GRAND BAOXIN AUTO GROUP LIMITED
廣匯寶信汽車集團有限公司

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

Stock Code 股份代號：1293

ANNUAL REPORT
2018 年報

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. LI Jianping *(Chairman)*
Mr. WANG Xinming *(President)*
Mr. QI Junjie
Mr. LU Ao
Ms. XU Xing (re-designated from non-executive Director on 8 June 2018)

Non-Executive Director

Mr. Zhou Yu (resigned on 10 May 2018)

Independent Non-Executive Directors

Mr. DIAO Jianshen
Ms. LIU Yangfang (appointed on 8 June 2018)
Mr. CHAN Wan Tsun Adrian Alan
Mr. WANG Keyi (resigned on 8 June 2018)

AUDIT COMMITTEE

Mr. DIAO Jianshen (Chairman)
Ms. LIU Yangfang (appointed on 8 June 2018)
Mr. CHAN Wan Tsun Adrian Alan
Mr. WANG Keyi (resigned on 8 June 2018)

REMUNERATION COMMITTEE

Mr. DIAO Jianshen (Chairman)
Mr. LI Jianping
Ms. LIU Yangfang (appointed on 8 June 2018)
Mr. WANG Keyi (resigned on 8 June 2018)

NOMINATION COMMITTEE

Ms. LIU Yangfang *(Chairman)* (appointed on 8 June 2018)
Mr. LI Jianping
Mr. DIAO Jianshen
Mr. WANG Keyi (resigned on 8 June 2018)

JOINT COMPANY SECRETARIES

Ms. XU Xing (appointed on 20 November 2018)
Ms. CHENG Mei Chun

AUTHORISED REPRESENTATIVES

Mr. LI Jianping
Ms. XU Xing

STOCK CODE

1293

WEBSITE

www.klbaoxin.com

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Hong Kong.

REGISTERED OFFICE

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Grand Cayman KY1-1104, Cayman Islands.

PRINCIPAL SHARE REGISTRAR

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Grand Cayman, KY1-1102, Cayman Islands.

HONG KONG BRANCH SHARE REGISTRAR

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

LEGAL ADVISERS TO HONG KONG LAW

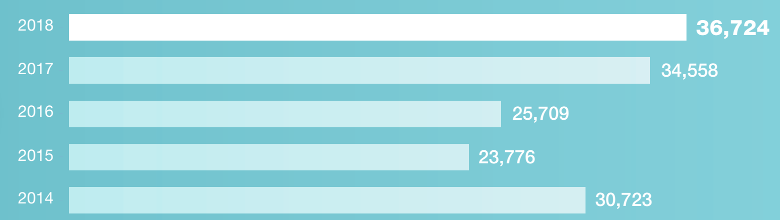
Kirkland & Ellis
26th Floor, Gloucester Tower, The Landmark,
15 Queen's Road Central, Hong Kong.

AUDITORS

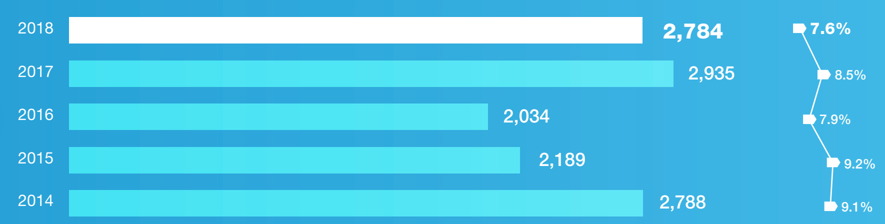
Ernst & Young
Certified Public Accountants
22/F CITIC Tower,
1 Tim Mei Avenue, Central, Hong Kong.

FINANCIAL **HIGHLIGHTS**

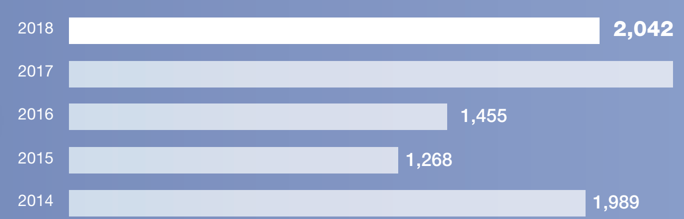
REVENUE



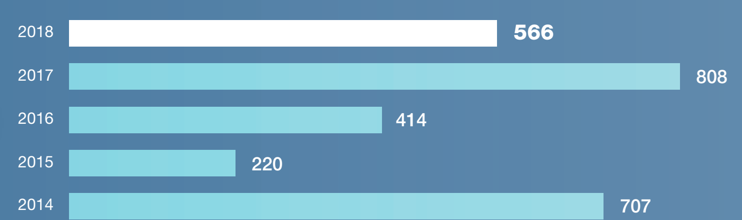
GROSS PROFIT AND GROSS PROFIT MARGIN



EBITDA



PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT



CHAIRMAN'S **STATEMENT**

DEAR SHAREHOLDERS,

On behalf of the board of directors and the management of Grand Baoxin Auto Group Limited (the "**Company**" or "**our Company**"), I am pleased to present the annual results report of the Company and its subsidiaries (collectively, the "**Group**", "**our Group**", "**we**" or "**us**") for the twelve months ended 31 December 2018 (the "**Reporting Period**").

The year of 2018 witnessed the transformation of China's economy from high-speed growth to high-quality development and increased downward pressure but generally stable development with progress amid stability. China's GDP exceeded RMB90 trillion, representing an increase of 6.6% as compared with previous year. Affected by a multiple of factors, China's automobile market suffered negative growth for the first time in the recent 30 years. According to the data released by China Association of Automobile Manufactures, there were 27,809,000 units and 28,081,000 units of automobile produced and sold respectively in China, representing a year-on-year decrease of 4.16% and 2.76% respectively, of which 23,530,000 units and 23,710,000 units of passenger vehicles were produced and sold respectively, representing a year-on-year decrease of 5.15% and 4.08% respectively.

In 2018, in response to the changes of the external environment, relying on the existing well-developed outlet layout and brand resource and with reference to the manufacturers' sales policies, following the market rules, the Group has made more efforts in the development and effective use of customer resources, and expanded the potential car buyers in a wider range. During the reporting period, the Group has strengthened its collaboration with the car manufacturers and enhanced mutual understanding through more frequent high-level communication with the manufacturers. Throughout the year, the Group has organised more than 30 high-level meetings with more than 20 brands including BMW, Audi, Jaguar & Land Rover, Volvo and GM Buick and obtained high-level business policy support from many brands to lay the solid foundation to guarantee the stable sales profit and ensure the overall profitability of our sale of new automobiles. As at 31 December 2018, the Group's total sales volume of new automobiles was 112,643 units, representing a year-on-year increase of 7.8%. Sales revenue from new automobiles amounted to RMB32,203.4 million, representing a year-on-year increase of 4.8%.

CHAIRMAN'S STATEMENT

In addition, with the increasing parc and aging of passenger vehicles in China, in 2018, the aftersales service market of passenger vehicles in China has continued to achieve rapid growth. As a result, the source of revenue and gross profit of Chinese car dealers has preliminarily completed the structural transformation from sale of new vehicles to after-sales services, which will facilitate the improvement of car dealers' profitability.

Looking forward to the future, the automobile dealership industry is being confronted with unprecedented reform and shuffle. In this new circumstance, we will embrace the new changes and new development brought by new areas, new models and new business with a strategic and forward-looking view. Focusing on the business philosophy of "people-oriented and customers first", we will explore the new consumption logic in the new circumstance and proactively conduct synergy and cooperation between each business segment, launch new products and achieve service innovation by means of the powerful industry integration capability of the Group.

In the end, on behalf of the Group, I would like to extend my heartfelt gratitude to all our shareholders, customers and business partners for their continuous trust and support and to all diligent and dedicated staff. We are convinced that, all the achievements the Group has made are attributed to their great support and the concerted efforts of our team. Looking forward to the future, promised by the vast market space in China, we are bound to attain our desired objectives and maximise returns for shareholders.

Yours sincerely,
LI Jianping
Chairman

Hong Kong, 29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Industry review

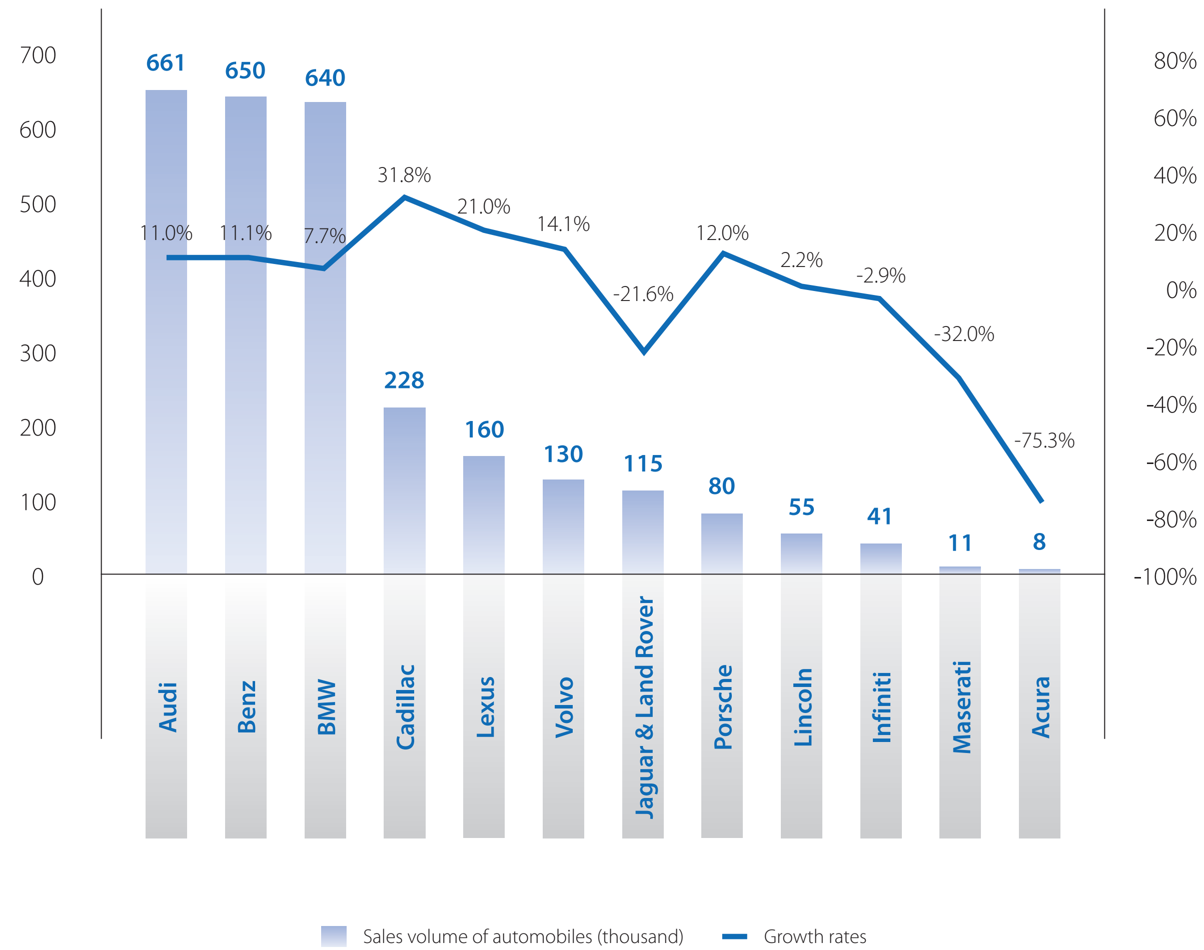
In 2018, despite of being affected by many internal and external factors and confronted with the increasingly complicated international environment and a challenging and strenuous domestic reform mission, China's economy has maintained its steady development progress. According to data released by the National Bureau of Statistics, China's GDP exceeded RMB90 trillion for the year of 2018, representing an increase of 6.6% compared to that of last year.

The automobile industry was under pressure as a result of the changes in economic situation and policy environment in 2018. After the high-speed growth for several consecutive years, the production and sales volume of automobiles in China has reached a large base number of 29,400,000 units in 2017. It would be relatively difficult to obtain the continuous high growth on this basis again. Since the third quarter of 2018, affected by multiple factors including the cancellation of preferential treatment of purchase tax, deleveraging policy and escalating trade conflicts between China and the US, the growth in the sales of automobiles experienced a certain level of decline and weak market performance. According to statistics from the China Association of Automobile Manufacturers, the sales volume of passenger vehicles in the PRC amounted to 23.71 million units in 2018, representing a year-on-year decrease of 6.3% as compared with 2017.

In 2018, in sharp contrast with the passenger vehicle market as a whole, the mainstream luxury automobile brands in China continued to grow and recorded a high year-on-year growth of 8%, outshining all other categories of vehicles. In 2018, according to the sales volume data officially published by luxury automobile companies, the sales volume of luxury automobiles reached 2.81 million units, accounting for 11.9% of the total sales volume of passenger vehicles of 23.71 million units in China. The high growth of the luxury automobile market in China was mainly driven by the demands for upgrading purchase as a result of the upgrade in consumption of previous car buyers, and the increase of sales volume of luxury automobiles was driven by the increase in demands for luxury brands by the younger generations in China.

In 2018, the mainstream luxury brands, namely Benz, BMW and Audi ("**BBA**") all achieved different extent of growth and mostly at a rate of over 10%, which ignited a ray of hope in the gloomy automobile market in 2018. As always, the competition among BBA in China's luxury automobile market has never stopped and has become the usual state. In 2018, the three luxury brands BBA accounted for approximately 70.2% of the new automobile retail sales out of the top 12 luxury automobile brands[*(Note)*]. On the contrary, Jaguar & Land Rover's performance in 2018 was disappointing due to quality and word of mouth. In 2018, the sales volume of Jaguar & Land Rover fell by 4.6% in the global market, reaching 592,700 vehicles, and declined by 21.6% in the Chinese market with a total sales volume of less than 115,000 vehicles.

Sales volume of the top 12 luxury automobile brands in 2018



(Note: The Top 12 luxury automobile brands are Benz, Audi, BMW, Cadillac, Jaguar & Land Rover, Lexus, Volvo, Porsche, Lincoln, Infiniti, Maserati and Acura)

With the continuous growth of automobile ownership volume in China, the automobile finance industry also develops and expands. Taking the automobile finance industry as a whole, both traditional financial products dominated by manufacturers and banks and internet financial products invested by BAT (B=Baidu, A=Alibaba, T=Tencent) have achieved considerable development. According to the statistics from the Report of Market Prospective and Investment Strategic Planning on China Automobile Finance Industry (中國汽車金融行業市場前瞻與投資戰略規劃分析報告) issued by the Prospective Industry Research Institute, the size of China's automobile finance market was close to RMB600 billion in 2014, which expanded to RMB1,385.4 billion at the end of 2018 and is expected to reach approximately RMB2 trillion by 2020, indicating that the future prospect of the internet automobile finance industry is promising.

MANAGEMENT DISCUSSION AND ANALYSIS

With the continuous optimisation of China's secondhand automobile industry, taxation policies and the cancellation of relocation restriction policy, the secondhand automobile market has entered a period of exponential growth. The revised Measures for the Administration of Automobile Sales (汽車銷售管理辦法) will allow free movement of automobile parts and components, thus reducing the renovation cost of secondhand vehicles. Dealers can also enhance after-sales stickiness by reducing the price of accessories and offering customers various discounts. According to the data issued by China Automobile Dealers Association, in 2018, China's transaction volume of secondhand vehicles exceeded 13.82 million units, representing a year-on-year increase of 11.46%, and the transaction amount reached RMB860.3 billion, representing a year-on-year increase of 6.3%.

BUSINESS OVERVIEW

For the year ended 31 December 2018, the Group recorded revenue of approximately RMB36,723.8 million, representing a year-on-year increase of 6.3%; gross profit of RMB2,784.5 million, representing a decrease of 5.2%; profit attributable to equity holders of RMB566.0 million, representing a decrease of 29.9%; and earnings per share of RMB0.20.

Under the challenges caused by slowing down of the growth of new car sales, having replied on its established extensive network layout and brand resources, the Group removed the dependency on a specific brand or region and meanwhile the cost for developing new channels has effectively been reduced. This also enhanced the synergy effect of the Company's whole industrial chain linking new automobiles sales, financial service, insurance service, after-sales service and secondhand automobile sales.

New automobile sales

As a small segment of the overall automobile industry, the luxury automobiles seemed immune to the "negative impact". Most of the luxury automobile brands recorded a stable growth in sales volume, except that the sales volume of Jaguar & Land Rover and Maserati decreased comparatively larger. According to public data, the total sales volume of luxury automobiles exceeded 2.81 million units in 2018, representing a year-on-year increase of more than 9%.

During the reporting period, in response to changes in the external environment and sales policies adopted by manufacturers, the Group strengthened regional management of new car sales, proactively strove for sales opportunities of the extended business of each automobile, and continued to enhance the penetration rate of the extended business of the Group such as auto finance and auto insurance and the profitability of automobile solely.

As at 31 December 2018, the Group's total sales volume of new automobiles was 112,643 units, representing a year-on-year increase of 7.8%. Sales revenue from new automobiles amounted to RMB32,203.4 million, representing a year-on-year increase of 4.8%, of which the sales volume of luxury and ultra-luxury automobiles was 82,797 units, representing a year-on-year increase of 8,733 units; sales revenue amounted to RMB28,588.9 million, accounting for 88.8% of the sales revenue from new automobiles. Gross profit margin of the sales of new automobiles was 2.2%.

After-sales service

According to the statistics from the Ministry of Public Security as at the end of 2018, the civilian automobile ownership volume in China was 240.28 million units, representing a year-on-year increase of 10.5%. Even though under the context of declining in the sales of passenger vehicles, the influx of capital has accelerated the planning for the automobile after-sales market, and with the gradual improvement of core technologies such as the Internet, big data, and cloud computing and the steady improvement of automobile ownership volume, the demand for diversified services such as maintenance, car beauty, and automobile supplies is constantly increasing, generating remarkable market potential.

During the reporting period, the after-sales service business of the Group has achieved a healthy and stable development. The Group has established a unified high-quality service standard by improving and strengthening the technical support of the Hui Yang Che (匯養車) APP, and with the combination of online and offline resource, the Group met the personalized needs of various brands, models and customers of all ages, and customized differentiated and humanized service products and contents for the customers so as to obtain their trust and create a service brand exclusively belonging to Grand Baoxin Auto Group Limited.

On the other hand, while accelerating the integration of the network layout, the Group relied on the ERP management platform and the application of big data technology to better understand customers' demands, reasonably arrange storage and logistics, optimize the supply chain, and improve the operational efficiency of the stores. In addition, through the implementation of centralized procurement and allocation of parts and components in various regions, the Group strengthened the sharing of its after-sales business resources to reduce the cost of spare parts.

During the reporting period, the revenue for after-sales service of the Group was RMB4,485.7 million, representing a year-on-year increase of 18.7%, accounting for 12.2% of the total revenue of the Group. The gross profit of after-sales service was RMB2,034.1 million, representing a year-on-year increase of 12.5%, and the gross profit margin of after-sales service was 45.3%.

Derivative business

During the reporting period, the Group focused on expanding automobile derivative business and developing derivative service varieties tailored to customers' demands via improving the current regional and hierarchical management. As at 31 December 2018, the Group recorded a revenue of RMB782.8 million from automobile derivative business, representing a year-on-year increase of 30.1%.

- ### Significant results in the development of automobile finance business

  Both the new automobile market which is having a sales bottleneck or the fast-rising secondhand automobile market need the support of a variety of different automobile finance products. According to the Roland Berger, the penetration rate of automobile finance in China has steadily increased from 13% in 2013 to over 40% in 2018. As the third largest automobile finance business except commercial banks and automobile finance companies, the automobile finance leasing business has always been an important part of the automobile finance industry. Its penetration rate has risen from less than 1% before 2015 to 4% in 2018 and is expected to reach around 7% by 2022, with an expected market size of more than RMB300 billion.

  During the reporting period, Shanghai Dingxin Leasing Co., Ltd. (上海鼎信租賃有限公司) ("**Dingxin Leasing**"), a subsidiary of the Group, and the CGA Group created a synergistic effect together. They leveraged on the financial risk control platform to conduct more effective pre-lending risk review, risk management in the lending process and post-lending risk control. The Group has been dedicated to enhancing the asset quality of automobile loans, which greatly improved the approval efficiency. The Group has also successively optimized and enriched its automobile products while insisting on taking the customers' good experience as the lead and fund cycle of the customers as the center.

  During the reporting period, the Group recorded revenue of RMB260.8 million from its financial service business, which increased by 22.1% as compared to RMB213.6 million in 2017. The Group cooperated with various financial institutions to secure strong and solid resources and support.

- **Plan for development of the secondhand automobile business, awaits blooming business**

  With the gradual release of the policy of registration relocation restriction on secondhand automobiles and issuance of the promotion of financial loans proportion and other favorable policies, China's secondhand automobile market has continued to maintain rapid growth since 2018, and the volume of transactions has maintained a high-speed growth in the past five years. In 2018, China's transaction volume of secondhand automobiles was 13.82 million units, representing a year-on-year increase of 11.46%. The proportion of the transfer of ownership of secondhand automobiles was 26.43%, with big cross-regional transactions. At the same time, consumers' car purchase behavior will be more rational, and the professional 4S stores play an important part in the secondhand automobile industry. Thanks to their endorsement for the dealers' good faith, and natural advantages such as the car source authenticity, price rationality and after-sales service.

During the reporting period, the Group has ridden on the development trend of the industry and linked online and offline modes to provide end-users with evaluation quotation and consulting services, and an agent trading platform to collect agency commissions. In addition, consumers can enjoy automobile financial services and maintenance services while purchasing secondhand automobiles, a one-stop service chain to make consumers worry-free before and after buying automobiles. Besides, the Group has leveraged on the existing off-line 4S stores to expand the existing customer base by the evaluation, replacement and retail business of secondhand automobiles, improving the replacement ratio of the secondhand automobile for base customers and expanding the purchasing channel of the secondhand automobile source.

During the reporting period, the Group's transaction volume of secondhand automobiles was 36,586 units, representing a year-on-year increase of 30.6%. The penetration rate of secondhand automobiles was 34.82%, representing an increase of 7.82 percentage points as compared with the corresponding period of the preceding year. The trade in ratio of secondhand automobiles was 21.37%, representing a year-on-year increase of 3.97 percentage points.

Steadfast growth on Insurance business

Automobile insurance played a significant role in the nationwide property premium income in the PRC. In 2018, the size of automobile insurance premiums in the PRC reached approximately RMB800 billion, accounting for approximately 70% of the total property premium income. Against this background, in March 2018, CBIRC issued the Notice on the Adjustment of Independent Pricing Scope of Commercial Automobile Insurance in Certain Regions (關於調整部分地區商業車險自主定價範圍的通知), and performed "deregulation of premium rate" for the third time. Therefore, the automobile insurance market in China will embrace a more intense and competitive landscape.

During the reporting period, the Group fully respected the market rules. While improving the existing insurance business model and at the same time combined with a reform on insurance rate, the Group provided safer and more competitive insurance products of well-designed and perfecting types based on customers' demands and by cooperating with renowned insurance companies. In the meantime, through adopting a portfolio marketing approach, the Group has raised its insurance penetration rate of key insurance, scratch insurance, paint surface insurance and other guarantee services. Furthermore, the Group is committed to strengthening its differentiated competitiveness, striving to enhance its advantages on products, services and claims, and increase customers' loyalty, so as to ensure the stable development of insurance business.

