(3,834)
Amount due to related parties	(91,935)
Borrowings	(374,715)
Net identifiable assets acquired	667,084
Less: Non-controlling interest	(18,028)
Less: Consideration	(635,219)
Bargain purchase	13,837

41. ACQUISITION OF SUBSIDIARIES *(Continued)*

The acquisition contributed revenues of RMB546,105,000 and net loss of RMB3,800,000 to the Group for the period from 1 October to 31 December 2018. If the acquisition had occurred on 1 January 2018, the pro-forma revenue and loss for the year ended 31 December 2018 would have been RMB2,599,240,000 and RMB31,465,000 respectively. The directors of the Group consider these pro-forma numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Purchase consideration – cash outflow:

	RMB'000
Cash consideration	391,006
Less: cash and cash equivalents	(41,205)
Net outflow of cash	349,801

42. COMPARATIVE FIGURES

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods design, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 3.

FINANCIAL SUMMARY

For the year ended 31 December 2018

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out below:

RESULTS

	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,792,548**	1,267,928	1,292,665	1,254,191	1,397,498
Profit/(loss) before taxation	**81,769**	(371,338)	(145,811)	(103,302)	(26,379)
Income tax	**(27,964)**	1,368	(2,507)	(645)	(9,422)
Profit/(loss) for the year	**53,805**	(369,970)	(148,318)	(103,947)	(35,801)
Attributable to:					
Equity shareholders of the Company	**107,833**	(315,465)	(123,459)	(90,967)	(43,223)
Non-controlling interests	**(54,028)**	(54,505)	(24,859)	(12,980)	7,422
	53,805	(369,970)	(148,318)	(103,947)	(35,801)

ASSETS AND LIABILITIES

	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**2,570,157**	1,380,184	1,212,834	1,319,032	1,188,415
Total liabilities	**(1,584,733)**	(1,162,257)	(783,667)	(734,319)	(648,118)
Net assets	**985,424**	217,927	429,167	584,713	540,297