During the reporting period, the Group's revenue from its insurance business was RMB376.1 million, representing an increase of 58.9% as compared to RMB236.7 million in 2017, and the revenue from extended warranty business increased by 18.6%.

Continuous optimization of network layout

As a leading domestic dealer of luxury automobiles, the Group's business is mainly concentrated in the eastern part of China, which act as the axis for expanding into the northern, central and southern part of China, and also the northeast and northwest regions, thus covering the majority of the mainstream market for luxury and ultra-luxury automobiles as of now. At the same time, the Group has increased overall operating efficiency and service capabilities by continuously improving its dealership network and consolidating the coverage and market share of luxury 4S shop in major cities, which has effectively enhanced brand awareness and customer loyalty and also provided support for the expansion of after-sales service business for the Group.

During the reporting period, the Group acquired one Jaguar & Land Rover shop, three BMW 4S shops and one BMW secondhand automobile shop in East China in the first half of the year and also upgraded and rebuilt certain shops in other regions to better exploit its strategic advantage and optimize brand distributions in core regions.

As of 31 December 2018, the Group operated a total of 113 stores that owned a diversified car brand portfolio comprising 10 luxury and ultra-luxury automobiles (namely BMW(including MINI)), Audi, Jaguar & Land Rover, Volvo, Cadillac, Infiniti, Alfa Romeo, Porsche, Rolls Royce and Maserati). Specifically, such stores included 91 luxury and ultra-luxury brand dealing stores, 17 mid-to-high brand dealing stores and 5 independent after-sales service (maintenance and decoration and loss assessment center) stores.

FUTURE OUTLOOK

With the ebb of the industry heyday, the traditional automobile industry is making a gradual transition from the developing phase to the mature phase, and the low growth rate of sales volume will become normal. Against the backdrop of the slow growth rate and increasingly fierce competition of each segment market, the National Development and Reform Commission issued an announcement in April 2018, which, based on categories, aimed at easing the restriction on the proportion of shares held by foreign capital in the auto industry, which will eliminate all restrictions in the automobile industry after 5 years of transitional period, and Chinese automobile industry will march into the post joint venture era. The release of share proportion will bring more automobile models to the Chinese market, enriching the products in Chinese automobile products. At the same time, Chinese automobile makers will be confronted with competition from international companies, which will be conducive to the improvement of the competitiveness and R&D of Chinese automobile brands and will have profound impacts on the transformation of Chinese automobile competition patterns.

In recent years, prevailing luxury brands such as BMW, Audi and Benz entered a new round of product upgrading cycle one after another. Also, as all luxury automobile manufacturers focus on expanding the market of entry-level luxury and new-energy automobiles, the luxury automobile market has become the encouraging sunshine in the frigid automobile market. At the same time, driven by environmental protection policies, new energy vehicles will also meet new development opportunities. The Group will, as always, pay close attention to the changing trend of the industry, carry out stable and close cooperation with the automobile manufacturers of major global brands, actively deploy the sales plans of new energy vehicles sold by major luxury brands such as BMW and Audi, and jointly expand the market share in the sales services of new energy vehicles.

MANAGEMENT DISCUSSION AND ANALYSIS

The superior competitor eliminates the inferior competitor is the only rule of the market and the automobile industry during reform and transformation will give automobile dealers more responsibilities and requirements. The question of how to combine the new retail mode with the traditional distribution network has become a new subject facing auto dealers. Through the official launch of Tmall Flagship Store (天貓旗艦店), which was launched together with CGA, the Group announced its courageous attempt for the new retail business. It re-empowers dealers in all aspects, and redefines the relationship between automobile manufacturers, dealers and consumers. In this way, the Group strives to provide brand new ideas for automobile retail and jointly create the ecology of the automobile industry.

According to the analysis and judgment on the industry's overall trends and development potential, and based on our existing resources and operating conditions, the Group will continue to optimize brand portfolio and dealership network so as to boost sales of new automobiles. Besides, the Group will further promote delicacy management to improve profitability. The Group will emphasize on after-sales service and value-added business to optimize business structures. Specifically, the Group will concentrate on the expansion of strategic businesses, namely second-hand car and automobile financing. Furthermore, the Group will seek new areas for growth of profit through an extended value chain to strengthen its core competitiveness, and to achieve a win-win situation for shareholders, employees, customers and society.

FINANCIAL REVIEW

Revenue

The following table sets forth a breakdown of our revenue for the period indicated:

	Year ended 31 December			
	2018		2017	
Revenue source	**Revenue (RMB'000)**	**Contribution to total Revenue (%)**	Revenue (RMB'000)	Contribution to total Revenue (%)
Automobile sales	**32,203,427**	**87.7**	30,715,654	88.9
Luxury and ultra-luxury brands	**28,588,866**	**77.9**	27,056,909	78.3
Mid-to-upper market brands	**3,614,561**	**9.8**	3,658,745	10.6
After-sales business	**4,485,665**	**12.2**	3,780,275	10.9
Luxury and ultra-luxury brands	**4,098,643**	**11.2**	3,427,123	9.9
Mid-to-upper market brands	**387,022**	**1.0**	353,152	1.0
Finance leasing services	**34,666**	**0.1**	62,056	0.2
Total revenue	**36,723,758**	**100**	34,557,985	100

Revenue from the sales of automobiles increased by 4.8% due to the increase in living standard of residents and upgrade of consumption, which stimulated the demand for luxury vehicles and in turn the revenue from the sales of luxury and ultra-luxury vehicles of the Group increased during the reporting period.

Automobile sales generated a substantial portion of our revenue, accounting for 87.7% of our total revenue for the year ended 31 December 2018. Revenue generated from the sales of luxury and ultra-luxury brands and our mid-to-upper market brands accounted for approximately 77.9% (2017: 78.3%) and 9.8% (2017: 10.6%), respectively, of our total revenue.

Revenue from our after-sales business increased by 18.7% from RMB3,780.3 million for the year ended 31 December 2017 to RMB4,485.7 million for the same period in 2018.

Cost of sales and services

For the year ended 31 December 2018, our cost of sales and services increased by 7.3%, from RMB31,622.2 million for the same period in 2017 to RMB33,939.3 million, which was primarily due to increase in cost of sales and after-sales services of luxury and ultra-luxury brand passenger vehicles.

The cost of sales and services attributable to our automobile sales business amounted to RMB31,486.5 million for the year ended 31 December 2018, representing an increase of RMB1,837.4 million, or 6.2%, from the same period in 2017. The cost of sales attributable to our after-sales business amounted to RMB2,451.5 million for the year ended 31 December 2018, representing an increase of RMB478.6 million, or 24.3% from the same period in 2017.

Gross profit and gross profit margin

Gross profit for the year ended 31 December 2018 was RMB2,784.5 million, representing a decrease of RMB151.3 million or 5.2% from the same period in 2017. Gross profit from automobile sales decreased by 32.8% from RMB1,066.6 million for the year ended 31 December 2017 to RMB716.9 million for the same period in 2018, of which RMB669.7 million was from the sales of luxury and ultra-luxury automobiles. Gross profit from after-sales business increased by 12.5% from RMB1,807.4 million for the year ended 31 December 2017 to RMB2,034.1 million for the same period in 2018. Automobile sales and after-sales business contributed to 25.7% (2017: 36.3%) and 73.1% (2017: 61.6%), respectively, to the total gross profit for the year ended 31 December 2018.

Gross profit margin for the year ended 31 December 2018 was 7.6% (2017: 8.5%), of which the gross profit margin of automobile sales was 2.2% (2017: 3.5%) and of after-sales business was 45.3% (2017: 47.8%).

Other income and gains, net

Other income and net gains increased by 38.7% from RMB601.1 million for the same period in 2017 to RMB833.6 million for the year ended 31 December 2018, mainly due to an increase in the commission income of RMB601.8 million for the same period in 2017 to RMB782.8 million for the year of 2018. During the reporting period, the Group recorded other gains amounting to RMB31.35 million from the changes of fair value of investment properties.

Selling and distribution costs and administrative expenses

For the year ended 31 December 2018, our selling and distribution costs increased by 14.3% to RMB1,247.0 million from RMB1,091.2 million for the same period in 2017. Our administrative expenses increased by 32.7% from RMB557.0 million for the same period in 2017 to RMB739.0 million, which was primarily due to the expansion of our sales and services network and sales scale.

Profit from operations

As a result of the foregoing, our profit from operations for the year ended 31 December 2018 decreased by 13.6% to RMB1,632.1 million from RMB1,888.8 million for the same period in 2017.

Finance costs

Finance costs decreased by 3.3% from RMB730.5 million for the year ended 31 December 2017 to RMB706.5 million for the same period in 2018, primarily because of the Group had no interest expense on the senior perpetual capital securities for the year ended 31 December 2018.

Profit for the year

As a result of the cumulative effect of the foregoing, our profit for the year ended 31 December 2018 decreased by 29.7% to RMB566.8 million from RMB806.3 million for the same period in 2017.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

As at 31 December 2018, our cash and cash equivalents amounted to RMB2,541.2 million, representing a decrease of 19.9% from RMB3,173.2 million as at 31 December 2017.

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

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of bank loans and other borrowings, cash flow generated from our operating activities and other funds raised from the capital markets from time to time. For the year ended 31 December 2018, our net cash generated from operating activities was RMB706.9 million (2017: RMB955.1 million).

Net current assets

As at 31 December 2018, we had net current assets of RMB5,882.2 million, representing a decrease of RMB1,208.6 million from RMB7,090.8 million as at 31 December 2017.

Capital expenditure

Our capital expenditures primarily comprised of expenditures on property, plant and equipment land use rights and intangible assets. During the year ended 31 December 2018, our total capital expenditures amounted to RMB776.0 million (2017: RMB640.2 million).

Inventories

Our inventories primarily consisted of new automobiles and spare parts and accessories. Each of our dealership stores individually manage their orders for new automobiles and after-sales products. We coordinate and aggregate orders for automobile accessories and other automobile-related products across our dealership network.

Our inventories increased by 0.4% from RMB4,109.9 million as at 31 December 2017 to RMB4,126.7 million as at 31 December 2018, primarily due to the Group's effective inventory management measures, which mitigated the effect of increased inventories resulting from the acquisition of "Zhongguo Project". Therefore, our inventories remained stable.

Our average inventory turnover days for the year ended 31 December 2018 increased to 44.3 days from 40.7 days in 2017.

Trade Receivables

Trade receivables increased from RMB504.8 million for the year ended 31 December 2017 to RMB558.0 million for the year ended 31 December 2018, primarily due to the Group's acquisition of Zhangguo (眾國) project in March 2018 resulting in the increase in trade receivables.

Interest-bearing bank and other borrowings

As at 31 December 2018, the Group's available and unutilised banking facilities amounted to approximately RMB8,544.0 million (31 December 2017: RMB8,330.5 million).

Our interest-bearing bank and other borrowings as at 31 December 2018 were RMB9,670.5 million, representing an increase of RMB699.3 million from RMB8,971.2 million as at 31 December 2017. The increase was due to the increase in requirements of working capital from expending the business scale.

Interest rate risk and foreign exchange rate risk

We are exposed to interest rate risk resulting from fluctuations in the interest rate on our borrowings. Certain of our borrowings were floating rate borrowings that are linked to the benchmark rates of the People's Bank of China, HIBOR and LIBOR. Increases in interest rates could adversely affect our finance costs, profit and our financial condition. We currently use certain derivative financial instruments to hedge some of our exposure to interest rate risk.

Substantially all of our revenue, costs and expenses are denominated in Renminbi. We also use Renminbi as our reporting currency. As of 31 December 2018, certain of our financial liabilities were denominated in foreign currencies, and considering the fluctuation of foreign currency rate. We also used derivative financial instruments to hedge our exposure to foreign exchange risk.

Gearing ratio

The Group monitors capital by using a gearing ratio, which is net debt divided by the equity attributable to owners of the parent plus net debt. Net debt includes bank loans and other borrowings, trade, bills and other payables, accruals, and senior perpetual capital securities less cash and bank. Our gearing ratio for the year ended 31 December 2018 was 69.3% (2017: 66.1%).

Human resources

As at 31 December 2018, the Group had 7,759 employees (31 December 2017: 7,658). Total staff costs for the year ended 31 December 2018, excluding Directors' remuneration were approximately RMB1,126.4 million (2017: RMB1,067.8 million).

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

Contingent liabilities

As at 31 December 2018, the Group had no significant contingent liabilities (31 December 2017: Nil).

Pledge of the Group's assets

Our Group had pledged our group assets, shares in certain subsidiaries and letters of credit as securities against bank loans and other borrowings and bills payable which were used to finance daily business operation and acquisition. As at 31 December 2018, the pledged group assets amounted to approximately RMB5,999.5 million (31 December 2017: RMB5,794.7 million); the pledged letters of credit have an aggregated credit amount of approximated RMB207.3 million (31 December 2017: RMB197.8 million).

SIGNIFICANT ACQUISITION, DISPOSAL OR INVESTMENT

Acquisitions

On 5 January 2018, Shanghai Tianhua Automobile Sales Services Limited* (上海天華汽車銷售服務有限公司) ("**Shanghai Tianhua**"), an indirect wholly-owned subsidiary of the Company, as the purchaser entered into a sale and purchase agreement with Xinjiang Longze Automobile Services Management Co., Ltd.* (新疆龍澤汽車服務管理有限責任公司) ("**Xinjiang Longze**") as the vendor, an indirect wholly-owned subsidiary of CGA, pursuant to which Xinjiang Longze agreed to sell to Shanghai Tianhua, and Shanghai Tianhua agreed to acquire from Xiujuang Longze, 100% equity interest in a company engaged in the management and operation of 4S dealership stores of auto brand of Jaguar Land Rover, for a consideration of RMB85 million. For further details, please refer to the announcement of the Company dated 5 January 2018.

On 25 March 2018, Suzhou Baoxin Automotive Distribution Services Co., Ltd.* (蘇州寶信汽車銷售服務有限公司), an indirect wholly-owned subsidiary of the Company (the "**Purchaser**"), entered into an acquisition agreement with Shanghai Zhongguo Automotive Group Co., Ltd.* (上海眾國汽車集團有限公司) and Hefei Gangrong Hotel Management Co., Ltd.* (合肥港榮酒店管理有限公司) (the "**Vendors**"), pursuant to which the Vendors agreed to sell and the Purchaser agreed to acquire the entire equity interests of the Vendors' four subsidiaries engaged in the distribution of BMW vehicles and maintenance services in PRC (the "**Zhongguo Project**"), for a consideration of not more than RMB619 million. Please refer to the announcement of the Company dated 25 March 2018 for further details.

Disposals

The Group did not have any disposals of subsidiaries and affiliated companies during the year ended 31 December 2018.

Important events after 31 December 2018

There are no significant events affecting the Group that have occurred after the year ended 31 December 2018.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board of director of the Company (the "**Board**") is committed to achieving good corporate governance standards.

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

The Company has applied the principles set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

In the opinion of the Directors, throughout the year ended 31 December 2018, the Company has complied with most of the code provisions as set out in the CG Code, save and except for provision A.2.1.

Under code provision A.2.1, the division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Our chairman, Mr. Li Jianping is responsible for the operation and management of the Board, and no chief executive officer is appointed. The day-to-day management of the Group is delegated to other executive Directors and the management of the Company. The Board is of the view that the current management structure can effectively facilitate the Group's operation and business development.

The Company is committed to enhancing its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with the CG Code and align with the latest developments.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of the Directors.

Specific enquiry has been made to all the Directors who have confirmed that they have complied with the Model Code throughout the year ended 31 December 2018.

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

Role of the Board

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Directors take decisions objectively in the interests of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management. The delegated functions and powers are reviewed periodically to ensure that they remain appropriate.

Matters specifically reserved for the Board include the approval of financial statements, dividend policy, significant changes in accounting policies, strategies, budgets, internal control system, risk management system, material transactions (in particular those that may involve conflicts of interests), selection of directors, changes to appointments such as company secretary and external auditors, remuneration policy for Directors and senior management, terms of reference of Board committees, as well as major corporate policies such as the code of conduct and whistle-blowing policy.

Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Group are delegated to the executive Directors and senior management of the Company. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective defined written terms of reference.

Composition

During the year ended 31 December 2018 and up to the date of this annual report, there have been the following changes to the Board:

- Mr. Zhou Yu resigned as a non-executive Director of the Company on 10 May 2018;
- Ms. Xu Xing was redesignated from a non-executive Director to an executive Director on 8 June 2018;
- Mr. Wang Keyi resigned as an independent non-executive Director on 8 June 2018; and
- Ms. Liu Yangfang was appointed as an independent non-executive Director on 8 June 2018.

The Board currently comprises eight members, consisting of five executive Directors and three independent non-executive Directors as detailed below:

The Board

Executive Directors
Mr. Li Jianping *(Chairman)*
Mr. Wang Xinming *(President)*
Mr. Lu Ao
Mr. Qi Junjie
Ms. Xu Xing

Independent non-executive Directors
Mr. Diao Jianshen
Ms. Liu Yangfang
Mr. Chan Wan Tsun Adrian Alan

The biographical details of the Directors are set out on pages 35 to 37 of this annual report. In addition, a list of the names of the Directors and their role and function is published on the websites of the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

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

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

Insurance Coverage

Appropriate insurance cover on Director's and officer's liabilities in respect of legal actions against them arising from corporate activities has been arranged by the Company.

Chairman and Chief Executive Officer

The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The chief executive officer focuses on the Group's business development and daily management and operations generally. The positions of the chairman of the Board and the chief executive officer are held by separate individuals with a view to maintaining an effective segregation of duties in respect of the management of the Board and the day-to-day management of the Group's business.

During the financial year ended 31 December 2018, the position of Chairman was held by Mr. Li Jianping, and Mr. Wang Xinming acted as the President of the Company. The role and responsibilities of the chief executive officer are delegated to other executive Directors and management of the Company. The Board is of the view that the current management structure can effectively facilitate the Company's operation and business development.

Independent Non-executive Directors

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

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

The Company is of the view that all independent non-executive Directors are independent.

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service contract with the Company for a term of three years, unless terminated by not less than three months' notice in writing served by either the Company or the executive Director, with effect from their respective dates of appointment, subject to renewal.

Each of the independent non-executive Directors has signed a letter of appointment with the Company for a term of one year with effect from their respective dates of appointment, subject to renewal.

CORPORATE
GOVERNANCE REPORT

In accordance with the Company's articles of association, all Directors are required to retire by rotation at least once every three years and are eligible for re-election at the annual general meeting.

At each annual general meeting, one-third of the current Directors shall retire from office. Any new directors appointed either to fill a casual vacancy, or as an addition to the Board during the year by the Board following the recommendation of the Nomination Committee, are subject to re-election by shareholders of the Company at the following annual general meeting after their appointment.

In accordance with Article 16.18 of the Articles of Association, Mr. Li Jianping, Mr. Wang Xinming, Mr. Qi Junjie, Mr. Lu Ao and Ms. Xu Xing shall retire at the Annual General Meeting of the Company to be held on 14 June, 2019 (the "**2019 AGM**"). In addition, Ms. Liu Yangfang who was appointed by the Board on 8 June 2018 shall hold office until the Annual General Meeting pursuant to Article 16.2 of the Company's Articles of Association. All of the above retiring Directors, being eligible, will offer themselves for re-election at the 2019 AGM.

The Nomination Committee has confirmed that the Company will support their re-election.

Board Committees

The Board has established three Board committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are also published on the websites of the Company and the Stock Exchange.

The Board committees are provided with sufficient resources to discharge their duties and are able to seek independent professional advice where appropriate and upon request. Details of these Board committees, including their compositions, major responsibilities and functions, and work performed during the year ended 31 December 2018 are set out below.

Audit Committee

The Audit Committee consists of the following members during the year ended 31 December 2018:

Independent non-executive Directors

Mr. Diao Jianshen *(Chairman)*
Ms. Liu Yangfang (appointed on 8 June 2018)
Mr. Chan Wan Tsun Adrian Alan
Mr. Wang Keyi (resigned on 8 June 2018)

The primary functions of the Audit Committee include (i) assisting the Board in reviewing financial information and the effectiveness of the financial reporting process; (ii) implementing internal control and risk management systems; (iii) planning audits and maintaining a good relationship with the Company's external auditors; and (iv) organising a system to enable employees of the Company to raise, in confidence, any concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the year ended 31 December 2018, the Audit Committee met twice to:

- review the consolidated financial statements, annual and interim reports before submission to the Board for approval; review any significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors, any connected transactions of the Group;
- make arrangements for employees to discuss any possible operational improprieties; and
- make recommendation to the Board to revise its terms of reference in compliance with and to address the new provisions in the CG Code dealing with risk management and internal control systems.

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

Remuneration Committee

The Remuneration Committee consists of the following members during the year ended 31 December 2018:

Independent non-executive Directors

Mr. Diao Jianshen *(Chairman)*
Ms. Liu Yangfang (appointed on 8 June 2018)
Mr. Wang Keyi (resigned on 8 June 2018)

Executive Director

Mr. Li Jianping

The primary functions of the Remuneration Committee include (i) reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all directors and senior management; and (ii) establishing transparent procedures for developing such remuneration policy and structure to attract, retain and motivate them to run the Company successfully. The remuneration policy for non-executive Directors, mainly comprising directors' fees, is subject to annual assessment with reference to the prevailing market standard. Individual Directors and senior management are not involved in deciding their own remuneration.

During the year ended 31 December 2018, the Remuneration Committee met twice to:

- review the remuneration policy and structure of the Company and the remuneration packages of executive Directors and senior management; and
- review and make recommendations to the Board on remuneration packages of the Directors and senior management and other related matters.

During the review, no Director or any of his associates took part in any discussion about his own remuneration.

Nomination Committee

The Nomination Committee consists of the following members during the year ended 31 December 2018:

Independent non-executive Directors

Ms. Liu Yangfang *(Chairperson)*
Mr. Diao Jianshen (appointed on 8 June 2018)
Mr. Wang Keyi (resigned on 8 June 2018)

Executive Director

Mr. Li Jianping

The primary functions of the Nomination Committee include (i) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually; (ii) making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (iii) developing and formulating relevant procedures for the nomination and appointment of Directors; (iv) making recommendations to the Board on the appointment or re-appointment of Directors; (v) planning the succession of Directors; and (vi) assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board Diversity Policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

During the year ended 31 December 2018, the Nomination Committee met twice to:

- review the structure, size and composition of the Board;
- assess the independence of the independent non-executive Directors;
- consider the qualifications of the retiring Directors standing for election at the annual general meeting; and
- review the Board diversity policy and the progress on achieving the measurable objectives implementing the Board diversity policy.

Board Meetings

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

During the year ended 31 December 2018, the Board has held eleven board meetings to review financial and operating performance of the Company and to discuss future strategies. The Directors participated in the Board meetings in person or through electronic means.

Draft agendas of each meeting are normally made available to the Directors in advance. Notice and draft agendas of regular Board meetings are served to all Directors at least 14 days before the meeting, to enable them to include other matters in the agenda. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep Directors updated of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

Where necessary, senior management would attend regular Board meetings and other Board and committee meetings to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

All the Directors have access to advice and services of the company secretary, who is responsible for ensuring that Board procedures and applicable regulations under the Company's articles of association or otherwise are complied with. Each Director is entitled, if necessary, to seek independent professional advice at the Company's expense.

All minutes are kept by the Company and are open for inspection by any Director during normal office hours with reasonable advance notice. Matters considered and decisions reached at Board and Committee meetings are recorded with sufficient detail in the minutes. Draft and final versions of minutes of Board meetings will be sent to all Directors for their comments and recorded within a reasonable time after the relevant meeting is held.

The Company's articles of association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

Attendance Record of Directors and Committee Members

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

Name of Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Executive Directors					
Mr. Li Jianping	11/11	N/A	2/2	2/2	2/2
Mr. Wang Xinming	11/11	N/A	N/A	N/A	2/2
Mr. Qi Junjie	11/11	N/A	N/A	N/A	2/2
Mr. Lu Ao	11/11	N/A	N/A	N/A	2/2
Ms. Xu Xing[1]	6/6	N/A	N/A	N/A	1/1
Non-executive Directors					
Mr. Zhou Yu[2]	4/4	N/A	N/A	N/A	N/A
Ms. Xu Xing[1]	5/5	N/A	N/A	N/A	1/1
Independent non-executive Directors					
Mr. Diao Jianshen	11/11	2/2	2/2	2/2	2/2
Mr. Wang Keyi[3]	5/5	1/1	1/1	1/1	N/A
Ms. Liu Yangfang[4]	8/8	1/1	1/1	1/1	1/1
Mr. Chan Wan Tsun Adrian Alan	11/11	2/2	N/A	N/A	2/2

Notes:

1. Ms. Xu Xing was re-designated as an executive Director with effect from 8 June 2018.

2. Mr. Zhou Yu resigned as a non-executive Director with effect from 10 May 2018. Four board meetings were held prior to his resignation.

3. Mr. Wang Keyi resigned as an independent non-executive Director with effect from 8 June 2018. Five board meetings, one audit committee meeting, one nomination committee meeting and one remuneration committee meeting were held prior to his resignation.

4. Ms. Liu Yangfang was appointed as an independent non-executive Director with effect from 8 June 2018. Eight board meetings, one audit committee meeting and one extraordinary general meeting were held after her appointment.

Apart from regular Board meetings, the Chairman of the Board also held a meeting with the non-executive Directors and independent non-executive Directors without the presence of executive Directors during the year ended 31 December 2018.

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as Directors of the Company and of the conduct, business activities and development of the Company and to ensure that their contribution to the Board remains informed and relevant.

Each newly appointed Director will receive comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Group and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be issued to Directors where appropriate. There are also arrangements in place for providing continuing briefing and professional development to Directors at the Company's expenses whenever necessary.

The Company provides regular updates and presentations on changes and developments relating to the Group's business and the legislative and regulatory environments in which the Group conducts its business to the Directors.

During the year ended 31 December 2018, all Directors have been required to provide the Company with a record of the training they received on a half-year basis, and such records have been maintained by the Company.

A summary of the Directors' participation in internal and other external training for the year ended 31 December 2018 is as follows:

Name of Directors	Attending briefing/seminars	Reading materials/ regulatory updates/ management monthly updates
Executive Directors		
Mr. Li Jianping	√	√
Mr. Wang Xinming	√	√
Mr. Lu Ao	√	√
Mr. Qi Junjie	√	√
Ms. Xu Xing (re-designated from non-executive Director on 8 June 2018)	√	√
Non-executive Director		
Mr. Zhou Yu (resigned on 10 May 2018)	√	√
Independent non-executive Directors		
Mr. Diao Jianshen	√	√
Ms. Liu Yangfang (appointed on 8 June 2018)	√	√
Mr. Chan Wan Tsun Adrian Alan	√	√
Mr. Wang Keyi (resigned on 8 June 2018)	√	√

CORPORATE GOVERNANCE FUNCTIONS

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

The Board reviewed (i) the Company's corporate governance policies and practices; (ii) the training and continuous professional development of Directors and senior management; (iii) the Company's policies and practices on compliance with legal and regulatory requirements; (iv) the code of conduct applicable to the employees and Directors; and (v) the Company's compliance with the CG Code and disclosures in this Corporate Governance Report.

The Board and the Audit Committee will continue to review and improve the corporate governance practices and standards of the Company to ensure that their business and decision-making processes are regulated in a proper and prudent manner.

BOARD DIVERSITY POLICY

The Company has adopted an updated Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

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

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

At present, the Nomination Committee considers that the updated Board Diversity Policy is sufficient to serve the purpose and will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

BOARD NOMINATION POLICY

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

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

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

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- Requirements of independent non-executive Directors on the Board and independence of the proposed Independent Non-executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings.

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

With the assistance of the finance department of the Group, the Directors have ensured that the financial statements of the Group are prepared in accordance with the statutory requirements and applicable accounting standards. The Directors have also ensured that the financial statements of the Group are published in a timely manner in accordance with the applicable laws and regulations.

The management of the Company has provided to the Board all explanation and information necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are submitted to the Board for approval.

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditors' Report on pages 50 to 55 of this annual report.

AUDITORS' REMUNERATION

The remuneration paid to the Group's external auditors, Ernst & Young for the year ended 31 December 2018 is set out below:

Services provided	**Fees (RMB'000)**
Audit services	6,100
Non-audit services	153
Total	6,253

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

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

The risk management and internal control systems, which include a defined management structure with specified limits of authority and control responsibilities, is designed to (i) facilitate effective and efficient operations; (ii) ensure reliability of financial reporting and compliance with applicable laws and regulations; (iii) identify and manage potential risks; and (iv) safeguard the assets of the Group.

The Company has developed the internal risk control systems and the corresponding management code, and the audit department of internal control is in place under each region of the Group, tracking the implementation of the risk control system and the management code on a regular basis.

The internal auditor reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

During its annual review, the Audit Committee also considers the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function and their training programs and budgets.

To supplement the above, employees can report any misconduct, impropriety or fraud cases within the Group to the Audit Committee without the fear of recrimination.

In respect of the procedure of dealing with and disseminating inside information as well as the internal control measure:

- The Group strictly complies with the disclosure requirements of the Listing Rules and the Guidelines on Disclosure of Inside Information published by the Securities and Futures Commission in June 2012 for dealing with and disseminating inside information.

- The Group discloses broad and non-exclusive information to the public through financial report, announcement and official website.

- The Group has established the internal confidential rules directed against the senior management and general staff who can access inside information due to their rankings or duties, provides education and training on confidential regulations and requires the aforesaid staff to sign a confidential commitment. In respect of results announcement or material transaction, the Group strictly controls and limits the scope of staff who can access information. The material sensitive information is concealed by confidential code (including electronic, written and verbal). The Group also gives written notices about the lock-up period and other matters required for special attention to avoid the dissemination of inside information.

Based on the results of evaluations and representations made by the management and the internal auditor during the year ended 31 December 2018, the Board, as supported by the Audit Committee, is satisfied that (i) there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business objectives; (ii) that appropriate systems of risk management and internal control have been in place during the year ended 31 December 2018 and up to the date of approval of this annual report; and (iii) that the Company risk management and internal control systems are effective and adequate.

JOINT COMPANY SECRETARIES

Ms. Xu Xing ("**Ms. Xu**") and Ms. Cheng Mei Chun ("**Ms. Cheng**") are joint company secretaries of the Company.

Ms. Xu, who is the executive Director of the Company, was appointed as a joint company secretary on 20 November 2018. The Company has appointed Ms. Cheng of Tricor Services Limited, an external service provider, as the Company's company secretary since 16 October 2017. Ms. Cheng's primary contact person at the Company is Ms. Xu.

Ms. Xu currently does not possess the qualifications of a company secretary as required under Rules 3.28 and 8.17 of the Listing Rules. However, the Company considers that Ms. Xu is capable of discharging the functions of a joint company secretary, and, therefore, the Company has applied for, and the Stock Exchange has granted a waiver (the "**Waiver**") to the Company from strict compliance with the requirements for the qualifications of a company secretary under Rules 3.28 and 8.17 of the Listing Rules for a period of three years from the date of Ms. Xu's appointment as the joint company secretary of the Company (the "**Waiver Period**") on the condition that: (i) Ms. Xu will be assisted by Ms. Cheng during the Waiver Period; (ii) the Company shall notify the Stock Exchange at the end of the Waiver Period for the Stock Exchange to re-visit the situation. The Stock Exchange expects that after the end of the Waiver Period, the Company will be able to demonstrate that Ms. Xu satisfies Rule 3.28 of the Listing Rules, having had the benefit of Ms. Cheng's assistance such that a further waiver will not be necessary; and (iii) the Company will announce details of the Waiver, including its reasons and conditions.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices and matters.

Ms. Xu and Ms. Cheng have each complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of professional training to update her skills and knowledge for the year ended 31 December 2018.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on the remuneration of senior management of the Group. The goal of developing staff remuneration packages is to enable the Company to motivate the executive Directors and senior management by Linking their remuneration to the Company's operating results, individual performances and comparable market rates. Details of the remuneration of each Director for the year ended 31 December 2018 are set out in note 9 to the financial statements of this annual report.

For the year ended 31 December 2018, the aggregate emolument paid to members of non-director senior management was within the following bands:

By Band	Number of Individuals
HK$500,001–HK$1,000,000	—
HK$1,500,001–HK$2,000,000	—
HK$2,500,000–HK$3,000,000	—

SHAREHOLDERS' RIGHTS

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

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

Procedure for Convening an Extraordinary General Meeting by Shareholders

Pursuant to the Company's articles of association, any two or more shareholders (or any one shareholder which is a recognised clearing house) holding not less than one-tenth of the issued share capital of the Company carrying the right of voting at general meetings may require an extraordinary general meeting by a written requisition to the Board or the Company Secretary either via personal delivery or mail (for the attention of the Board of Directors/Company Secretary, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong) or via email (info@klbaoxin.com). The Board shall, within 21 days from the date of deposit of the requisition, duly convene a general meeting to be held within another 21 days.

Procedure for Putting Forward Proposals at General Meetings

Any shareholder who wishes to put forward proposals at general meetings of the Company shall submit such proposals to the Board in writing for the Board's consideration either via personal delivery or mail (for the attention of the Board of Directors/Company Secretary, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong) or via email (info@klbaoxin.com).

The Board may, in its sole discretion, consider if such proposals are appropriate and shall put forward such proposals to the shareholders for approval at the next annual general meeting, or at an extraordinary general meeting to be convened by the Board, as appropriate.

Procedure for Putting Forward Enquiries to the Board

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

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

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

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

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

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.

The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and extraordinary general meetings. The Chairman of the Board, independent non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at general meetings to meet shareholders and answer their enquiries.

In addition, to promote effective communication, the Company maintains a website at www.klbaoxin.com, where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2018, the Company did not make any changes to its articles of association. An up-to-date version of the Company's article of association is available on both the websites of the Stock Exchange and the Company.

DIVIDEND POLICY

The Company has adopted a Dividend Policy on payment of dividends. The Company does not have any pre-determined dividend payout ratio. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the Dividend Policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the shareholders' approval.

DIRECTORS

Executive Directors

Mr. LI Jianping (李建平), aged 58, has been an executive Director, the chairman of the Board and a member of the Remuneration Committee and the Nomination Committee of the Company since 21 June 2016. Mr. Li has been the chairman of the board of directors of CGA since July 2015 and has been an executive director of China Grand Automotive Services Co., Ltd. (廣匯汽車服務有限責任公司) ("**CGA Limited**") and its predecessor since September 2013. Mr. Li was a president of CGA Limited and its predecessor from August 2013 to July 2015 and a vice president of CGA Limited and its predecessor from May 2012 to August 2013. Mr. Li was the chairman and general manager of Xinjiang Military Imported Auto Parts Co., Ltd. (新疆軍工進口汽車配件有限公司), currently a subsidiary of CGA, from August 1988 to April 2008. Mr. Li has been serving as the general manager and chairman of Urumqi Huatong Toyota Sales and Services Co., Ltd. (烏魯木齊華通豐田汽車銷售服務有限公司), currently a subsidiary of CGA, since October 2002. Mr. Li was the chairman and general manager of a subsidiary of CGA, Xinjiang Tianhui Automobile Services Co., Ltd. (新疆天匯汽車服務有限公司) from April 2008 to August 2013. Mr. Li obtained a university diploma in economics and management by taking correspondence courses from Urumqi Army Institute (烏魯木齊陸軍學院) in June 2006.

Mr. WANG Xinming (王新明), aged 46, has been an executive Director and the President of the Company since 21 June 2016. Mr. Wang has been a director of CGA since June 2016, and a president of CGA since May 2016. Mr. Wang served as a vice president of CGA from July 2015 to May 2016. From December 2013 to July 2015, Mr. Wang was the assistant to the president of CGA Limited and its predecessor. Mr. Wang served successively as a deputy store manager, vice general manager of operations, executive vice general manager of operations and general manager of Hebei region, general manager of the north China region and general manager of the greater north China region of CGA from November 2008 to November 2013. Mr. Wang served successively as the store manager and general manager for store operations of Shijiazhuang Tianhe Automobile Dealership Co., Ltd. (石家莊天河汽車貿易有限公司) from January 2002 to November 2008. Mr. Wang obtained a bachelor's degree in administrative management from Hebei University of Economics and Business (河北經貿大學) in July 1994.

Mr. QI Junjie (戚俊傑), aged 46, has been an executive Director of the Company since 29 July 2016. Mr. Qi has been the secretary of the party committee of CGA since May 2016 and was the chairman of the board of directors of Xinjiang Guanghui Liquefied Natural Gas Development Co., Ltd. (新疆廣匯液化天然氣發展有限責任公司) from September 2015 to July 2016. Mr. Qi has been a director of Xinjiang Guanghui Energy Company Limited (新疆廣匯能源股份有限公司) since October 2015. Mr. Qi served as the deputy county chief and deputy secretary of Xinjiang Jimunai County (新疆吉木乃縣) and the director of the National Border Co-operative District (國家邊境合作區) from July 2008 to September 2014. Mr. Qi was an official of the Forest Bureau of Xinjiang Aletai District (新疆阿勒泰地區林業局) from July 1994 to July 2008. Mr. Qi obtained a master degree in botanical architecture specialty from Xinjiang Agricultural University (新疆農業大學) in July 1997 and obtained a bachelor's degree in plant protection specialty from Xinjiang Agricultural University (新疆農業大學) in July 1994.

Mr. LU Ao (盧翱), aged 46, has been an executive Director of the Company since 21 June 2016. Mr. Lu has been the vice president and chief financial officer of CGA since July 2015. Mr. Lu served as the chief business development officer, vice president and chief financial officer of CGA Limited and its predecessor from January 2007 until July 2015. Mr. Lu served as a manager of the corporate development department of the Asia Pacific region of Danone from August 2005 to September 2006, and a manager of the corporate investment and M&A strategic consulting department of PricewaterhouseCoopers from January 2004 to August 2005. Mr. Lu obtained a bachelor's degree in economics from Southwest University of Finance & Economics (西南財經大學) in July 1995, and obtained an MBA degree from Fordham University in the Beijing International MBA program at Peking University in February 2004. Mr. Lu was admitted as a certified public accountant of PRC by Chinese Institute of Certified Public Accountants in August 1998.

Ms. XU Xing (許星), aged 41, has been the executive director of the Company since 8 June 2018 and was the non-executive director of the Company from October 2017 to June 2018. She was also appointed as a joint company secretary of the Company on 20 November 2018. Ms. Xu is primarily responsible for the corporate governance and capital market related matters of the Company and therefore has extensive experience in matters concerning the board of directors and the corporate governance of the Company. Ms. Xu was also appointed as the vice president of the Company in May 2017. Ms. Xu is the secretary of the board and vice president of CGA and was the assistant to the president of CGA from October 2016 to June 2018. Prior to joining CGA, Ms. Xu was the executive president of Shanghai Yanhua Smartech Group Co., Ltd (上海延華智能科技(集團)股份有限公司) ("**SYSG**"), a company listed on Shenzhen Stock Exchange (SHE: 002178) from January 2014 to October 2016. Ms. Xu was also the deputy general manager and secretary of the board of SYSG from December 2009 to August 2014. From November 2007 to May 2009, Ms. Xu was a senior consultant in Han Consulting (China) Ltd. (漢普管理諮詢(中國)有限公司). Ms. Xu has over 10 years of experience in senior management. Ms. Xu obtained a master's degree from University of Portsmouth, United Kingdom in 2006 and a MBA degree from Shanghai University of Finance and Economics (上海財經大學) in 2007. Ms. Xu also obtained a EMBA from China Europe International Business School (中歐國際工商學院) and the Certificate of Secretary of the Board (董事會秘書資格證書) issued by the Shenzhen Stock Exchange in 2009.

Independent non-executive Directors

Mr. DIAO Jianshen (刁建申), aged 65, is an independent non-executive director of the Company, the chairman of each of the Audit Committee and the Remuneration Committee, and a member of the Nomination Committee of the Company. Mr. Diao has been a vice president of the China Automobile Dealers Association since 2008. He was a director and executive deputy general manager of 華星新世界汽車服務有限公司 (Huaxing New World Auto Service Company Limited) from 2002 to 2008. From 1998 to 2002, he was a general manager of 中國汽車貿易華北公司 (China Automobile Trading (North China) Corporation). He graduated from 中共北京市委黨校 (CPC Beijing Municipal Party School) with a major in economic management in 1988 and from the Chinese Academy of Social Sciences with a major in business economics in 1998. Mr. Diao was appointed as an independent non-executive director of the Company on 22 November 2011.

Ms. LIU Yangfang (**劉陽芳**), aged 47, is an independent non-executive director, the chairman of the Nomination Committee, and a member of each of the Audit Committee and the Remuneration Committee of the Company. Ms. Liu has been the managing partner of C & S Law Firm ("**C & S**") since January 2016. She was the partner of C & S from December 2008 to December 2015 and the practicing lawyer of C & S from July 2000 to November 2008. Ms. Liu has over 15 years of professional legal service experience in corporate law. Ms. Liu obtained a bachelor 's degree of law majoring in International Economic Law of Fudan University in July 2000 and a master 's degree (LLM) from Chicago-Kent College of Law of Illinois Institute of Technology in the United States of America in May 2010, respectively. Ms. Liu was appointed as an independent non-executive director of the Company on 8 June 2018.

Mr. CHAN Wan Tsun Adrian Alan (陳弘俊), aged 40, is an independent non-executive director and a member of the Audit Committee of the Company. Mr. Chan has been the chief financial officer of Sun Ray Capital Investment Corporation since July 2015. He has been the chief financial officer of LabyRx Immunologic Therapeutics Limited since July 2018 and has been the chief financial officer of Lifepans Limited since August 2018. From 2009 to June 2015, he was the chief financial officer of Enviro Energy International Holdings Limited (stock code: 1102), a company whose shares are listed on the Stock Exchange. He has over 15 years of experience in corporate finance. He was an associate director of UOB Asia (Hong Kong) Limited from 2005 to 2009, mainly responsible for the execution of financial advisory, initial public offering, merger and acquisitions, privatisation and other equity capital market transactions in the Greater China Region and Southeast Asia. He has also previously worked for the equity capital markets department of DBS Asia Capital Limited from 2002 to 2005, the corporate finance department of DBS Vickers Securities (formerly known as Vickers Ballas Holdings Limited) from 2000 to 2001, and as auditor for a top-tier international accounting firm. Mr. Chan graduated from the University of New South Wales, Australia with a Bachelor of Commerce degree in Accounting and Finance in 2000. He is a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants, respectively. Mr. Chan was appointed as an independent non-executive director of the Company on 22 November 2011.

SENIOR MANAGEMENT

Our senior management team are as follows:

Mr. WANG Xinming (王新明) is the president of the Company. Please refer to "Directors and Senior Management — Directors" for a description of his biography.

Ms. XU Xing (許星) is the vice president of the Company. Please refer to "Directors and Senior Management — Directors" for a description of her biography.

JOINT COMPANY SECRETARIES

Ms. XU Xing (許星) has been appointed as a joint company secretary of the Company since 20 November 2018. Please refer to "Directors and Senior Management — Directors" and "Corporate Governance Report — Joint Company Secretaries" for a description of her biography.

Ms. CHENG Mei Chun (鄭美珍), the other joint company secretary of the Company, has been the Company's company secretary since 16 October 2017. Ms. Cheng is a director of Corporate Services of Tricor Services Limited, a global professional corporate services provider. Ms. Cheng has over 25 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Cheng is a Chartered Secretary and an Associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom since August 1994 and August 1992, respectively and was awarded the Chartered Governance Professional qualification in September 2018.

REPORT OF THE DIRECTORS

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

PRINCIPAL PLACE OF BUSINESS

The Company is a company incorporated in the Cayman Islands. Its principal place of business in Hong Kong is situated at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong and have been registered as a non-Hong Kong company under the Companies Ordinance on 16 November 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 1 to the financial statements.

BUSINESS REVIEW

The business review of the Group as at 31 December 2018 is set out in the section headed "Management Discussion and Analysis" from pages 8 to 18 of this annual report.

RESULTS

The Group's results for the year ended 31 December 2018 are set out in the consolidated statement of comprehensive income on page 57 of this annual report.

FINANCIAL STATEMENTS

The profits of the Group for the year ended 31 December 2018 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 56 to 173 of this annual report.

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2018 and for the last five financial years are set out on page 174 of this annual report.

RESERVES

As at 31 December 2018, distributable reserves of the Company amounted to RMB2,372.4 million (2017: RMB2,611.6 million). Details of movements in reserves of the Company during the year are set out in note 51 to the financial statements.

FINAL DIVIDEND

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

ANNUAL GENERAL MEETING

The 2019 AGM will be held on 14 June 2019. Notice of the 2019 AGM will be published and issued to shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders of the Company who are eligible to attend and vote at the 2019 AGM, the register of members of the Company will be closed from 11 June 2019 to 14 June 2019, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the 2019 AGM, all duly stamped share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 10 June 2019.

PROPERTY AND EQUIPMENT

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

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year are set out in note 40 to the financial statements.

Except as disclosed in this annual report, during the year ended 31 December 2018, the Company had no material investment held, had not carried out any material acquisition or disposal of subsidiaries, associates and joint ventures, and had no definite plan for material investment or acquisition of capital assets.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

The advance from CGA, the controlling shareholder of the Company, as set out in note 46 to the financial statements constitute connected transactions under Chapter 14A of the Listing Rules but are exempt from the relevant reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules.

Property Lease Agreement and Finance Lease Framework Agreement

On 6 July 2016, Shanghai Kailong Automobile Trading Co., Ltd. (上海開隆汽車貿易有限公司) ("**Shanghai Kailong**"), a wholly-owned subsidiary of the Company, and CGA Limited, a wholly-owned subsidiary of CGA, entered into a property lease agreement (the "**Property Lease Agreement**") pursuant to which Shanghai Kailong agreed to lease certain properties of the Group to CGA Limited for office use for a term of three years expiring on 30 June 2019. The Property Lease Agreement expires on 30 June 2019 and is subject to annual caps of RMB2,000,000, RMB3,800,000 and RMB4,000,000 for 2016, 2017 and 2018, respectively.

On 29 July 2016, the Company and All Trust Leasing Company Limited (匯通信誠租賃有限公司) ("**All Trust Leasing**"), an indirect wholly-owned subsidiary of CGA, entered into a finance lease framework agreement (the "**Finance Lease Framework Agreement**") pursuant to which (i) the Group agreed to sell, and All Trust Leasing agreed to purchase, passenger vehicles in accordance with the instructions of lessees of passenger vehicles (the "**Vehicle Sales Transactions**"); and (ii) the Group agreed to provide the following services to All Trust Leasing: (a) promoting All Trust Leasing's finance leasing products to the Group's customer, and (b) providing information in relation to the lessees of passenger vehicles and passenger vehicles purchased by All Trust Leasing (the "**Service Transactions**"). The Finance Lease Framework Agreement expired on 31 December 2018, and is subject to annual caps of RMB119,220,000, RMB318,240,000 and RMB358,005,000 for 2016, 2017 and 2018, respectively, amongst which the Vehicle Sales Transactions are subject to annual caps of RMB118,800,000, RMB316,800,000 and RMB356,400,000 for 2016, 2017 and 2018, respectively; and the Service Transactions are subject to annual caps of RMB420,000, RMB1,440,000 and RMB1,605,000 for 2016, 2017 and 2018, respectively.

The Property Lease Agreement and the Finance Lease Framework Agreement constitute continuing connected transactions of the Company and are subject to the reporting and announcement requirements but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Please refer to the announcement of the Company dated 29 July 2016 for further details.

2017 Sale and Leaseback Framework Agreement

On 24 January 2017, Shanghai Dingxin Financial Leasing Co., Ltd (上海鼎信融資租賃有限公司) ("**Dingxin Leasing**"), a direct wholly-owned subsidiary of the Company, and All Trust Leasing entered into a sale and leaseback framework agreement (the "**2017 Sale and Leaseback Framework Agreement**"), pursuant to which All Trust Leasing shall sell to Dingxin Leasing vehicles owned by All Trust Leasing, which shall then be leased back for use by All Trust Leasing; and upon the expiry of the lease term, All Trust Leasing shall repurchase the leased assets in accordance with the agreed terms.

The 2017 Sale and Leaseback Framework Agreement will expire on 31 December 2019 and is subject to annual caps of RMB1,500,000,000, RMB2,500,000,000 and RMB3,000,000,000 for 2017, 2018 and 2019, respectively. The 2017 Sale and Leaseback Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company and are subject to the announcement, reporting, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Please refer to the announcements and circular of the Company dated 24 January 2017, 24 February 2017 and 15 March 2017 for further details.

2018 Sale and Leaseback Framework Agreement

On 24 April 2018, Dingxin Leasing and All Trust Leasing entered into a sale and leaseback framework agreement (the "**2018 Sale and Leaseback Framework Agreement**"), pursuant to which Dingxin Leasing shall sell to All Trust Leasing vehicles owned by All Trust Leasing, which shall then be leased back for use by Dingxin Leasing; and upon the expiry of the lease term, Dingxin Leasing shall repurchase the leased assets in accordance with the agreed terms.

The 2018 Sale and Leaseback Framework Agreement will expire on 31 December 2020 and is subject to annual caps of RMB900,000,000, RMB1,500,000,000 and RMB1,800,000,000 for 2018, 2019 and 2020, respectively. The 2018 Sale and Leaseback Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company and are subject to the announcement, reporting, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Please refer to the announcements and circular of the Company dated 24 April 2018, 25 May 2018 and 15 June 2018 for further details.

Save as disclosed above and the acquisitions as disclosed in the section headed "Management Discussion and Analysis – Significant Acquisition, Disposal or Investment - Acquisitions" of this annual report, which is subject to the reporting and announcement requirements but exempt from and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules, all related-party transactions set out in note 46 to the financial statements did not constitute connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Confirmation by auditor

The external auditor of the Company was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagement Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the conclusions in respect of the above-mentioned continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules and submitted a copy of the auditor's letter to the Stock Exchange.

Confirmation by independent non-executive Directors

The independent non-executive Directors reviewed the nature, the implementation of the annual caps, pricing policy and internal control procedure of the above-mentioned continuing connected transactions, and confirmed that the transactions were entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better; and

(c) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

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

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

REPORT OF **THE DIRECTORS**

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") POLICY

As a public listed company, the Group complies with all relevant national and local environmental laws and regulations, establish internal environmental policies accordingly. By implementing energy saving and recycling measures, we strive to minimize emission and reduce waste. In addition, we encourage our employees to actively play a role in achieving the sustainable development of the Group through engaging in environmentally friendly practices.

The Group will release the Environmental, Social and Governance report required by the Listing Rules separately on the website of the Stock Exchange within three months from the date of publication of this annual report. The ESG report will details the environmental and social performance of the Group during the year.

DIRECTORS

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

Executive Directors
Mr. LI Jianping *(Chairman)*
Mr. WANG Xinming *(President)*
Mr. QI Junjie
Mr. LU Ao
Ms. XU Xing (redesignated from non-executive Director on 8 June 2018)

Non-Executive Directors
Mr. ZHOU Yu (resigned on 10 May 2018)

Independent Non-Executive Directors
Mr. DIAO Jianshen
Ms. LIU Yangfang (appointed on 8 June 2018)
Mr. CHAN Wan Tsun Adrian Alan
Mr. WANG Keyi (resigned on 8 June 2018)

Pursuant to article 16.18 of the Company's articles of association (the "Articles"), Mr. Li Jianping, Mr. Wang Xinming, Mr. Qi Junjie, Mr. Lu Ao and Ms. Xu Xing will retire at the 2019 AGM. In addition, Ms. Liu Yangfang who was appointed as an independent non-executive Director by the Board on 8 June 2018 shall hold office until the 2019 AGM pursuant to article 16.2 of the Article. All the above Directors, being eligible, will offer themselves for re-election at the 2019 AGM.

DIRECTORS' INTERESTS IN CONTRACTS

Other than the connected transactions set out in this annual report, no transaction, arrangement or contract of significance to which the Company or its subsidiaries was a party, and in which a Director or an entity connected with a Director had a direct or indirect material interest, subsisted at the end of the year or at any time during the year ended 31 December 2018.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

MANAGEMENT CONTRACT

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

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's articles of association, 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 in defending any proceedings in which judgement is given in his/her favour, or which he/she is acquitted. The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and officers arising out of corporate activities.

EQUITY-LINKED ARRANGEMENTS

Apart from the Share Option Scheme (as defined below) of the Company set forth in note 37 to the financial statements, the Company did not enter into any equity-linked agreement during the year ended 31 December 2018, nor was there any subsisting equity-linked agreement entered into by the Company at the end of the reporting year.

SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

During the twelve months ended 31 December 2018, 75,000,000 share options were granted by the Company pursuant to the share option scheme adopted by the Company on 14 December 2011 (the "**Share Option Scheme**") which were valid and outstanding. A summary of the terms of the Share Option Scheme is set out in appendix VI to the Company's prospectus dated 2 December 2011.

Movements of option shares under the Share Option Scheme during the twelve months ended 31 December 2018 were as follows:

	Date of grant	Exercise price per share	Exercise period from	Exercise period until	Vesting period (Notes)	Number of shares options: Outstanding as at 01/01/2018	Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Outstanding as at 31/12/2018
(i) Directors											
LI Jianping	28/03/2018	3.256 (iv)	28/03/2018	27/03/2028	(i) (ii) (iii)	–	4,000,000	–	–	–	4,000,000
WANG Xingming	28/03/2018	3.256 (iv)	28/03/2018	27/03/2028	(i) (ii) (iii)	–	4,000,000	–	–	–	4,000,000
QI Junjie	28/03/2018	3.256 (iv)	28/03/2018	27/03/2028	(i) (ii) (iii)	–	2,000,000	–	–	–	2,000,000
LU Ao	28/03/2018	3.256 (iv)	28/03/2018	27/03/2028	(i) (ii) (iii)	–	2,000,000	–	–	–	2,000,000
XU Xing	28/03/2018	3.256 (iv)	28/03/2018	27/03/2028	(i) (ii) (iii)	–	2,000,000	–	–	–	2,000,000
(ii) Eligible employees	28/03/2018	3.256 (iv)	28/03/2018	27/03/2028	(i) (ii) (iii)	–	61,000,000	–	–	–	61,000,000
				Total:		–	75,000,000	–	–	–	75,000,000

Notes:

(i) 30% of the share options will be vested on, and exercisable from, the first anniversary of the date of grant;

(ii) a further 30% of the share options will be vested on, and exercisable from, the second anniversary of the date of grant;

(iii) a further 40% of the share options will be vested on, and exercisable from, the third anniversary of the date of grant;

(iv) The closing price of the shares of the Company immediately before the date of grant (i.e. as at 27 March 2018) was HK$3.27.

Details of Share Option Scheme and the share options issued under the Share Option Scheme are included in note 37 to the financial statements.

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

As at 31 December 2018, the interests and short positions of the Directors or chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules were as follows:

Name of Director/ chief executive	Capacity/ nature of interest	Number of ordinary shares	Number of underlying shares pursuant to share options [1, 2]	Approximate percentage in the Company's issued voting shares
LI Jianping	Beneficial owner	–	4,000,000(L)	0.14%
WANG Xingming	Beneficial owner	–	4,000,000(L)	0.14%
QI Junjie	Beneficial owner	–	2,000,000(L)	0.07%
LU Ao	Beneficial owner	–	2,000,000(L)	0.07%
XU Xing	Beneficial owner	–	2,000,000(L)	0.07%

Notes:

(1) These underlying shares were unlisted option shares granted pursuant to the Share Option Scheme, particulars of which are set out in the section headed "Share Option Scheme" in this report.

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

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

Apart from the Share Option Scheme, during the twelve months ended 31 December 2018, the Company and any of its subsidiaries were not a party to any arrangements whose objects are, or one of whose objects is, to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. Save for those disclosed above, during the year 31 December 2018, none of the Directors (including their respective spouses and children under the age of 18) had any interests in or was granted any right to subscribe for the securities of the Company or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

RETIREMENT BENEFIT SCHEME

Details of the retirement benefits plans of our Group are set out in note 34 to the financial statements.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

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

Name	Capacity/Nature of interest	Number of shares[4]	Approximate percentage of shareholding interest
China Grand Automotive Services (Hong Kong) Limited (廣匯汽車服務(香港)有限公司) ("**CGA HK**") [1] [3]	Beneficial interest	1,921,117,571 (L) 1,917,983,571 (S)	67.71% 67.60%
China Grand Automotive Services Co., Ltd. (廣匯汽車服務有限責任公司) ("**CGA Limited**") [1] [3]	Interest in controlled corporation	1,921,117,571 (L) 1,917,983,571 (S)	67.71% 67.60%
Shanghai Huiyong Automotive Distribution Co., Ltd. (上海匯湧汽車銷售有限公司) [1] [3]	Interest in controlled corporation	1,921,117,571 (L) 1,917,983,571 (S)	67.71% 67.60%
China Grand Automotive Services Co., Ltd. (廣匯汽車服務股份公司) ("**CGA**") [1] [3]	Interest in controlled corporation	1,921,117,571 (L) 1,917,983,571 (S)	67.71% 67.60%
Baoxin Investment Management Ltd. [2]	Beneficial interest	252,754,130 (L)	8.91%
Mr. Yang Aihua [2]	Interest in controlled corporation	252,754,130 (L)	8.91%
China Merchants Bank Co., Ltd. (Shanghai Songjiang Branch) (招商銀行有限公司上海松江支行) [3]	Person having a security interest in shares	1,917,983,571 (L)	67.60%

(L) — long position;
(S) — short position

Notes:

(1) CGA HK is wholly owned by Shanghai Huiyong Automotive Distribution Co., Ltd. (上海匯湧汽車銷售有限公司) (which is in turn owned as to approximately 44.23% by CGA Limited and approximately 55.77% by CGA). CGA Limited is wholly owned by CGA. Each of CGA Limited, Shanghai Huiyong Automotive Distribution Co., Ltd. (上海匯湧汽車銷售有限公司) and CGA are deemed to be interested in the shares held by CGA HK.

(2) Baoxin Investment Management Ltd. is wholly owned by Mr. Yang Aihua. Mr. Yang Aihua is deemed to be interested in the shares held by Baoxin Investment Management Ltd.

(3) On 1 September 2016, CGA HK executed a share charge over the 1,917,983,571 shares held by it (in favour of China Merchants Bank Co., Ltd. (Shanghai Songjiang Branch) (招商銀行有限公司上海松江支行) as the security agent) under a syndicated loan facility granted to CGA. The share charge was released on 8 April 2019 as a result of the repayment of the syndicated loan facility by CGA.

(4) The letter "L" denotes the person's long position in such shares and the letter "S" denotes the person's short position in such shares.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the shares or underlying shares representing 5% or more of the issued share capital of the Company as at 31 December 2018.

MAJOR CUSTOMERS AND SUPPLIERS

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

The aggregate purchase attributable to the Group's five largest suppliers accounted for approximately 77.8% (2017: 83.8%) and the largest supplier accounted for approximately 35.6% (2017: 30.2%) of the Group's total purchases for the year ended 31 December 2018.

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

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report (the "**Latest Practicable Date**"), the Company maintained the prescribed public float as required by the Listing Rules as at the Latest Practicable Date.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF FOR HOLDERS OF LISTED SECURITIES

As at 31 December 2018, holders of listed securities of the Company were not entitled to obtain any relief from taxation by reason of their holding of such securities pursuant to the laws of the Cayman Islands.

ASSESSMENT OF PROPERTY INTERESTS OR TANGIBLE ASSETS

During the year ended 31 December 2018, the Company has not valued its property interests or other tangible assets in accordance with Chapter 5 of the Listing Rules.

CONTINUING OBLIGATIONS UNDER CHAPTER 13 OF THE LISTING RULES

In accordance with the requirements under Rule 13.21 of the Listing Rules, the Directors report below details of loan facilities, which existed during the year ended 31 December 2018 and up to the date of this annual report and included conditions relating to specific performance of the controlling shareholder of the Company:

On 23 August 2016, the Company (as the borrower) entered into a loan agreement (the "**2016 Facility Agreement**") with, among others, a syndicate of banks (collectively, the "**Lenders**") with Standard Chartered Bank (Hong Kong) Limited acting as the facility agent of the Lenders for a term loan facility in the principal amount of up to US$750,000,000. Pursuant to the 2016 Facility Agreement, among other things, CGA shall beneficially own (whether directly or indirectly) at least 51% of the voting shares of and economic rights in the Company at any time before the final maturity date of the loan facility. Otherwise, it will constitute an event of default under the 2016 Facility Agreement and the loan facility may become immediately due and payable.

On 12 May 2017, the Company (as the borrower) entered into a facility agreement (the "**2017 Facility Agreement**") with, among others, a syndicate of banks (collectively, the "**Lenders**") with Standard Chartered Bank (Hong Kong) Limited acting as the facility agent (the "**Facility Agent**") for a term loan facility in the principal amount of up to US$763,400,000 (which may be increased pursuant to the exercise by the Company of a green shoe option in an amount of not more than US$86,600,000) (the "**2017 Facility**"). The 2017 Facility is available for drawdown for a period of six (6) months from the date of the 2017 Facility Agreement and the loans made under the 2017 Facility Agreement shall be fully repaid within 36 months from the first utilisation date of such loans. The purpose of the 2017 Facility is primarily to refinance the existing indebtedness of the Company and for the corporate funding requirement of the Company. Pursuant to the 2017 Facility Agreement, upon the occurrence of a "Change of Control", any of the Lenders may cancel any or all of its commitments under the 2017 Facility and declare its participation in the loans together with accrued interest, and all other amounts accrued or outstanding thereunder, to be immediately due and payable.

A "Change of Control" is defined under the 2017 Facility Agreement to include, among others:

(i) CGA, directly or indirectly, ceases to be the single largest shareholder of the Company or ceases to have control over the Company; or

(ii) CGA ceases to beneficially own, directly or indirectly, 100% of the issued share capital of CGA HK or ceases to control CGA HK.

On 30 November 2018, the Company and Baoxin Auto Finance I Limited ("**Baoxin Finance**"), a wholly-owned subsidiary of the Company's controlling shareholder CGA HK, (as borrowers) entered into a facilities agreement (the "**2018 Facilities Agreement**") with, among others, a syndicate of banks (collectively, the "**Lenders**") with Standard Chartered Bank (Hong Kong) Limited (渣打銀行(香港)有限公司) as mandated lead arranger and bookrunner, Standard Chartered Bank (Hong Kong) Limited (渣打銀行(香港)有限公司) as facility agent and Standard Chartered Bank (Hong Kong) Limited (渣打銀行(香港)有限公司) as security agent for term loan facilities in the aggregate amount of US$358,000,000, of which US$190,500,000 is to the Company and US$167,500,000 is to Baoxin Finance (the aggregate amount may be increased by the Company and Baoxin Finance in accordance with the 2018 Facilities Agreement to an amount of not more than US$800,000,000) (the "**2018 Facilities**"). The 2018 Facilities are available for drawdown for a period of 9 months from the date of the 2018 Facilities Agreement and the loans made under the 2018 Facilities Agreement shall be fully repaid within 36 months from the first utilisation date of such loans. CGA will provide joint and several liability guarantee for the 2018 Facilities. The purpose of the 2018 Facilities is (among others) to refinance the existing indebtedness of the Company and for general corporate purposes of the Company.

Pursuant to the 2018 Facilities Agreement, upon the occurrence of a "Change of Control", any of the Lenders may cancel any or all of its commitments under the 2018 Facilities and declare its participation in the loans together with accrued interest, and all other amounts accrued or outstanding thereunder, to be immediately due and payable.

A "Change of Control" is defined under the 2018 Facilities Agreement to include, among others:

(i) CGA, directly or indirectly, ceases to be the single largest shareholder of the Company or ceases to control the Company;

(ii) the Company ceases to be consolidated in the audited and consolidated financial statements of CGA; or

(iiii) CGA ceases to beneficially own, directly or indirectly, 100% of the issued share capital of CGA HK or ceases to control CGA HK.

AUDITORS

Our external auditors, Ernst & Young, will retire and their re-appointment as the external auditors of the Company has been recommended by the Audit Committee, endorsed by the Board and is subject to approval by the shareholders of the Company at the forthcoming annual general meeting of the Company.

On behalf of the Board

LI Jianping
Chairman

Hong Kong, 29 March 2019

INDEPENDENT AUDITOR'S REPORT

EY 安永

To the shareholders of Grand Baoxin Auto Group Limited
(Incorporated in the Cayman Islands as an exempted company with limited liability)

OPINION

We have audited the consolidated financial statements of Grand Baoxin Auto Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 56 to 173, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS

Key audit matters	How our audit addressed the key audit matter
Acquisitions	
During the year ended 31 December 2018, the Group completed acquisitions of certain car dealerships at a total consideration of approximately RMB619,000,000. The accounting for these acquisitions involved significant judgement of management for the purchase price allocation mainly in relation to the valuation of property, plant and equipment, prepaid land lease payments, intangible assets which include dealership agreements and the remaining goodwill balance. The Group engaged an external independent appraiser to perform the valuation. Specific disclosures about the acquisitions are included in note 2.4 "Summary of significant accounting policies" and note 39 "Business combination" to the financial statements.	We evaluated the competency, capabilities and objectivity of the external independent appraiser engaged by the Group to perform the valuation and involved our internal valuation specialists to review the valuation methodologies adopted by the appraiser, and the assumptions used in valuation of the assets acquired and liabilities by reference to the historical experience and the market practices. We reviewed the identification of the acquired assets and liabilities, and tested the prospective financial information assumptions used in the calculation of the fair value allocated to the acquired assets. We also checked the related disclosures.

Key audit matters	How our audit addressed the key audit matter
Impairment assessment of goodwill	
The carrying value and impairment provision of goodwill amounted to RMB1,222,016,000 and RMB25,051,000 as at 31 December 2018, respectively. The Group is required to perform an impairment test for goodwill at least annually. The impairment test was based on the recoverable values of the respective cash-generating units ("CGUs") to which the goodwill were assigned. We focused on this area because management's impairment assessment processes were complex and involved significant judgements, including the degree of subjectivity of expected future cash flow forecasts, associated growth rates and the discount rates applied. Specific disclosures about goodwill are included in note 2.4 "Summary of significant accounting policies", note 3 "Significant accounting judgements and estimates" and note 19 "Goodwill" to the financial statements.	We evaluated the forecasts used in the determination of the recoverable values with respect to future revenues and operating results by comparing the forecasts with the historical performance of the respective CGUs and the business development plan. We involved our valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group, in particular, the discount rates and long term growth rates. We also checked the related disclosures.
Vendor rebates	
The Group recognised volume-related vendor rebates on an accrual basis based on the terms of the suppliers' contracts. As at 31 December 2018, the rebates recognised in the consolidated statement of financial position amounted to approximately RMB6,358,604,000. We focused on this area because the balance of rebates was significant and the process of calculating the accrual was complex. Specific disclosures about vendor rebates are included in note 2.4 "Summary of significant accounting policies" and note 25 "Prepayments, other receivables and other assets" to the financial statements.	We understood and tested management's key internal controls in relation to the recognition of vendor rebates. We checked the rebate policies adopted against the terms of the relevant supplier contracts and checked the calculation of the rebate based on the rebate policies. We also checked subsequent settlement of the rebates against the accrued balances.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Leung Wai Lap, Philip.

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

29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
REVENUE	5(a)	**36,723,758**	34,557,985
Cost of sales and services provided	6(b)	**(33,939,267)**	(31,622,151)
Gross profit		**2,784,491**	2,935,834
Other income and gains, net	5(b)	**833,640**	601,145
Selling and distribution expenses		**(1,247,031)**	(1,091,154)
Administrative expenses		**(738,959)**	(557,014)
Profit from operations		**1,632,141**	1,888,811
Finance costs	7	**(706,522)**	(730,513)
Share of profits and losses of:			
A joint venture	20	**1,978**	542
Associates	21	**(14,550)**	4,919
Profit before tax	6	**913,047**	1,163,759
Income tax expense	8	**(346,226)**	(357,423)
Profit for the year		**566,821**	806,336
Include: Net profit of the party being absorbed before business combination involving an entity under common control		**90**	4,235
Attributable to:			
Owners of the parent		**565,999**	807,923
Non-controlling interests		**822**	(1,587)
		566,821	806,336
Earnings per share attributable to ordinary equity holders of the parent	12		
Basic and diluted			
– For profit for the year (RMB)		**0.20**	0.30

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 RMB'000	2017 RMB'000 (Restated)
PROFIT FOR THE YEAR	**566,821**	806,336
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Time value component of fair value hedges	**(54,702)**	–
Exchange differences on translation of financial statements	**(153,744)**	191,865
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**(208,446)**	191,865
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Financial asset at fair value through other comprehensive income: Changes in fair value	**18,616**	–
Gains on property revaluation	**68,072**	–
Income tax effect	**(17,018)**	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**69,670**	–
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(138,776)**	191,865
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**428,045**	998,201
Attributable to:		
Owners of the parent	**427,223**	999,788
Non-controlling interests	**822**	(1,587)
	428,045	998,201

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	**31 December 2018 RMB'000**	31 December 2017 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	13	**3,963,972**	4,005,271
Investment properties	14	**370,905**	–
Prepaid land lease payments	15	**455,695**	489,796
Goodwill	19	**1,222,016**	893,236
Intangible assets	16	**1,523,106**	1,178,227
Prepayments and deposits	17	**58,757**	260,150
Finance lease receivables	18	**131,710**	148,418
Amounts due from related parties	46(c)	**25,000**	–
Investment in a joint venture	20	**99,995**	57,183
Investments in associates	21	**31,556**	43,542
Available-for-sale investment	22	**–**	16,584
Financial asset at fair value through other comprehensive income	22	**36,000**	–
Derivative financial instruments	33	**10,359**	6,573
Deferred tax assets	35(a)	**168,219**	87,595
Total non-current assets		**8,097,290**	7,186,575
CURRENT ASSETS			
Inventories	23	**4,126,679**	4,109,943
Trade receivables	24	**557,966**	504,767
Finance lease receivables	18	**191,338**	139,179
Prepayments, other receivables and other assets	25	**8,974,134**	7,494,976
Amounts due from related parties	46(c)	**10,619**	46,340
Derivative financial instruments	33	**16,649**	–
Pledged deposits	26	**3,547,907**	3,044,892
Cash in transit	27	**46,208**	35,943
Cash and bank	28	**2,561,065**	3,179,357
Total current assets		**20,032,565**	18,555,397
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	**3,842,108**	3,269,636
Trade and bills payables	30	**7,519,402**	6,277,400
Other payables and accruals	31	**1,265,316**	1,349,233
Amounts due to related parties	46(c)	**923,661**	124,738
Income tax payable		**477,412**	423,812
Derivative financial instruments	33	**2,995**	19,786
Finance lease payables	32	**119,509**	–
Total current liabilities		**14,150,403**	11,464,605

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
NET CURRENT ASSETS		**5,882,162**	7,090,792
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,979,452**	14,277,367
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	**5,828,368**	5,701,590
Derivative financial instruments	33	**–**	13,739
Other payables		**42,882**	33,022
Deferred tax liabilities	35(b)	**535,028**	421,021
Amounts due to related parties	46(c)	**352,788**	1,158,819
Finance lease payables	32	**121,400**	–
Total non-current liabilities		**6,880,466**	7,328,191
Net assets		**7,098,986**	6,949,176
EQUITY			
Equity attributable to owners of the parent			
Share capital	36	**23,275**	23,275
Reserves	38	**7,040,671**	6,886,539
		7,063,946	6,909,814
Non-controlling interests		**35,040**	39,362
Total equity		**7,098,986**	6,949,176

LI Jianping
Director

LU Ao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Share capital RMB'000	Share premium* RMB'000	Share option reserve* RMB'000	Statutory reserve* RMB'000	Merger reserve* RMB'000	Other reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2016	20,836	1,767,128	29,019	452,185	(49,317)	(19,066)	(593,566)	3,395,370	5,002,589	39,731	5,042,320
Add: Business combination involving entities under common control	–	–	–	–	117,335	–	–	(31,906)	85,429	–	85,429
At 31 December 2016 (Restated)	20,836	1,767,128	29,019	452,185	68,018	(19,066)	(596,566)	3,363,464	5,088,018	39,731	5,127,749
Profit for the year (Restated)	–	–	–	–	–	–	–	807,923	807,923	(1,587)	806,336
Exchange differences related to foreign operations	–	–	–	–	–	–	191,865	–	191,865	–	191,865
Total comprehensive income	–	–	–	–	–	–	191,865	807,923	999,788	(1,587)	998,201
Business combination under common control	–	–	–	–	(10,000)	–	–	–	(10,000)	–	(10,000)
Acquisition of non-controlling interests	–	–	–	(4,519)	–	(10,409)	–	–	(14,928)	(10,782)	(25,710)
Capital injection from non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	–	–	12,000	12,000
Transfer from retained profits	–	–	–	118,089	–	–	–	(118,089)	–	–	–
Issue of shares	2,439	844,497	–	–	–	–	–	–	846,936	–	846,936
At 31 December 2017 (Restated)	23,275	2,611,625	29,019	565,755	58,018	(29,475)	(401,701)	4,053,298	6,909,814	39,362	6,949,176
At 1 January 2018	**23,275**	**2,611,625**	**29,019**	**565,755**	**(59,317)**	**(29,475)**	**(401,701)**	**4,080,969**	**6,820,150**	**39,362**	**6,859,512**
Add: Business combination involving entities under common control	**-**	**-**	**-**	**-**	**117,335**	**-**	**-**	**(27,671)**	**89,664**	**-**	**89,664**
At 1 January 2018 (Restated)	**23,275**	**2,611,625**	**29,019**	**565,755**	**58,018**	**(29,475)**	**(401,701)**	**4,053,298**	**6,909,814**	**39,362**	**6,949,176**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**565,999**	**565,999**	**822**	**566,821**
Changing fair value upon reclassification from owned-occupied properties to investment properties	**-**	**-**	**-**	**-**	**-**	**51,054**	**-**	**-**	**51,054**	**-**	**51,054**
Change in fair value of a financial asset	**-**	**-**	**-**	**-**	**-**	**18,616**	**-**	**-**	**18,616**	**-**	**18,616**
Time value component of fair value hedges	**-**	**-**	**-**	**-**	**-**	**(54,702)**	**-**	**-**	**(54,702)**	**-**	**(54,702)**
Exchange differences related to foreign operations	**-**	**-**	**-**	**-**	**-**	**-**	**(153,744)**	**-**	**(153,744)**	**-**	**(153,744)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**14,968**	**(153,744)**	**565,999**	**427,223**	**822**	**428,045**
Business combination under common control	**-**	**-**	**-**	**-**	**(85,000)**	**-**	**-**	**-**	**(85,000)**	**-**	**(85,000)**
Acquisition of non-controlling interests	**-**	**-**	**-**	**-**	**-**	**3,144**	**-**	**-**	**3,144**	**(5,144)**	**(2,000)**
Proposed final 2017 dividend	**-**	**(239,214)**	**-**	**-**	**-**	**-**	**-**	**-**	**(239,214)**	**-**	**(239,214)**
Transfer from related profits	**-**	**-**	**-**	**142,976**	**-**	**-**	**-**	**(142,976)**	**-**	**-**	**-**
Equity-settled share-based transactions	**-**	**-**	**47,979**	**-**	**-**	**-**	**-**	**-**	**47,979**	**-**	**47,979**
At 31 December 2018	**23,275**	**2,372,411**	**76,998**	**708,731**	**(26,982)**	**(11,363)**	**(555,445)**	**4,476,321**	**7,063,946**	**35,040**	**7,098,986**

* These reserve accounts comprise the consolidated reserves of RMB7,074,874,000 (2017 (Restated): RMB6,886,539,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
Operating activities			
Profit before tax		**913,047**	1,163,759
Adjustments for:			
Share of profit of a joint venture	20(b)	**(1,978)**	(542)
Share of losses/(profits) of associates	21	**14,550**	(4,919)
Depreciation of property, plant and equipment	13	**346,926**	365,856
Amortisation of prepaid land lease payments	15	**16,046**	13,928
Amortisation of intangible assets	16	**59,317**	51,759
Loss on disposal of subsidiaries	6	**–**	15,093
Fair value (gain)/loss, net:			
Intrinsic value of hedging instruments	33	**(67,904)**	–
Non-hedging instruments	6	**(6,937)**	204,242
Equity investments at fair value through profit or loss	6	**–**	891
Bank interest income	5	**(40,410)**	(41,406)
Loss on disposal of items of property, plant and equipment	5	**25,633**	20,027
Gain on disposal of items of intangible assets	5	**28**	–
Write-down/(Reversal of provision) of inventories to net realisable value	6	**11,928**	(112,015)
Dividend income from a financial asset at fair value through other comprehensive income/available-for-sale investment	6	**(815)**	(5,443)
Finance costs	7	**706,522**	730,513
Loss on termination of an agreement	6	**33,466**	–
Provision for impairment of trade receivables and other receivables		**8,877**	–
Equity-settled share option expense		**47,979**	–
Change in fair value of investment properties	6	**(31,351)**	–
		2,034,924	2,401,743
Operating activities			
Increase in pledged deposits		**(493,754)**	(725,034)
(Increase)/decrease in cash in transit		**(10,265)**	74,813
(Increase)/decrease in trade receivables		**(17,358)**	197,047
Increase in prepayments, other receivables and other assets		**(1,688,438)**	(957,651)
Decrease/(increase) in inventories		**110,355**	(749,146)
Increase in finance lease receivables		**(36,454)**	(264,251)
(Increase)/decrease in amounts due from related parties – trade-related		**(30,113)**	57,462
Increase in trade and bills payables		**1,207,959**	1,290,956
Decrease in other payables and accruals		**(295,103)**	(241,754)
Increase in finance lease payables		**240,909**	–
(Decrease)/increase in amounts due to related parties – trade-related		**(115,044)**	41,309
Cash generated from operations		**907,618**	1,125,494
Income tax paid		**(200,690)**	(170,388)
Net cash flows generated from operating activities		**706,928**	955,106

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
Investing activities			
Purchase of items of property, plant and equipment		**(718,905)**	(642,144)
Proceeds from disposal of items of property, plant and equipment		**512,523**	298,013
Proceeds from disposal of intangible assets		**383**	198
Purchase of land use rights		**(2,977)**	–
Purchase of intangible assets		**(8,489)**	(1,660)
Acquisition of subsidiaries, net of cash paid		**(743,074)**	(652,657)
Proceeds from an embedded derivative at fair value		**(30,825)**	(140,198)
Disposal of subsidiaries, net of cash		**–**	(842,616)
Interest received		**40,410**	41,406
Proceeds from a financial asset at fair value through other comprehensive income/available-for-sale investment		**815**	6,885
Business combination under common control		**(85,000)**	(10,000)
Increase of term deposits of maturity over three months		**(13,619)**	(6,200)
Net cash flows used in investing activities		**(1,048,758)**	(1,948,973)
Financing activities			
Acquisition of non-controlling interests		**(2,000)**	(25,710)
Proceeds from interest-bearing bank and other borrowings		**21,043,892**	19,925,579
Repayment of interest-bearing bank and other borrowings		**(20,547,408)**	(18,897,479)
Interest paid		**(636,560)**	(723,505)
Proceeds from issue of new shares	36	**–**	846,936
Proceeds from capital injection from non-controlling shareholders of a subsidiary		**–**	12,000
Proceeds from a related party		**400,000**	–
Dividends paid		**(239,214)**	–
Repayment of advances to related parties		**(295,000)**	(685,359)
Net cash flows (used in)/generated from financing activities		**(276,290)**	452,462
Net decrease in cash and cash equivalents		**(618,120)**	(541,405)
Cash and cash equivalents at the beginning of year		**3,173,157**	3,763,420
Effect of foreign exchange rate changes, net		**(13,791)**	(48,858)
Cash and cash equivalents at the end of year	28	**2,541,246**	3,173,157
Analysis of balances of cash and cash equivalents			
Cash and cash in bank		**2,466,516**	3,153,157
Short-term deposits		**74,730**	20,000
		2,541,246	3,173,157

1. CORPORATE AND GROUP INFORMATION

Grand Baoxin Auto Group Limited (the "Company") was incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 14 December 2011. On 21 June 2016, China Grand Automotive Services Co. Limited ("CGA") officially completed the pre-conditional voluntary cash partial offer to acquire a maximum of 75% of the issued share capital of the Company.

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

In the opinion of the directors of the Company (the "Directors"), the ultimate holding company of the Company is CGA, the shares of which are listed on the Shanghai Stock Exchange.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company name	Place of operation/ date of incorporation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a subsidiary	Principal activities
開隆投資管理有限公司 (Kailong Investments Management Limited)	Hong Kong, the PRC 2010	Authorised capital of HK$10,000, issued capital of HK$1 and paid-in capital of nil	–	100%	Investment holding
金花企業集團(香港)有限公司 (Gin Wi Enterprises Group (HK) Limited)	Hong Kong, the PRC 1999	Registered and paid-in capital of HK$10,000	–	100%	Investment holding
上海寶信汽車銷售服務有限公司 (Shanghai Baoxin Automobile Sales & Services Co., Ltd.)	Shanghai, the PRC 2004	Registered and paid-in capital of RMB214,650,000	–	100%	Sale and service of motor vehicles
上海開隆汽車貿易有限公司 (Shanghai Kailong Automobile Trading Co., Ltd.)	Shanghai, the PRC 1999	Registered and paid-in capital of RMB87,000,000	–	100%	Sale and service of motor vehicles
蘇州寶信汽車銷售服務有限公司 (Suzhou Baoxin Automobile Sales & Services Co., Ltd.)	Suzhou, the PRC 2004	Registered and paid-in capital of RMB1,100,000,000	–	100%	Sale and service of motor vehicles
青島信寶行汽車銷售服務有限公司 (Qingdao Xinbaohang Automobile Sales & Services Co., Ltd.)	Qingdao, the PRC 2008	Registered and paid-in capital of RMB56,000,000	–	100%	Sale and service of motor vehicles

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Company name	Place of operation/ date of incorporation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Held by a subsidiary	Principal activities
天津寶信汽車銷售服務有限公司 (Tianjin Baoxin Automobile Sales & Services Co., Ltd.)	Tianjin, the PRC 2008	Registered and paid-in capital of RMB60,000,000	–	100%	Sale and service of motor vehicles
常熟寶信汽車銷售服務有限公司 (Changshu Baoxin Automobile Sales & Services Co., Ltd.)	Changshu, the PRC 2006	Registered and paid-in capital of RMB90,000,000	–	100%	Sale and service of motor vehicles
上海天華汽車銷售有限公司 (Shanghai Tianhua Automobile Sales Co., Ltd.)	Shanghai, the PRC 2002	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
杭州寶信汽車銷售服務有限公司 (Hangzhou Baoxin Automobile Sales & Services Co., Ltd.)	Hangzhou, the PRC 2008	Registered and paid-in capital of RMB110,000,000	–	100%	Sale and service of motor vehicles
揚州信寶行汽車銷售服務有限公司 (Yangzhou Xinbaohang Automobile Sales & Services Co., Ltd.)	Yangzhou, the PRC 2010	Registered and paid-in capital of RMB33,000,000	–	100%	Sale and service of motor vehicles
泰州信寶行汽車銷售服務有限公司 (Taizhou Xinbaohang Automobile Sales & Services Co., Ltd.)	Taizhou, the PRC 2010	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
蘇州信寶行汽車銷售服務有限公司 (Suzhou Xinbaohang Automobile Sales & Services Co., Ltd.)	Suzhou, the PRC 2010	Registered and paid-in capital of RMB85,000,000	–	100%	Sale and service of motor vehicles
上海寶信行汽車銷售服務有限公司 (Shanghai Baoxinhang Auto Sales and Services Co., Ltd.)	Shanghai, the PRC 2012	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
陝西天華汽車銷售服務有限公司 (Shaanxi Tianhua Auto Sales and Services Co., Ltd.)	Shaanxi, the PRC 2012	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
燕駿汽車有限公司 (Yan Jun Auto Co., Limited)	Hong Kong, the PRC 1993	Registered and paid-in capital of HK$59,900,000	–	100%	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Company name	Place of operation/ date of incorporation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Held by a subsidiary	Principal activities
北京燕寶汽車服務有限公司 (Beijing Yanbao Auto Services Co., Ltd.)	Beijing, the PRC 1995	Registered and paid-in capital of RMB89,350,000	–	100%	Rendering of car repair and maintenance services
陝西金花汽車貿易有限責任公司 (Shaanxi Ginwa Auto Trade Co., Ltd.)	Xi'an, the PRC 2001	Registered and paid-in capital of RMB52,000,000	–	100%	Sale of motor vehicles
大連燕寶汽車有限公司 (Dalian Yanbao Auto Co., Ltd.)	Dalian, the PRC 1995	Registered and paid-in capital of US$7,920,000	–	100%	Rendering of motor vehicle maintenance services
北京燕德寶汽車銷售有限公司 (Beijing Yandebao Auto Sales Co., Ltd.)	Beijing, the PRC 2002	Registered and paid-in capital of RMB120,030,000	–	100%	Sale of motor vehicles
烏魯木齊燕寶汽車銷售服務有限公司 (Urumqi Yanbao Auto Sales & Services Co., Ltd.)	Urumqi, the PRC 2005	Registered and paid-in capital of RMB35,600,000	–	100%	Rendering of motor vehicle repair and maintenance services
北京燕英捷汽車銷售服務有限公司 (Beijing Yanyingjie Auto Sales & Services Co., Ltd.)	Beijing, the PRC 2010	Registered and paid-in capital of US$10,000,000	–	100%	Sale of motor vehicles
北京燕英捷燕順捷汽車銷售服務有限公司 (Beijing Yanyingjie & Yanshunjie Auto Sales & Services Co., Ltd.)	Beijing, the PRC 1998	Registered and paid-in capital of RMB45,000,000	–	100%	Sale and service of motor vehicles
北京燕豪汽車銷售服務有限公司 (Beijing Yanhao Auto Sales & Services Co., Ltd.)	Beijing, the PRC 2009	Registered capital of RMB169,130,000 and paid-in capital of RMB137,133,507	–	100%	Sale of motor vehicles
大連燕德寶汽車銷售有限公司 (Dalian Yandebao Auto Sales Co., Ltd.)	Dalian, the PRC 2002	Registered and paid-in capital of RMB176,000,000	–	100%	Sale and service of motor vehicles
西安金花寶鼎汽車銷售服務有限公司 (Xi'an Ginwa Baoding Auto Services Co., Ltd.)	Xi'an, the PRC 2001	Registered and paid-in capital of RMB26,000,000	–	100%	Sale and service of motor vehicle

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Company name	Place of operation/ date of incorporation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Held by a subsidiary	Principal activities
北京晨德寶汽車銷售服務有限公司 (Beijing Chendebao Auto Sales and Services Co., Ltd.)	Beijing, the PRC 2003	Registered and paid-in capital of RMB94,500,000	–	100%	Sale of motor vehicles
廊坊燕寶汽車銷售服務有限公司 (Langfang Yanbao Auto Sales & Services Co., Ltd.)	Langfang, the PRC 2011	Registered and paid-in capital of RMB25,000,000	–	100%	Sale and service of motor vehicles
天津申隆汽車銷售服務有限公司 (Tianjin Shenlong Automobile Sales & Services Co., Ltd.)	Tianjin, the PRC 2011	Registered and paid-in capital of RMB100,000,000	–	90%	Sale and service of motor vehicles
NCGA Holdings Limited	Hong Kong, the PRC 2006	Registered and paid-in capital of US$161,986,237	100%	–	Investment holding
四川港宏汽車銷售有限責任公司 (Sichuan Ganghong Auto Sales Co., Ltd.)	Sichuan, the PRC 1996	Registered and paid-in capital of RMB35,000,000	–	100%	Sale and service of motor vehicles
溫州捷順汽車技術服務有限公司 (Wenzhou Jieshun Auto technique & Services Co., Ltd.)	Wenzhou, the PRC 2006	Registered and paid-in capital of RMB120,000,000	–	100%	Sale and service of motor vehicles
溫州好德寶汽車服務有限公司 (Wenzhou Haodebao Auto Services Co., Ltd.)	Wenzhou, the PRC 2006	Registered and paid-in capital of RMB55,000,000	–	100%	Sale and service of motor vehicles
上海晨隆汽車銷售有限公司 (Shanghai Chenlong Automobile Sales Co., Ltd.)	Shanghai, the PRC 2010	Registered and paid-in capital of RMB39,000,000	–	100%	Sale and service of motor vehicles
上海徐匯開隆汽車銷售服務有限公司 (Shanghai Xuhui Kailong Automobile Sales & Services Co., Ltd.)	Shanghai, the PRC 2006	Registered and paid-in capital of RMB12,000,000	–	100%	Sale and service of motor vehicles
合肥寶泓汽車銷售服務有限公司 (Hefei Baohong Automobile Sales & Services Co., Ltd.)	Hefei, the PRC 2012	Registered and paid-in capital of RMB76,000,000	–	100%	Sale and service of motor vehicles

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Company name	Place of operation/ date of incorporation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Held by a subsidiary	Principal activities
上海眾國寶泓汽車銷售服務有限公司 (Shanghai Zhongguo Baohong Automobile Sales & Services Co., Ltd.)	Shanghai, the PRC 2010	Registered and paid-in capital of RMB45,000,000	–	100%	Sale and service of motor vehicles
四川港宏企業管理有限公司 (Sichuan Ganghong Corporation Management Co., Ltd.)	Sichuan, the PRC 1999	Registered and paid-in capital of RMB137,300,000	100%	–	Investment holding
四川港宏凱威行汽車銷售服務有限公司 (Sichuan Ganghongkaiweihang Automobile Sales & Services Co., Ltd.)	Sichuan, the PRC 2011	Registered and paid-in capital of RMB15,000,000	–	100%	Sale and service of motor vehicles
煙台寶信汽車銷售服務有限公司 (Yantai Baoxin Automobile Sales & Services Co., Ltd.)	Yantai, the PRC 2012	Registered and paid-in capital of RMB55,000,000	–	100%	Sale and service of motor vehicles
北京東寶金龍經貿發展有限公司 (Beijing Dongbaojinlong Economic and Trade Development Co., Ltd.)	Beijing, the PRC 2002	Registered and paid-in capital of RMB80,600,000	–	100%	Insurance Agency
上海寶信實嘉汽車銷售有限公司 (Shanghai Baoxin Shijia Automobile Sales Co., Ltd.)	Shanghai, the PRC 2012	Registered and paid-in capital of RMB300,000,000	–	100%	Sale and service of motor vehicles
上海真北天華汽車銷售服務有限公司 (Shanghai Zhenbeitianhua Automobile Sales & Services Co., Ltd.)	Shanghai, the PRC 2014	Registered and paid-in capital of RMB75,000,000	–	100%	Sale and service of motor vehicles
寧波博駿汽車銷售服務有限公司 (Ningbo Bojun Automobile Sales & Services Co., Ltd.)	Ningbo, the PRC 2012	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
寧波博駿甬城汽車銷售服務有限公司 (Ningbo Bojunyongcheng Automobile Sales & Services Co., Ltd.)	Ningbo, the PRC 2012	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Company name	Place of operation/ date of incorporation	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Held by a subsidiary	Principal activities
上海鼎信融資租賃有限公司 (Shanghai Dingxin Finance Leasing Co., Ltd.)	Shanghai, the PRC 2013	Registered and paid-in capital of US$30,000,000	100%	–	Finance Leasing
上海博駿保險代理有限公司 (Shanghai Bojun Insurance Agency Co., Ltd.)	Shanghai, the PRC 2013	Registered and paid-in capital of RMB50,000,000	–	100%	Insurance Agency
杭州寶信置業有限公司 (Hangzhou Baoxin Real Estate Co., Ltd.)	Hangzhou, the PRC 2010	Registered and paid-in capital of RMB10,000,000	–	100%	Real Estate
江蘇滬隆投資實業有限公司 (Jiangsu Hulong Investing Co., Ltd.)	Jiangsu, the PRC 2010	Registered and paid-in capital of RMB20,000,000	–	100%	Investment holding
聯鷹集團有限公司 (Eagle Reach Group Co.,Ltd.)	Hong Kong the PRC 2013	Registered and paid-in capital of HK$0	–	100%	Investment holding
溫州市好達機電有限公司 (Wenzhou Haoda electromechanical Co., Ltd.)	Wenzhou, the PRC 2000	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
紹興捷順汽車銷售服務有限公司 (Shaoxing Jieshun Automobile Sales & Services Co., Ltd.)	Shaoxing, the PRC 2010	Registered and paid-in capital of RMB60,000,000	–	100%	Sale and service of motor vehicles

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.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

The Group has not restated comparative information and no transition adjustments recognised against the applicable opening balances in equity at 1 January 2018, Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Classification and measurement

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

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

	Note	**HKAS 39 measurement Amount** RMB'000	**Re-classification** RMB'000	**HKFRS 9 measurement Amount** RMB'000
Financial assets				
Financial asset at fair value through other comprehensive income		–	16,584	16,584
From: Available-for-sale investment	(i)	16,584	(16,584)	–

Note:

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

Impairment

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Classification and measurement (continued)

Impairment (continued)

The Group recognises revenue from the following major sources:

(i) sales of motor vehicles

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

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

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

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

HKFRS 15 requires separate presentation of contract liabilities. Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15 and, accordingly, advances received from customers of RMB827,378,000 were reclassified from advances from customers and advances and deposits from distributors under other payables and accruals to contract liabilities.

Taking into account the impact disclosed above, the Group considers that the adoption of HKFRS 15 has not had a significant impact on our financial position and performance during the year.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

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

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

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

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease,* HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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

Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of RMB1,657,181,000 and lease liabilities of RMB1,657,181,000 will be recognised at 1 January 2019.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and a joint venture

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and a joint venture (continued)

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associates or a joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

A business combination is a transaction or event that brings together two or more separate entities into one reporting entity. Business combinations are classified into business combinations involving entities under common control and business combinations not involving entities under common control.

Business combinations involving entities under common control

The Group applies the acquisition method of accounting to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquire over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of the consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations not involving entities under common control

A business combination not involving entities under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the combination. For a business combination not involving entities under common control, business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives and residual values of property, plant and equipment are as follows:

Category	**Estimated useful life**	**Estimated residual value**
Buildings	30 years	5%
Leasehold improvements	Over the shorter of the lease terms and 5 years	–
Plant and machinery	5 – 10 years	5%
Furniture and fixtures	3 – 5 years	5%
Motor vehicles	4 – 5 years	5%

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets (other than financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Intangible assets (other than goodwill)

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

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

Category	**Estimated useful life**
Software	5 years
Dealership agreements	20 - 40 years
Customer relationship	15 years
Club membership	29 years
Car licence	Indefinite useful life

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases.

Where the Group is the lessor under finance leases, an amount representing the minimum lease payment receivables and initial direct costs is included in the consolidated statements of financial position as finance lease receivables. Any unguaranteed residual value is also recognized at the inception of the lease. The difference between the sum of minimum lease payments receivables, indicate costs, the unguaranteed residual value and their present value is recognized as unearned finance lease income. Unearned finance lease income is recognized over the period of the lease using the effective interest rate method.

Where the Group is the lessee, at the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including the prepaid land and buildings lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepaid land lease payments

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the rights to use certain land and the consideration paid for such rights is recorded as prepaid land lease payments, which is amortised over the lease terms of 40 to 50 years using the straight-line method.

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

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Subsequent measurement (continued)

Financial assets at fair value through profit or loss

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

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

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Loans and receivables

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

Available-for-sale financial investments

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Available-for-sale financial investments (continued)

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

General approach

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Simplified approach

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial assets carried at amortised cost

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Available-for-sale financial investments

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

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

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

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

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade and bills payables, other payables, bonds, and bank loans and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss (policies under HKFRS 9 applicable from 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss (policies under HKAS 39 applicable before 1 January 2018)

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

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

Loans, borrowings and bonds

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Initial recognition and subsequent measurement (continued)

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

Before 1 January 2018, the documentation included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group assessed the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges were expected to be highly effective in achieving offsetting changes in fair value or cash flows and were assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Starting from 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the statement of profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the statement of profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the statement of profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as other income and gains, net. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the statement of profit or loss as other income and gains, net.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the statement of profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the statement of profit or loss. The changes in the fair value of the hedging instrument are also recognised in the statement of profit or loss.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

When option contracts are used for hedging, the Group designates only the intrinsic value of the option contract as the hedging instrument. Gains or losses relating to the effective portion of the change in intrinsic value of the option contracts are recognised in the statement of profit or loss. The changes in the time value of the option contracts that relate to the hedged item ("aligned time value") are recognised within other comprehensive income in the costs of the hedging reserve within equity. The aligned time value at the date of designation of the option as a hedging instrument is amortised on a systematic and rational basis to profit or loss over the period.

When forward contracts are used for hedging, the Group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the statement of profit or loss. The change in the forward element of the contract that relates to the hedged item ("aligned forward element") is recognised within other comprehensive income in the costs of the hedging reserve within equity. The aligned forward element at the date of designation of the forward contract as a hedging instrument is amortised on a systematic and rational basis to profit or loss over the period.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated on the specific identification basis as appropriate and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents

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

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

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

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

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

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

(a) Sale of goods

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

(b) Rendering of services

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from other sources

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

Other income

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

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

Revenue recognition (applicable before 1 January 2018)

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

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

(b) from the rendering of services, on the percentage of completion basis, in the period in which the services are rendered;

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract assets (applicable from 1 January 2018)

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

Contract liabilities (applicable from 1 January 2018)

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

Vendor rebates

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

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

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

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

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

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

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

Other employee benefits

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government.

These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

The functional currencies of the Company and certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period, and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

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

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

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of entities with functional currencies other than RMB which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Judgement in the timing of satisfaction of performance obligations

For the provision of after-sales services, management has assessed that the Group has a present right to payment from customers for the service rendered at a point in time upon finalisation, delivery and acceptance upon the service completion. Therefore, the Company has satisfied that the performance obligation of after-sales services is satisfied at a point in time and recognised after-sales revenue at a point in time.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets as at 31 December 2018 was RMB170,836,000 (2017: RMB89,276,000). More details are given in note 35(a).

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimation of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount as at 31 December 2018 of goodwill was RMB1,222,016,000 (2017(Restated): RMB893,236,000). Further details are given in note 19.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and finance lease receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography and customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECLs on the Group's trade receivables and finance lease receivables is disclosed in note 24 and note 18 to the financial statements, respectively.

Estimation of fair value of investment properties

Investment properties were revalued based on the appraised market value by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimate, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of the reporting period.

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of investment properties at 31 December 2018 was RMB370,905,000 (2017: nil). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Useful lives of property, plant and equipment

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

Write-down of inventories to net realisable value

The Group's inventories are stated at the lower of cost and net realisable value. The assessment of impairment of inventories involves the use of estimates and judgements. These estimates are made with reference to aged inventories, projections of expected future saleability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the estimated net realisable values of inventories decline below their carrying amounts. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

Impairment of non-financial assets (other than goodwill)

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

4. OPERATING SEGMENT INFORMATION

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

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

Information about geographical areas

Since most of the Group's revenue was generated from the sale and service of motor vehicles in Mainland China and most of the Group's non-current assets other than deferred tax assets were located in Mainland China, geographical information as required by HKFRS 8 *Operating Segments* is not presented.

4. OPERATING SEGMENT INFORMATION (continued)

Information about major customers

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year, major customer information as required by HKFRS 8 *Operating Segments* is not presented.

5. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue:

An analysis of revenue is as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
Revenue from contracts with customers		
Sale of motor vehicles	**32,203,427**	30,715,654
After-sales services	**4,485,665**	3,780,275
Revenue from other sources		
Finance leasing services	**34,666**	62,056
	36,723,758	34,557,985

Revenue from contracts with customers

(i) Disaggregated revenue information

	2018 RMB'000
For the year ended 31 December 2018	
Type of goods or service	
Sale of motor vehicles	**32,203,427**
After-sales services	**4,485,665**
Total	**36,689,092**
Timing of revenue recognition	
Goods transferred at a point in time	**32,203,427**
Services transferred at a point in time	**4,485,665**
Total	**36,689,092**

The amount of revenue recognised that was included in contract liabilities at the beginning of the current year is RMB827,378,000.

5. REVENUE, OTHER INCOME AND GAINS, NET (continued)

(a) Revenue: (continued)

Revenue from contracts with customers (continued)

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of motor vehicles

The performance obligation is satisfied upon delivery of the motor vehicles and payment is generally due within 30 days from delivery.

After-sales services

The performance obligation is satisfied upon finalisation, delivery and acceptance upon the service completion and payment is generally on the delivery date.

(b) Other income and gains, net:

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
Commission income		**782,762**	601,770
Advertisement support received from motor vehicle manufacturers		**13,620**	9,717
Rental income		**28,246**	4,001
Government grants		**62,652**	8,654
Bank interest income		**40,410**	41,406
Loss on disposal of items of property, plant and equipment		**(25,633)**	(20,027)
Loss on disposal of items of intangible assets		**(28)**	–
Loss on termination of an agreement		**(33,466)**	–
Fair value gains on investment properties	14	**31,351**	–
Fair value gain, net:			
Derivative instruments		**6,937**	(204,242)
Equity investments at fair value through profit or loss		**–**	(891)
Loss on disposal of subsidiaries		**–**	(15,093)
Foreign exchange differences, net		**(75,125)**	162,671
Dividend income from a financial asset at fair value from through other comprehensive income/ available-for-sale investment		**815**	5,443
Others		**1,099**	7,736
Total		**833,640**	601,145

6. PROFIT BEFORE TAX

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

	2018 RMB'000	2017 RMB'000 (Restated)
(a) Employee benefit expense (including Directors' and chief executive's remuneration (note 9)):		
Wages and salaries	**871,481**	839,781
Other welfare	**222,999**	233,261
Equity-settled share option expense	**47,979**	–
	1,142,459	1,073,042

(b) Cost of sales and services:	2018 RMB'000	2017 RMB'000 (Restated)
Cost of sales of motor vehicles	**31,486,481**	29,649,068
Others	**2,452,786**	1,973,083
	33,939,267	31,622,151

6. PROFIT BEFORE TAX (continued)

(c) Other items:

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
Depreciation	13	**346,926**	365,856
Amortisation of prepaid land lease payments	15	**16,046**	13,928
Amortisation of intangible assets	16	**59,317**	51,759
Advertisement and business promotion expenses		**266,004**	237,955
Auditor's remuneration		**6,100**	6,000
Bank charges		**33,598**	32,963
Foreign exchange differences, net		**75,125**	(162,671)
Lease expenses		**218,517**	198,815
Logistics and petroleum expenses		**53,527**	58,876
Office expenses		**23,497**	25,501
Impairment of financial assets:			
Impairment of trade receivables		**3,715**	–
Impairment of financial assets included in prepayments, other receivables and other assets		**4,159**	–
Impairment of finance lease receivables		**1,003**	–
Write-down / (reversal of provision) of inventories to net realisable value		**11,928**	(112,015)
Loss on disposal of items of property, plant and equipment		**25,633**	20,027
Loss on disposal of items of intangible assets		**28**	–
Loss on termination of an agreement		**33,466**	–
Fair value gains on investment properties	14	**(31,351)**	–
Fair value gain, net:			
Derivative instruments		**(6,937)**	204,242
Equity investments at fair value through profit or loss		**–**	891
Loss on disposal of subsidiaries		**–**	15,093
Dividend income from a financial asset at fair value through other comprehensive income / available-for-sale investment		**(815)**	(5,443)
Bank interest income		**(40,410)**	(41,406)

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
Interest on bank loans and other loans	**706,522**	599,069
Include: Loan arrangement fee	**76,820**	74,139
Interest expense on the senior perpetual capital securities	**–**	131,444
Total interest expense on financial liabilities not at fair value through profit or loss	**706,522**	730,513
	706,522	730,513

8. INCOME TAX

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

	2018 RMB'000	2017 RMB'000 (Restated)
Current:		
Mainland China corporate income tax	**430,670**	305,474
Deferred tax (note 35)	**(84,444)**	51,949
Total tax charge for the year	**346,226**	357,423

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gain or appreciation shall apply to the Company or its operations.

The subsidiaries incorporated in the British Virgin Islands ("BVI") are not subject to income tax as these subsidiaries do not have a place of business (other than a registered office only) or carry any business in the BVI.

The subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (2017: 16.5%) during the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year.

8. INCOME TAX (continued)

(a) Income tax in the consolidated statement of profit or loss represents: (continued)

According to the Corporate Income Tax Law of the People's Republic of China (the "CIT Law"), the income tax rate is 25% (2017: 25%). According to the CIT Law and the Taxation Policies on In-depth Implementation of Western Region Development Strategy, Urumqi Yandebao Auto Sales & Services Co., Ltd., Urumqi Yanbao Auto Sales & Services Co., Ltd., Urumqi Yanjun Auto Sales & Services Co., Ltd., Karamay Yanbao Auto Sales & Services Co., Ltd., and Yili Baoye Auto Sales & Services Co., Ltd. have been approved by the authority to pay income tax at the reduced tax rate of 15%.

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

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

	2018 **RMB'000**	2017 RMB'000 (Restated)
Profit before tax	**913,047**	1,163,759
Tax at the applicable tax rate (25%)	**228,262**	290,940
Lower tax rates enacted by local authority	**(3,153)**	(3,113)
Tax losses not recognised	**90,337**	16,222
Tax effect of non-deductible expenses	**29,058**	64,175
Profits and losses attributable to joint ventures and associates	**3,143**	(1,365)
Tax losses utilised from previous periods	**(1,421)**	(9,436)
Tax charge	**346,226**	357,423

The share of tax attributable to a joint venture and associates is included in "Share of profits and losses of a joint venture and associates" in the consolidated statement of profit or loss.

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Year ended 31 December 2018			
	Directors' fees RMB'000	Salaries, allowances and other benefits RMB'000	Equity-settlend share option expense RMB'000	Total RMB'000
Independent non-executive directors				
– Diao Jianshen	257	–	–	257
– Wang Keyi[(1)]	113	–	–	113
– Chan Wan Tsun Adrian Alan	257	–	–	257
– Liu Yangfang[(2)]	144	–	–	144
Executive directors				
– Li Jianping (Chairman)	–	1,000	2,749	3,749
– Wang Xinming (President)	–	800	2,749	3,549
– Qi Junjie	–	800	1,375	2,175
– Lu Ao	–	800	1,375	2,175
– Xu Xing[(3)]	–	500	1,375	1,875
Non-executive director				
– Zhou Yu[(4)]	128	–	–	128
	899	3,900	9,623	14,422

(1) Mr. Wang Keyi resigned on 8 June 2018.

(2) Ms. Liu Yangfang was appointed on 8 June 2018.

(3) Ms. Xu Xing resigned as a non-executive director and was appointed as an executive director on 8 June 2018.

(4) Mr. Zhou Yu resigned on 10 May 2018.

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

	Year ended 31 December 2017		
	Directors' Fees RMB'000	Salaries, allowances and other benefits RMB'000	Total RMB'000
Independent non-executive directors			
– Diao Jianshen	250	–	250
– Wang Keyi	250	–	250
– Chan Wan Tsun Adrian Alan	250	–	250
Executive directors			
– Li Jianping (Chairman)	–	1,000	1,000
– Wang Xinming (President)	–	800	800
– Qi Junjie	–	800	800
– Lu Ao	–	800	800
Non-executive directors			
– Lu Linkui	201	–	201
– Zhou Yu	600	–	600
– Xu Xing	333	–	333
	1,884	3,400	5,284

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year. No emoluments were paid to the non-executive directors of the Company during the year (2017: Nil).

During the year, certain Directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 37 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above Directors' and chief executive's remuneration disclosures.

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included five Directors and the chief executive (2017: four Directors and the chief executive), details of whose remuneration are detailed in note 9 above. None of the five highest paid individuals is neither a director nor chief executive (2017: one).

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	**–**	600
Equity-settled share option expense	**–**	–
	–	600

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

	Number of employees	
	2018	2017
HK$500,001 to HK$1,000,000	**–**	1

11. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Proposed final	**–**	228,747

No final dividend for the year ended 31 December 2018 was recommended per ordinary share (2017: HK$0.1, approximately RMB0.08).

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,837,311,429 (2017: 2,710,736,087) in issue during the year.

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

The Group had no potentially dilutive ordinary share in issue during the years ended 31 December 2018 and 2017.

The calculations of basic and diluted earnings per share are based on:

Earnings	**2018 RMB'000**	2017 RMB'000 (Restated)
Profit attributable to ordinary equity holders of the parent	**565,999**	807,923

Shares	**2018**	2017
Weighted average number of ordinary shares in issue during the year	**2,837,311,429**	2,710,736,087

Earnings per share	**2018 RMB**	2017 RMB (Restated)
Basic and diluted	**0.20**	0.30

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018							
At 31 December 2017 and at 1 January 2018:							
Cost	3,363,891	723,791	365,067	275,382	710,043	87,790	5,525,964
Accumulated depreciation	(523,028)	(439,433)	(217,728)	(202,804)	(137,700)	–	(1,520,693)
Net carrying amount	2,840,863	284,358	147,339	72,578	572,343	87,790	4,005,271
At 1 January 2018, net of (Restated) accumulated depreciation	2,840,863	284,358	147,339	72,578	572,343	87,790	4,005,271
Additions	242,155	175,162	40,214	35,786	420,690	12,826	926,833
Acquisition of subsidiaries (note 39)	123,516	–	17,222	2,929	7,170	–	150,837
Disposals	(114,674)	(24,991)	(13,932)	(9,570)	(353,232)	(21,757)	(535,156)
Depreciation provided during the year (note 6)	(83,437)	(114,406)	(27,019)	(31,753)	(90,311)	–	(346,926)
Transfers	55,487	1,440	416	1,252	1,961	(60,556)	–
Transfers to investment properties	(233,887)	–	–	–	–	–	(233,887)
At 31 December 2018, net of accumulated depreciation	2,830,023	321,563	164,240	71,222	558,621	18,303	3,963,972
At 31 December 2018:							
Cost	3,377,877	867,831	403,372	289,400	684,867	18,303	5,641,650
Accumulated depreciation	(547,854)	(546,268)	(239,132)	(218,178)	(126,246)	–	(1,677,678)
Net carrying amount	2,830,023	321,563	164,240	71,222	558,621	18,303	3,963,972

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017							
At 31 December 2016 (Restated) and at 1 January 2017:							
Cost	2,826,185	579,159	297,241	260,898	544,966	526,933	5,035,382
Accumulated depreciation	(485,676)	(252,127)	(163,056)	(179,527)	(161,235)	–	(1,241,621)
Net carrying amount	2,340,509	327,032	134,185	81,371	383,731	526,933	3,793,761
At 1 January 2017, net of (Restated) accumulated depreciation	2,340,509	327,032	134,185	81,371	383,731	526,933	3,793,761
Additions	–	–	39,670	19,853	515,561	63,456	638,540
Acquisition of subsidiaries	143,694	36,913	25,910	5,810	44,807	–	257,134
Disposals	(4,020)	(21,084)	(10,795)	(1,785)	(280,624)	–	(318,308)
Depreciation provided during the year (note 6)	(53,732)	(146,690)	(41,631)	(32,671)	(91,132)	–	(365,856)
Transfers	414,412	88,187	–	–	–	(502,599)	–
At 31 December 2017, net of accumulated depreciation	2,840,863	284,358	147,339	72,578	572,343	87,790	4,005,271
At 31 December 2017:							
Cost	3,363,891	723,791	365,067	275,382	710,043	87,790	5,525,964
Accumulated depreciation	(523,028)	(439,433)	(217,728)	(202,804)	(137,700)	–	(1,520,693)
Net carrying amount	2,840,863	284,358	147,339	72,578	572,343	87,790	4,005,271

As at 31 December 2018, the application for the property ownership certificates for certain buildings with a net book value of approximately RMB233,415,000 (2017: RMB299,486,000) was still in progress.

As at 31 December 2018, certain of the Group's buildings with an aggregate net book value of appropriately RMB86,042,000 (2017: RMB90,959,000) were pledged as security for the Group interest-bearing bank and other borrowings (note 29(c)).

14. INVESTMENT PROPERTIES

	Notes	31 December 2018 RMB'000
Carrying amount at 31 December 2017		–
Transfer from owner-occupied properties	13	**233,887**
Transfer from prepaid land lease payments	15	**37,595**
Surplus on revaluation		**68,072**
Carrying amount at 1 January 2018		**339,554**
Fair value gains on investment properties		**31,351**
Carrying amount at 31 December 2018		**370,905**

The application for the ownership certificates of a certain building located in Yangzhou City of Jiangsu Province, the PRC, with a fair value of RMB74,555,000 as at 31 December 2018, is in progress.

On 1 January 2018, certain properties of the Group were determined to be end of owner-occupation and transferred from owner-occupied properties to investment properties measured at fair value. The revaluation surplus upon such transfer were recognised in other comprehensive income during the year.

The Group's investment properties consist of three commercial properties, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 1 January 2018 and 31 December 2018 based on valuations performed by an independent professionally qualified valuer, at RMB339,554,000 and RMB370,905,000, respectively. The Group's management decides to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The investment properties are leased to third parties under operating leases, further summarised details of which are included in note 43 to the financial statements.

Fair value hierarchy

Investment properties held by the Group in the consolidated statement of financial position were valued into level 3 in the fair value hierarchy; the valuation technique is the discounted cash flow method, and key inputs are as follows:

	2018
Estimated rental value (per s.q.m. and per month)	**RMB 48-60**
Long run growth rate p.a	**1%-3%**
Long term vacancy rate	**0%-5%**
Discount rate	**6%**

14. INVESTMENT PROPERTIES (continued)

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flows in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flows are estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

A significant increase (decrease) in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the long term vacancy rate and the discount rate in isolation would result in a significant decrease (increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and the discount rate and an opposite change in the long term vacancy rate.

During the year, there were no transfers of fair value measurement between level 1 and level 2 and no transfers into or out of level 3 (2017: Nil).

15. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Cost:		
At the beginning of the year	557,400	558,703
Acquisition of subsidiaries (note 39(a))	19,540	20,150
Disposals	–	(21,453)
Transfer to investment properties	(46,719)	–
At the end of the year	530,221	557,400
Accumulated amortisation:		
At the beginning of the year	67,604	59,997
Charge for the year	16,046	13,928
Disposals	–	(6,321)
Transfer to investment properties	(9,124)	–
At the end of the year	74,526	67,604
Net book value:		
At the end of the year	455,695	489,796

As at 31 December 2018, the application for the land use right certificates for certain land with a net book value of approximately RMB2,872,000 (2017: RMB2,966,000) was still in progress.

The lease prepayments of the Group represent the costs of the Group's land use rights in respect of lands located in Mainland China which are held under medium term leases.

As at 31 December 2018, none of the Group's land use right (2017: Nil) was pledged as security for the Group's banking facilities.

16. INTANGIBLE ASSETS

	Software RMB'000	Dealership agreements RMB'000	Customer relationship RMB'000	Car licence RMB'000	Club membership RMB'000	Total RMB'000
Cost:						
At 31 December 2017 (Restated) and at 1 January 2018	33,248	1,049,637	299,894	10,468	2,454	1,395,701
Additions	2,116	–	–	6,373	–	8,489
Acquisition of subsidiaries (note 39)	–	396,118	–	–	–	396,118
Disposal	(5,286)	–	–	–	–	(5,286)
At 31 December 2018	30,078	1,445,755	299,894	16,841	2,454	1,795,022
Accumulated amortisation:						
At 31 December 2017 (Restated) and at 1 January 2018	14,948	99,469	102,618	–	439	217,474
Charge for the year	2,470	36,419	20,344	–	84	59,317
Disposals	(4,875)	–	–	–	–	(4,875)
At 31 December 2018	12,543	135,888	122,962	–	523	271,916
Net book value:						
At 31 December 2018	17,535	1,309,867	176,932	16,841	1,931	1,523,106

16. INTANGIBLE ASSETS (continued)

	Software RMB'000	Dealership agreements RMB'000	Customer relationship RMB'000	Car licence RMB'000	Club membership RMB'000	Total RMB'000
Cost:						
At 31 December 2016 (Restated) and at 1 January 2017	32,129	850,648	299,894	8,953	2,454	1,194,078
Additions	–	–	–	1,660	–	1,660
Acquisition of subsidiaries	1,211	198,989	–	–	–	200,200
Disposal	(92)	–	–	(145)	–	(237)
At 31 December 2017 (Restated)	33,248	1,049,637	299,894	10,468	2,454	1,395,701
Accumulated amortisation:						
At 31 December 2016 (Restated) and at 1 January 2017	13,939	68,838	82,625	–	354	165,756
Charge for the year	1,050	30,631	19,993	–	85	51,759
Disposals	(41)	–	–	–	–	(41)
At 31 December 2017 (Restated)	14,948	99,469	102,618	–	439	217,474
Net book value:						
At 31 December 2017 (Restated)	18,300	950,168	197,276	10,468	2,015	1,178,227

The Group's principal identifiable intangible assets represent dealership agreements in Mainland China with various vehicle manufacturers and customer relationship acquired from third parties. The dealership agreements do not include a specified contract period or termination arrangement. The customer relationship is amortised over 15 years and the dealership agreements are amortised from 20 to 40 years, which is management's best estimation of their useful lives.

The Group's car licences are registered in Mainland China and are expected to continuously contribute to the net cash inflow of the Group with no specific expiry date.

17. PREPAYMENTS AND DEPOSITS

	31 December 2018 RMB'000	31 December 2017 RMB'000
Prepayments for purchase of items of property, plant and equipment	–	216,000
Long term deposits	58,757	44,150
	58,757	260,150

18. FINANCE LEASE RECEIVABLES

	31 December 2018 RMB'000	31 December 2017 RMB'000
Analysed as:		
Current	191,338	139,179
Non-current	131,710	148,418
	323,048	287,597

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

Third Parties:

	Minimum lease receivables 31 December 2018 RMB'000	Present value of minimum lease receivables 31 December 2018 RMB'000
Finance lease receivables:		
Within one year	219,932	191,338
Later than one year and not later than five years	148,757	131,710
	368,689	323,048
Less: Unearned finance lease income	44,638	
Present value of minimum lease payment receivables	324,051	
Less: Allowances for impairment losses	1,003	
Total net finance lease receivables	323,048	

18. FINANCE LEASE RECEIVABLES (continued)

Third Parties:

	Minimum lease receivables 31 December 2017 RMB'000	Present value of minimum lease receivables 31 December 2017 RMB'000
Finance lease receivables:		
Within one year	7,416	7,005
Later than one year and not later than five years	2,541	2,440
	9,957	9,445
Less: Unearned finance lease income	512	
Present value of minimum lease payment receivables	9,445	

Related Party:

	Minimum lease receivables 31 December 2017 RMB'000	Present value of minimum lease receivables 31 December 2017 RMB'000
Finance lease receivables:		
Within one year	153,215	132,174
Later than one year and not later than five years	153,985	145,978
	307,200	278,152
Less: Unearned finance lease income	29,048	
Present value of minimum lease payment receivables	278,152	

Measurements of allowances for impairment losses are as follows:

	2018 RMB'000
At 31 December 2017 and 1 January 2018	**–**
Charge for the year	**1,003**
At 31 December 2018	**1,003**

The information about the credit risk exposure on the Group's finance lease receivables using a provision matrix is disclosed in note 48 to the financial statements.

19. GOODWILL

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Cost:		
At the beginning of the year	**893,236**	225,224
Acquisition of subsidiaries (note 39(a))	**328,780**	668,012
	1,222,016	893,236

Impairment testing of goodwill

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

Goodwill acquired through business combinations has been allocated to the cash-generating units, i.e. the individual acquired subsidiaries for impairment testing.

The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The growth rate used to extrapolate the cash flows of the cash-generating unit beyond the five-year period from the end of the reporting period is 3% (2017: 3%) for all years. The pre-tax discount rate applied to the cash flow projections beyond the one-year period is 13.5% (2017: 13.5%).

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

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
4S dealership business	**1,222,016**	893,236

Key assumptions used in the value in use calculation

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

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

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

19. GOODWILL (continued)

Sensitivity to changes in assumptions

With regard to the assessment of the value in use of the cash-generating unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value, including goodwill, of the cash-generating unit to materially exceed the recoverable amount.

20. INVESTMENT IN A JOINT VENTURE

	31 December 2018 RMB'000	31 December 2017 RMB'000
Share of net assets	**59,160**	57,183
Loans to a joint venture	**40,835**	–
	99,995	57,183

瀋陽業喬信寶汽車銷售服務有限公司 (Shenyang Yeqiao Xinbao Automobile Sales &Services Co., Ltd., "Shenyang Yeqiao") is a joint venture of the Group and is considered to be a related party of the Group. The loans to the joint venture are unsecured, interest-free and repayable on demand. In the opinion of the Directors, these loans are unlikely to be repaid in the foreseeable future and are considered as part of the Group's net investments in the joint venture.

(a) Particulars of a joint venture

Joint venture	Place of registration and business	Registered and paid-in capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Shenyang Yeqiao	Shenyang, the PRC	RMB10,000,000	50%	50%	50%	Sale and service of motor vehicles

(b) The following table illustrates the summarised financial information of the Group's joint venture:

	2018 RMB'000	2017 RMB'000
Share of the joint venture's profit for the year	**1,978**	542
Share of the joint venture's total comprehensive income for the year	**1,978**	542
Aggregate carrying amount of the Group's investment in the joint venture	**99,995**	57,183

The Group's amount due from the joint venture is disclosed in note 46 to the financial statements.

21. INVESTMENTS IN ASSOCIATES

	31 December 2018 RMB'000	31 December 2017 RMB'000
Share of net assets	**31,556**	43,542

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

(a) Particulars of associates

Associates	Place of registration and business	Registered and paid-in capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Wuxi Kailong Real Estate Co., Ltd.	Jiangsu, the PRC	RMB12,000,000	30%	30%	30%	Real estate development
Deyang Nan Ling Gang Hong Automobile Sales & Services Co., Ltd.	Sichuan, the PRC	RMB25,000,000	49%	49%	49%	Sale and service of motor vehicles
Sichuan Gang Hong Vehicle Trade Co., Ltd.	Sichuan, the PRC	RMB31,000,000	40%	40%	40%	Sale and service of motor vehicles

(b) The following table illustrates the summarised financial information of the Group's associates:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Share of the associates' (loss)/profit for the year	**(14,550)**	4,919
Share of the associates' total comprehensive (loss)/income for the year	**(14,550)**	4,919
Aggregate carrying amount of the Group's investments in associates	**31,556**	43,542

The Group's amount due from the associates is disclosed in note 46 to the financial statements.

22. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENT

	31 December 2018 RMB'000	31 December 2017 RMB'000
Financial asset designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value	**36,000**	–
Available-for-sale investment		
Unlisted equity investment, at cost	**–**	16,584

The above financial asset was irrevocably designated at fair value through other comprehensive income as the Group considers this investment to be strategic in nature.

The Company acquired NCGA Holdings Limited (the "NCGA Group") on 1 December 2012. The NCGA Group held a 26% ownership interest in Qingdao Motors (H.K.) Limited and did not have voting power. During the year ended 31 December 2018, the Group received dividends of RMB815,000 (2017: RMB5,443,000) from the NCGA Group.

23. INVENTORIES

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Motor vehicles	**3,899,526**	3,898,397
Spare parts and accessories	**239,081**	211,546
	4,138,607	4,109,943
Less: provision for inventories	**11,928**	–
	4,126,679	4,109,943

As at 31 December 2018, vehicle certificates ("車輛合格證") for certain of the Group's inventories with an aggregate carrying amount of RMB295,262,000 (2017: RMB395,293,000) were pledged as security for the Group's interest-bearing bank and other borrowings (note 29).

As at 31 December 2018, vehicle certificates for certain of the Group's inventories with an aggregate carrying amount of RMB2,070,260,000 (2017(Restated): RMB2,296,623,000) were pledged as security for the Group's bills payable.

As at 31 December 2018, the carrying amount of inventories with provision carried at net realisable value was RMB188,152,000.

24. TRADE RECEIVABLES

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Trade receivables	**561,681**	504,767
Impairment	**(3,715)**	–
	557,966	504,767

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. The Group does not offer any credit to the Group's customers for automobile purchases or for out-of-warranty repairs that are not covered by insurance. However, the Group generally provides a credit term of two to three months to automobile manufacturers for the reimbursement of costs relating to the in-warranty repair services. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Within 3 months	**483,898**	456,403
More than 3 months but less than 1 year	**59,036**	48,364
Over 1 year	**15,032**	–
	557,966	504,767

The movements in the loss allowance for impairment of trade receivables are as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
At beginning of year	**–**	–
Impairment losses	**3,715**	–
At end of year	**3,715**	–

24. TRADE RECEIVABLES (continued)

Impairment under HKFRS 9 for the year ended 31 December 2018

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

The information about the credit risk exposure on the Group's trade receivables using a provision matrix is disclosed in note 48 to the financial statements.

Impairment under HKAS 39 for the year ended 31 December 2017

An ageing analysis of the trade receivables as at 31 December 2017 that were not considered to be impaired under HKAS 39 is as follows:

	31 December 2017 RMB'000 (Restated)
Neither past due nor impaired	504,767
Over 1 year past due	–
	504,767

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

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

25. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Prepayments to suppliers	**1,904,835**	1,909,294
Rebates	**6,358,604**	4,836,519
VAT recoverable (i)	**266,150**	261,782
Prepaid lease for buildings and land use rights	**88,389**	129,326
Prepayments of purchase of items of property, plant and equipment	**57,548**	35,037
Prepaid interest expense	**30,951**	34,744
Loans to employees	**15,349**	12,008
Others	**256,467**	276,266
	8,978,293	7,494,976
Impairment allowance	**(4,159)**	–
	8,974,134	7,494,976

Note:

(i) The Group's sales of motor vehicles are subject to Mainland China Value Added Tax ("VAT"). Input VAT on purchases can be deducted from the output VAT payable. The VAT recoverable is the net difference between output and deductible input VAT. The applicable tax rate for domestic sales of the Group is 16%.

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

The information about the credit risk exposure on the Group's prepayments, other receivables and other assets using a provision matrix is disclosed in note 48 to the financial statements.

26. PLEDGED DEPOSITS

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Deposits pledged with banks as collateral against		
– letters of credit granted by the banks	**240,590**	239,451
– bill facilities granted by the banks	**3,189,209**	2,746,872
– short term bank loans granted by the banks (note 29)	**118,108**	58,569
	3,547,907	3,044,892

Pledged bank deposits amounting to RMB3,547,907,000 (31 December 2017: RMB3,044,892,000) were denominated in RMB at the end of the reporting period, and earned interest at interest rates stipulated by the respective finance institutions.

27. CASH IN TRANSIT

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Cash in transit	**46,208**	35,943

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

28. CASH AND BANK

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Cash and cash in bank	**2,466,516**	3,153,157
Short term deposits	**94,549**	26,200
	2,561,065	3,179,357
Term deposits with maturity over three months	**19,819**	6,200
Cash and cash equivalents	**2,541,246**	3,173,157

At the end of the reporting period, the cash and bank balances and short term deposits of the Group denominated in Renminbi ("RMB") amounted to RMB2,429,499,000 (2017(Restated): RMB2,489,993,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

		31 December 2018		
		Effective interest rate (%)	Original maturity	RMB'000
Current				
Bank borrowings				
– guaranteed	(b)	4.6-7.2	2019	2,165,801
– secured	(a)	HIBOR*+1	2019	207,321
– secured	(a)	6.6	On demand	29,000
– unsecured		4.4-6.0	2019	263,987
– secured and guaranteed	(c)	4.8-6.3	2019	587,882
				3,253,991
Other borrowings				
– unsecured		8.0-9.0	2019	184,236
– secured and guaranteed	(c)	4.7-9.0	2019	403,881
				588,117
				3,842,108
Non-current				
Bank borrowings				
– guaranteed	(d)	LIBOR**+3.2	2020	5,072,205
– guaranteed	(d)	4.90	2010-2025	731,998
– secured and guaranteed	(c)	5.40	2021-2024	24,165
				5,828,368
				9,670,476

29. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	31 December 2017 (restated)		
	Effective interest rate (%)	Original maturity	RMB'000
Current			
Bank borrowings			
– guaranteed	4.0-8.5	2018	697,571
– secured	4.4-9.1	2018	234,794
– secured	6.6	On demand	29,000
– unsecured	4.3-8.5	2018	1,524,622
– secured and guaranteed	4.8-8.9	2018	157,373
			2,643,360
Other borrowings			
– guaranteed	6.4-8.5	2018	57,521
– secured	4.4-9.1	2018	247,731
– unsecured	4.4-8.5	2018	241,008
– secured and guaranteed	7.9-8.9	2018	80,016
			626,276
			3,269,636
Non-current			
Bank borrowings			
– secured	7.2	2024	28,979
– guaranteed	LIBOR**+3.2	2020	5,324,669
– guaranteed	4.9	2021-2024	347,942
			5,701,590
			8,971,226

* Hong Kong Inter-Bank Offered Rate

** London Inter-Bank Offered Rate

29. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

(a) The Group's certain bank and other borrowings were secured by:

(i) Mortgages over the vehicle certificates for certain of the Group's inventories, which had an aggregate carrying value of approximately RMB9,508,000 (2017: RMB199,615,000) as at 31 December 2018;

(ii) Letters of credit were issued by banks in Mainland China with a total amount of approximately RMB207,321,000 (2017: RMB197,788,000) as at 31 December 2018. The letters of credit were secured by the pledged bank deposits, which amounted to RMB223,000,000 (2017: RMB230,000,000) as at 31 December 2018.

(b) The Group's certain bank borrowings and other borrowings are guaranteed by:

(i) Certain of the Group's bank and other borrowings RMB1,551,078,000 (2017(Restated): RMB715,490,000) were guaranteed by CGA as at 31 December 2018;

(ii) As at 31 December 2018, the Group had bank loans due within one year amounting to RMB614,723,000 (2017: Nil) and guaranteed by CGA;

(iii) No bank and other borrowings of the Group were guaranteed by certain third parties as at 31 December 2018 (2017: RMB39,602,000).

(c) The Group's certain bank and other borrowings are secured and guaranteed by:

(i) Certain of the Group's bank borrowings and other borrowings which amounted to RMB953,763,000 (2017: RMB107,030,000) were secured by mortgages over the vehicle certificates for certain of the Group's inventories, which had an aggregate carrying value of approximately RMB273,332,000 (2017: RMB102,085,000) and the pledge of certain of the Group's time deposits amounting to RMB118,108,000 (2017: RMB4,085,000) and guaranteed by CGA as at 31 December 2018;

(ii) Certain of the Group's bank borrowings and other borrowings which amounted to RMB33,186,000 (2017: RMB130,359,000) were secured by mortgages over the vehicle certificates for certain of the Group's inventories, which had an aggregate carrying value of approximately RMB12,422,000 (2017: RMB93,593,000), and nil amount of the pledge of Group's time deposits (2017:RMB5,795,000), and guaranteed by certain third parties as at 31 December 2018;

(iii) The Group's certain bank borrowings amounting to RMB28,979,000 (2017: 28,979,000) were secured by the property, plant and equipment amounting to RMB86,042,000 (2017: RMB90,959,000). The current portion of this borrowings was RMB4,814,000.

(d) The Group's certain bank borrowings amounting to RMB5,804,203,000 (2017: RMB5,672,611,000) were guaranteed by CGA and its one subsidiary.

(e) As at 31 December 2018, the Group had unutilised banking facilities of RMB8,543,969,000 (2017:RMB8,284,931,000).

30. TRADE AND BILLS PAYABLES

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Trade payables	**350,777**	446,471
Bills payable	**7,168,625**	5,830,929
Trade and bills payables	**7,519,402**	6,277,400

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

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Within 3 months	**7,061,668**	5,948,022
3 to 6 months	**428,863**	317,011
6 to 12 months	**4,349**	1,260
Over 12 months	**24,522**	11,107
	7,519,402	6,277,400

The trade and bills payables are non-interest-bearing. The trade payables are normally settled on 60-day terms.

31. OTHER PAYABLES AND ACCRUALS

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Advances from customers	**–**	805,513
Contract liabilities	**891,016**	–
Advances and deposits from distributors	**–**	21,865
Taxes payable (other than income tax)	**35,004**	70,369
Payables for purchase of items of property, plant and equipment	**14,309**	21,483
Payables for purchase of items of land use rights	**21,217**	18,240
Lease payables	**31,293**	25,984
Interest payables	**35,407**	28,329
Staff payroll and welfare payables	**77,468**	84,763
Payables for purchase of equity interests from third parties	**28,856**	221,230
Others	**130,746**	51,457
	1,265,316	1,349,233

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

	31 December 2018 RMB'000	1 January 2018 RMB'000
Short-term advances received from customers		
Sale of goods	**677,610**	721,127
After-sales services	**213,406**	106,201
Total contract liabilities	**891,016**	827,378

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

32. FINANCE LEASE PAYABLES

The Group leases certain of its motor vechicles for its business. These leases are classified as finance leases and have remaining lease terms ranging within two years.

At 31 December 2018, the present values were as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Analysed as:		
Current	119,509	–
Non-current	121,400	–
	240,909	–

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

Related Party:

	Minimum lease payables 31 December 2018 RMB'000	Present value of minimum lease payables 31 December 2018 RMB'000
Finance lease payables:		
Within one year	139,444	119,509
Later than one year and not later than five years	127,534	121,400
Total minimum finance lease payables	266,978	240,909
Future finance charges	(26,069)	
Total net finance lease payables	240,909	

On 24 April 2018, Shanghai Dingxin Financial Leasing Co., Ltd ("Dingxin Leasing"), a wholly-owned subsidiary of the Company, and All Trust Leasing Company Limited ("All Trust Leasing"), a wholly-owned subsidiary of CGA, entered into the Sale and Leaseback Framework Agreement (the "Framework Agreement"). Pursuant to the Framework Agreement, Dingxin Leasing shall sell to All Trust Leasing vehicles owned by Dingxin Leasing, which shall then be leased back for use by Dingxin Leasing. Upon expiry of the lease term, Dingxin Leasing shall repurchase the leased assets in accordance with the agreed terms and with a consideration of a nominal amount of RMB100. The Framework Agreement was treated as a finance lease.

33. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2018 Assets RMB'000	31 December 2018 Liabilities RMB'000
Qualified for hedge accounting		
Foreign currency contracts (A)	**13,202**	**–**
Not qualified for hedge accounting		
Interest rate swaps	**13,296**	**–**
Forward currency contracts (B)	**510**	**2,995**
	27,008	**2,995**
Analysed as:		
Current	**16,649**	**2,995**
Non-current	**10,359**	**–**

	31 December 2017 Assets RMB'000	31 December 2017 Liabilities RMB'000
Not qualified for hedge accounting		
Interest rate swaps	6,573	–
Forward currency contracts	–	33,525
	6,573	33,525
Analysed as:		
Current	–	19,786
Non-current	6,573	13,739

The Group has entered into various currency contracts and interest rate swaps. These forward currency contracts (B) and interest rate swaps are not designated for hedging purposes and are measured at fair value through profit or loss. Gains of changes in the fair value of non-hedging currency derivatives amounting to RMB6,937,000 was charged to the statement of profit or loss during the year (2017: Loss of RMB204,242,000).

Fair value hedge under HKFRS 9 – Foreign currency risk

The Group designates only the intrinsic value of the some foreign currency contracts (A) as the hedging instrument in fair value hedges of an intragroup monetary item which results in an exposure to foreign exchange rate gains or losses that are not fully eliminated on consolidation. The changes in the time value of the option contracts that relate to the hedged item are recognised within other comprehensive income in the costs of the hedging reserve within equity.

33. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

There is an economic relationship between the hedged item and the hedging instrument as the terms of the foreign currency contracts match the terms of the monetary items with exposure to foreign exchange rate gains or losses that are not fully eliminated on consolidation (i.e., notional amount, maturity, payment and reset dates). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign currency cap forwards are identical to that of the hedged risk component. To measure the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in fair value of the hedged item attributable to the hedged risk.

The hedge ineffectiveness can arise from:

- Differences in the timing of cash flows of the hedged item and the hedging instrument;
- The counterparties' credit risks differently impacting the fair value movements of the hedging instrument and the hedged item.

The Group recognises gains and losses on derivatives and the related hedged items in fair value hedges in foreign exchange differences, net. These other income and gains, net are shown in the following table.

For the year end December 31, 2018	**Gains recognised on intrinsic value of derivatives RMB'000**	**Losses recognised for hedged items RMB'000**	**Ineffectiveness recognised in other income and gains, net RMB'000**
Foreign currency contracts (A)	**67,904**	**(67,904)**	**–**

The impact of the time value of the hedging instrument on the statement of financial position is as follows:

	31 December 2018
Reserves	
Time value component of fair value hedge	**RMB'000**
Opening balance	**–**
Change in time value component of fair value hedge	**(54,702)**
Closing balance	**(54,702)**

34. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the People's Republic of China (the "PRC") state regulations, the subsidiaries of Mainland China participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 13% to 20% (2017: 13% to 20%) of the previous year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries. The Group has no obligation for the payment of pension benefits beyond the annual contributions as set out above.

According to the relevant rules and regulations of the PRC, the Mainland China subsidiaries and their employees are each required to make contributions to an accommodation fund at 5% to 12% (2017: 5% to 12%) of the salaries and wages of the employees which is administered by the Public Accumulation Funds Administration Centre. There is no further obligation on the part of the Group except for such contributions to the accommodation fund.

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

35. DEFERRED TAX

(a) Deferred tax assets

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

	Losses available for offsetting against future taxable profits RMB'000	Equity investments at fair value through profit or loss RMB'000	Deferred rental expenses RMB'000	Inventory impairment RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017	90,466	2,078	6,960	10,624	14,263	124,391
Deferred tax recognised in the consolidated statement of profit or loss during the year (note 8(a))	(38,793)	(2,078)	(2,026)	(25,943)	2,882	(65,958)
Deemed disposal of a subsidiary	14,761	–	–	15,319	763	30,843
At 31 December 2017	66,434	–	4,934	–	17,908	89,276
At 31 December 2017 and 1 January 2018	**66,434**	**–**	**4,934**	**–**	**17,908**	**89,276**
Deferred tax recognised in the consolidated statement of profit or loss during the year (note 8(a))	**57,725**	**–**	**9,166**	**2,982**	**11,687**	**81,560**
At 31 December 2018	**124,159**	**–**	**14,100**	**2,982**	**29,595**	**170,836**

35. DEFERRED TAX (continued)

(b) Deferred tax liabilities

	Depreciation allowances in excess of related depreciation RMB'000	Capitalisation of costs in relation to construction in progress RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Gain on exchange of assets RMB'000	Fair value adjustment of investments properties RMB'000	Total RMB'000
At 1 January 2017	9,743	42,955	271,811	54,000	–	378,509
Deferred tax recognised in the consolidated statement of profit or loss during the year (note 8(a))	3,126	(1,481)	(15,654)	–	–	(14,009)
Acquisition of subsidiaries (note 39)	–	–	58,202	–	–	58,202
At 31 December 2017	12,869	41,474	314,359	54,000	–	422,702
At 31 December 2017 and 1 January 2018	**12,869**	**41,474**	**314,359**	**54,000**	**–**	**422,702**
Deferred tax recognised in the consolidated statement of profit or loss during the year (note 8(a))	**4,017**	**(2,585)**	**(15,493)**	**(139)**	**11,316**	**(2,884)**
Acquisition of subsidiaries (note 39)	**–**	**–**	**100,809**	**–**	**–**	**100,809**
Deferred tax recognised in the consolidated statement of other comprehensive income	**–**	**–**	**–**	**–**	**17,018**	**17,018**
At 31 December 2018	**16,886**	**38,889**	**399,675**	**53,861**	**28,334**	**537,645**

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Net deferred tax assets recognised in the consolidated statement of financial position	**168,219**	87,595
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(535,028)**	(421,021)
	(336,809)	(333,426)

35. DEFERRED TAX (continued)

(b) Deferred tax liabilities (continued)

Pursuant to the CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. Under the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, or the China-HK Tax Arrangement, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest in a PRC-resident enterprise is entitled to a reduced withholding tax rate of 5%. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from retained earnings as at 31 December 2007 are exempted from withholding tax.

At 31 December 2018, 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 and a joint venture established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries and the joint venture will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries and the joint venture in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB6,798,297,224 at 31 December 2018 (2017: RMB6,126,140,894).

Deferred tax assets of RMB331,739,000 (2017: RMB241,402,000) have not been recognised in respect of tax losses arising in Mainland China as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised. These tax losses will expire in one to five years.

36. SHARE CAPITAL

Shares	31 December 2018	31 December 2017
Authorised:		
Ordinary shares	5,000,000,000 shares of HK$0.01 each	5,000,000,000 shares of HK$0.01 each
Issued and fully paid:		
Ordinary shares	2,837,311,429 shares of HK$0.01 each	2,837,311,429 shares of HK$0.01 each
Equivalent to RMB'000	23,275	23,275

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

	Number of Shares in issue	Share Capital RMB'000	Share Premium RMB'000	Total RMB'000
At 1 January 2017	2,557,311,429	20,836	1,767,128	1,787,964
Issue of shares	280,000,000	2,439	844,497	846,936
At 31 December 2017	2,837,311,429	23,275	2,611,625	2,634,900
Final 2017 dividend declared	–	–	(239,214)	(239,214)
At 31 December 2018	2,837,311,429	23,275	2,372,411	2,395,686

Details of the Company's share option scheme and the share options issued under the scheme are included in note 37 to the financial statements.

37. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include employees of the Company and its subsidiaries. The Scheme became effective on 14 December 2011, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at the listing date. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, an amount of HK$1.00 is payable upon acceptance of the grant of options and such payment shall not be refundable and shall not be deemed to be a part of the payment of the exercise price. The exercise period of the share options granted is determinable by the Directors, and commences after a vesting period of one year and ends on the expiry date of the Scheme.

The exercise price of share options is determinable by the Directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average of the closing prices of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Share.

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

37. SHARE OPTION SCHEME (continued)

On 28 March 2018, the Company granted 75,000,000 ordinary shares (the "Granted Option") of HK$0.01 each in the shares of the Company to directors of the Company ("Scheme A") and other employees of the Group ("Scheme B") under the Scheme. These granted options have a total vesting period of three years, out of which 30%, 30% and 40% will become vested at end of each of these three years, respectively. The share options are exercisable from 28 March 2018 for a period of 10 years.

The following share options were outstanding under Scheme A and Scheme B during the year.

	2018 Weighted average exercise price HK$ per share	2018 Number of options
At 1 January	–	–
Granted during the period	**3.256**	**75,000,000**
At 31 December	**3.256**	**75,000,000**

The fair value of the Granted Option during the year was RMB101,741,000, of which the Group recognised a share option expense of RMB47,979,000 (2017: Nil).

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

2018

Number of options	Exercise price RMB per share	Exercise period
22,500,000	3.256	28-3-2019 to 27-3-2028
22,500,000	3.256	28-3-2020 to 27-3-2028
30,000,000	3.256	28-3-2021 to 27-3-2028
75,000,000		

The fair value of equity-settled share options granted during the period was estimated as at the date of grant, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	Scheme A	Scheme B
Dividend yield (%)	0%	0%
Expected volatility (%)	54.07%	54.07%
Risk-free interest rate (%)	2.77%	2.77%
Underlying price (HK$ per share)	1.82	1.67

37. SHARE OPTION SCHEME (continued)

At of December 31, 2018, the Company had 75,000,000 share options outstanding under the Scheme (31 December 2017: Nil). The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 75,000,000 additional ordinary shares of the Company and additional share capital of HK$750,000 and share premium of HK$243,450,000 (before issue expenses).

38. RESERVES

(i) Statutory reserve

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

(ii) Merger reserve

The merger reserve of the Group represents the capital contributions from the equity holders of the Company and the excess of the consideration over the carrying amount of the non-controlling interests acquired.

(iii) Other reserve

The other reserve of the Group represents the excess of the consideration over the carrying amount of the non-controlling interests acquired, deferred costs of the hedging reserve and the changing fair value upon reclassification from own-occupied properties to investment properties.

(iv) Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of the Company and certain overseas subsidiaries of which the functional currencies are other than the RMB.

39. BUSINESS COMBINATION

(a) As part of the Group's plan to expand its motor vehicle sales and service business in Mainland China, the Group acquired the equity interests of the following companies, which are engaged in the motor vehicle sale and service business in Mainland China, from several third parties on 27 March 2018, at a total consideration of RMB619,000,000. The purchase consideration for the acquisition was in the form of cash, with RMB616,507,000 paid by the end of 31 December 2018.

Company Name	Acquired equity interest %
Shanghai Zhongguo Baohong Auto Sales & Services Co., Ltd.	100%
Shanghai Putuo Baohong Second-hand Car Sales & Service Co., Ltd.	100%
Hefei Baohong Auto Sales & Services Co., Ltd.	100%
Wuhu Zhongguo Baohong Auto Sales & Services Co., Ltd.	100%

39. BUSINESS COMBINATION (continued)

(a) (continued)

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

	Notes	**Fair values recognised on acquisition date** RMB'000
Property, plant and equipment	13	150,837
Prepaid land lease payments	15	19,540
Intangible assets	16	396,118
Inventories		139,019
Trade receivable		39,556
Prepayments, other receivables and other assets		216,794
Pledged deposits		9,261
Cash and bank		33,320
Trade and bills payable		(34,043)
Other payables and accruals		(337,319)
Interest-bearing bank and other borrowings		(242,054)
Deferred tax liabilities	35(b)	(100,809)
Total identifiable net assets		290,220
Goodwill on acquisition	19	328,780
Total purchase consideration		619,000

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

	RMB'000
Cash consideration paid	(616,507)
Cash and cash equivalents acquired	33,320
Net cash outflow	(583,187)

Since the acquisition, the acquired business contributed RMB1,670,932,000 to the Group's revenue and RMB31,404,000 to the consolidated profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the period, the revenue and profit of the Group for the period would have been RMB37,006,669,000 and RMB573,281,000, respectively.

39. BUSINESS COMBINATION (continued)

(b) On 5 January 2018, the Company entered into an agreement with Xinjiang Longze Automobile Services Management Co., Ltd. to acquire 100% equity interests in Shanghai Xinjie Automotive Sales Services Limited ("Shanghai Xinjie"), which is a subsidiary of CGA, at a cash consideration of RMB85,000,000. As both parties were under control of CGA before and after the combination and such control was not a provisional one, this combination were the business combination involving an entity under common control. The consideration of this transaction amounting to RMB85,000,000 was paid on 31 January 2018, and the right of control was transferred to the Group. Therefore, from 5 January 2018 onwards, the Group included Shanghai Xinjie in the consolidated financial statements, and they are accounted for as if they had been consolidated as at the beginning of the comparative period.

	From 1 January to 5 January 2018 RMB'000	From 1 January to 31 December 2017 RMB'000
Revenue	**–**	421,815
Net profit	**–**	4,235
Net cash flows	**–**	(37,452)

The carrying amounts of Shanghai Xinjie's assets and liabilities at the combination date and the balance sheet date of the previous accounting period are as follows:

	31 December 2017 and 5 January 2018 RMB'000
Property, plant and equipment	44,071
Goodwill	438
Intangible assets	37,683
Inventories	92,755
Trade receivables	3,766
Prepayments, other receivables and other assets	75,505
Pledged deposits	42,814
Cash in transit	67
Cash and bank	4,224
Interest-bearing bank and other borrowings	(20,449)
Trade and bills payables	(98,492)
Other payables and accruals	(7,039)
Amounts due to related parties	(69,473)
Deferred tax liabilities	(16,206)
Total	89,664
Combination difference (through equity interest)	(4,664)
Combination consideration	85,000

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

2018	**Amounts due to related parties RMB'000**	**Interest-bearing bank and other borrowings RMB'000**
At 1 January 2018	**1,160,903**	**8,971,226**
Changes from financing cash flows	**400,000**	**116,221**
Foreign exchange movement	**–**	**283,782**
Interest expense	**2,936**	**57,193**
Interest paid	**(3,989)**	**–**
Repayment of advances to related parties	**(295,000)**	**–**
Increase arising from acquisition of subsidiaries	**–**	**242,054**
Disposal of subsidiaries	**–**	**–**
At 31 December 2018	**1,264,850**	**9,670,476**

2017	Senior perpetual capital securities RMB'000	Amounts due to related parties RMB'000	Interest-bearing bank and other borrowings RMB'000 (Restated)
At 1 January 2017	2,708,415	–	7,552,366
Changes from financing cash flows	–	–	907,647
Foreign exchange movement	(63,487)	–	43,461
Interest expense	131,444	2,084	–
Interest paid	(120,107)	–	–
Repayment of advances to related parties	–	(685,359)	–
Acquisition of subsidiaries	–	–	467,752
Disposal of subsidiaries	(2,656,265)	1,844,178	–
At 31 December 2017	–	1,160,903	8,971,226

41. FINANCIAL INSTRUMENTS BY CATEGORY

The Group's financial assets were categorised into three groups from 1 January 2018: 1) financial assets at fair value through profit or loss – derivative financial instruments; 2) fair value at amortised cost, including trade receivables, finance lease receivables, financial assets included in prepayments, other receivables and other assets, amounts due from related parties, pledged bank deposits, cash in transit and cash and cash equivalents; 3) financial assets at fair value through other comprehensive income – unlisted equity investments.

The carrying amount of financial assets at fair value through profit or loss – derivative financial instruments, fair value at amortised cost and financial assets at fair value through other comprehensive income – unlisted equity investments as at 31 December 2018 were approximately RMB27.0 million, RMB14,034.5 million and RMB36.0 million, respectively.

The Group's financial assets were categorised into three groups before 1 January 2018: (1) financial assets at fair value through profit or loss - held for trading, including equity investments at fair value through profit or loss and derivative financial instruments; (2) loans and receivables, including trade receivables, finance lease receivables, financial assets included in prepayments, deposits and other receivables, amounts due from related parties, pledged bank deposits, cash in transit and cash and cash equivalents; and (3) an available-for-sale investment.

The carrying amounts of financial assets at fair value through profit or loss - held for trading, loans and receivables and an available-for-sale financial asset as at 31 December 2017(Restated) were approximately RMB6.6 million, RMB12,464.4 million and RMB16.6 million, respectively.

The Group's financial liabilities were categorised into two groups: 1) financial liabilities at fair value through profit or loss — derivative financial instruments; 2) financial liabilities at amortised cost, including trade and bills payables, financial liabilities included in other payables and accruals, interest-bearing bank loans, other borrowings and financial lease payables.

The carrying amount of financial liabilities at fair value through profit or loss — derivative financial instruments and financial liabilities at amortised cost as at 31 December 2018 were approximately RMB3.0 million and RMB18,385.6 million, respectively (2017(Restated): RMB33.5 million and RMB 16,396.5 million, respectively).

42. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any contingent liabilities.

43. OPERATING LEASE ARRANGEMENTS

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

As lessee:

	At 31 December 2018			At 31 December 2017(Restated)		
	Properties RMB'000	**Land RMB'000**	**Vehicles RMB'000**	Properties RMB'000	Land RMB'000	Vehicles RMB'000
Within 1 year	**151,076**	**102,484**	**–**	125,648	93,228	9,462
After 1 year but within 5 years	**465,540**	**346,192**	**–**	443,282	268,063	37,850
After 5 years	**625,049**	**507,463**	**–**	721,541	414,098	8,674
	1,241,665	**956,139**	**–**	1,290,471	775,389	55,986

The Group is the lessee in respect of a number of properties, land and vehicles held under operating leases.

43. OPERATING LEASE ARRANGEMENTS (continued)

As lessor:

The Group leases its investment properties (note 14) under operating lease arrangements for terms ranging from ten to twelve years. The terms of the leases generally also require the tenants to pay security deposits and provide for arranged rent without any reason according to the then prevailing market conditions.

As at 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	December 31 2018 RMB'000	December 31 2017 RMB'000
Within one year	**11,896**	–
After one year but within five years	**66,488**	–
After five years	**85,070**	–
	163,454	–

44. COMMITMENTS

Capital commitments

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

	31 December 2018 RMB'000	31 December 2017 RMB'000
Contracted, but not provided for:		
Land use rights and buildings	**68,591**	29,290
Authorised, but not contracted for:		
Land use rights and buildings	**31,475**	69,953
	100,066	99,243

45. PLEDGE OF ASSETS

Details of the Group's assets pledged for its bank loans and other borrowings and bills payable are disclosed in note 13, note 15, note 23 and note 26 to the consolidated financial statements.

46. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Transactions with related parties

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

	Notes	**31 December 2018 RMB'000**	31 December 2017 RMB'000
Purchases of goods:	(i)		
Daqing Zunrong Jielu Automobile Sales Service Co., Ltd.		**347**	–
Baoji Baodi Automobile Sales Co., Ltd.		**5**	–
Hebei Remit Investment Co., Ltd.		**–**	4,923
Chenzhou Peng Feng Auto Co., Ltd.		**–**	2,210
Sichuan Shen Rong Hong Zheng Auto Sales & Service Co., Ltd.		**–**	1,211
Sichuan Shen Rong Jiu Xing Auto Sales & Service Co., Ltd.		**–**	378
Other subsidiaries controlled by CGA		**–**	1,534
		352	10,256
Sales of goods:	(ii)		
CGA		**234**	–
Jingdezhen Dehuihang Automobile Sales Service Co., Ltd.		**137**	–
Shenzhen Chen Feng Investment co., Ltd.		**55**	1,854
Chengdu Shen Ke Rong Auto Sales & Service Co., Ltd.		**–**	5,771
Yili Hua Guo Auto Sales Co., Ltd.		**–**	5,163
Ziyang He Xin Auto Sales Co., Ltd.		**–**	2,285
Rizhao Hong Fa Auto Sales & Service Co., Ltd.		**–**	1,428
Linyi Yue Xiang Auto Sales & Service Co., Ltd.		**–**	1,398
Shandong Hong Fa Seng Quan Auto Sales & Service Co., Ltd.		**–**	1,185
Cangzhou De Lian Hui Yuan Auto Trading Co., Ltd.		**–**	1,017
Other subsidiaries controlled by CGA		**141**	7,240
		567	27,341

46. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Transactions with related parties (continued)

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
Rental income:	(iii)		
CGA		**1,536**	3,800
Lease expenses:	(iv)		
Xinjiang Tian Hui Auto Service Co., Ltd.		**1,754**	1,048
Shenzhen Peng Feng Trading Co., Ltd.		**1,174**	–
		2,928	1,048
Commission income:			
All Trust Leasing		**–**	106
CGA		**–**	98
Other subsidiaries controlled by CGA		**–**	157
		–	361
Revenue from financial leasing services:	(v)		
All Trust Leasing		**11,891**	61,004
Cost from financial leasing services:	(v)		
All Trust Leasing		**1,350**	–
Service income:			
Shanghai Grand Insurance Agency Co., Ltd. Xinjiang branch		**–**	1,137
All Trust Leasing		**–**	30
		–	1,167
Interest expenses:	(vi)		
CGA		**4,556**	–
Dalian Baoxin Huiyu Automobile		**2,936**	2,084
		7,492	2,084
Repayment of advances to related parties:	(vii)		
Dalian Baoxin Huiyu Automobile		**295,000**	685,359
Borrowings of advances from related parties	(viii)		
CGA		**400,000**	–
Dividend payments:	(ix)		
CGA		**161,751**	–

46. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Transactions with related parties (continued)

(i) The purchases of goods were made according to the published prices and conditions offered by related parties to their major customers.

(ii) The sales of goods were made according to the published prices and conditions offered to the major customers of the Group.

(iii) The charge of the lease fee arose from rental of the Group's office building amounting to RMB1,536,000.

(iv) The lease expenses were charged by Xinjiang Tian Hui Auto Service Co., Ltd. and Shenzhen Peng Feng Trading Co., Ltd.

(v) Details of revenue and cost from financial leasing services are given in note 18 and note 32.

(vi) Interest expenses was recognised with reference to the benchmark interest rate prescribed by the People's Bank of China.

(vii) Advances from Dalian Baoxin Huiyu Automobile, amounting to RMB295,000,000, have been repaid in 2018.

(viii) The Company borrowed RMB400,000,000 from CGA with the interest rate of 3.8% for replenishing working capital in 2018.

(ix) The Company paid dividends to its ultimate holding Company amounting to RMB161,751,000 this year.

In the opinion of the Directors, the transactions listed above between the Group and the aforementioned related parties were conducted in the ordinary and usual course of business and on terms and conditions.

(b) Other transactions with related parties:

The Company's ultimate holding company has guaranteed certain bank loans made to the Group of up to RMB8,923,767,000 as at the end of the reporting period, as further detailed in note 29 to the financial statements.

The Company's 67.7% shares have been pledged for CGA's non-current bank borrowings of up to RMB446,869,000.

46. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(c) Balances with related parties

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

Amounts due from related parties:

	31 December 2018 RMB'000	31 December 2017 RMB'000
All Trust Leasing	**26,729**	3,007
Wuxi Kailong Real Estate Co., Ltd.	**8,890**	–
Shenyang Yeqiao	**–**	40,835
CGA	**–**	1,536
Shenzhen Chen Feng investment Co., Ltd.	**–**	962
	35,619	46,340

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

Finance lease receivables:

	31 December 2018 RMB'000	31 December 2017 RMB'000
All Trust Leasing	**–**	278,152

For details of finance lease receivables, please refer to note 18.

Amounts due to related parties:

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Dalian Baoxin Huiyu Automobile	**864,850**	1,160,903
CGA	**400,252**	69,473
All Trust Leasing	**8,010**	50,001
Baoxin Auto Finance I Limited	**3,330**	3,171
Baoji Baodi Automobile Sales Co., Ltd.	**6**	–
Xinjiang Longze Automobile Services Management Co., Ltd.	**1**	–
Guangxi Electronic and Mechanical Equipment Co., Ltd.	**–**	9
	1,276,449	1,283,557

46. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(c) Balances with related parties (continued)

Finance lease payables:

	31 December 2018 RMB'000	31 December 2017 RMB'000
All Trust Leasing	**240,909**	–

For details of finance lease payables, please refer to note 32.

As at 31 December 2018, except for finance lease payables to All Trust Leasing and amounts due to Dalian Baoxin Huiyu and CGA, balances with related parties were unsecured and non-interest bearing, and had fixed repayment terms.

(d) Compensation of key management personnel of the Group:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Short term employee benefits	**4,799**	9,736
Equity-settled share option expense	**9,623**	–
Total compensation paid to key management personnel	**14,422**	9,736

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

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank, cash in transit, pledged bank deposits, trade receivables, financial assets included in prepayments, other receivables and other assets, the current portion of amounts due from related parties, the current portion of finance lease receivables, trade and bills payables, financial liabilities included in other payables and accruals, amounts due to related parties, the current portion of bank and other borrowings and the current portion of finance lease payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's treasury department headed by the treasury manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The treasury manager reports directly to the chief financial officer and the audit committee. At each reporting date, the treasury department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of long term deposits, finance lease receivables, amounts due from related parties, interest-bearing bank and other borrowings, financial lease payables and amounts due from related parties have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for finance lease receivables, and interest-bearing bank and other borrowings and financial lease payables as at 31 December 2018 was assessed to be insignificant. Management has assessed that the fair values of the non-current portion of bank loans and other borrowings with floating interest rates approximate to their carrying amounts because the interest rates are adjusted periodically by reference to the fair market interest rates.

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Fair value hierarchy

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

Asset measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial asset at fair value through other comprehensive income	–	–	36,000	36,000

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, trade and bills payables, other payables, finance lease receivables and finance lease payables, which arise directly from its operations.

The Group also enters into derivative transactions, including for forward currency contracts and interest rate swaps. The purpose is to manage currency risks arising from the Group's operations and its sources of finance.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and foreign currency risk. The board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group has no significant interest-bearing assets other than pledged bank deposits (note 26) and cash and bank (note 28).

The Group's interest rate risk arises from its interest-bearing bank and other borrowings, details of which are set out in note 29. Borrowings at variable rates expose the Group to the risk of changes in market interest rates.

The Group has entered into a interest swap contract to manage its interest rate exposures. The interest swap contract is not designated for hedge purposes and is measured at fair value through profit or loss. As at 31 December 2018, a fair value of RMB13,295,000 was recognised by the Group on the interest rate swap.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2018		
US$	**50**	**(26,583)**
US$	**(50)**	**26,583**
HK$	**50**	**(464)**
HK$	**(50)**	**464**
2017		
US$	50	(15,811)
US$	(50)	15,811
HK$	50	(788)
HK$	(50)	788

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of bank deposits, cash and cash equivalents, trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

	12-months ECLs	Lifetime ECLs	
	Stage 1	Simplified Approach	Total
	RMB'000	RMB'000	RMB'000
Trade receivables	–	561,681	561,681
Finance lease receivables	–	324,051	324,051
Financial assets included in prepayments, other receivables and other assets	6,925,796	–	6,925,796
	6,925,796	885,732	7,811,528

For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix at 31 December 2018 was set as below:

	Ageing		
	Within 3 months	3 months to 1 year	over 1 year
Expected credit loss rate	–	3%	8%
Gross carrying amount (RMB'000)	483,898	61,341	16,442
Expected credit losses (RMB'000)	–	2,305	1,410

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

For finance lease receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix at 31 December 2018 was set as below:

	Ageing		
	Within 3 months	3 months to 1 year	over 1 year
Expected credit loss rate	0.3%	0.3%	0.3%
Gross carrying amount (RMB'000)	11,791	180,154	132,106
Expected credit losses (RMB'000)	35	572	396

For the financial assets included in prepayments, other receivables and other assets to which the Group applies the general approach for impairment, there was no recent history of default. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate was 0.0% because management estimated that the expected credit losses as at 31 December 2018 were not significant.

As at 31 December 2018, all pledged bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure as at 31 December 2017:

The credit risk of the Group's other financial assets, which comprise cash and bank balances, amounts due from the associate and the joint venture and other receivables, is with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

As at 31 December 2018

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	**29,000**	**1,572,042**	**2,731,291**	**5,656,234**	**530,496**	**10,519,063**
Trade and bills payables	**350,777**	**6,586,079**	**582,546**	**–**	**–**	**7,519,402**
Financial liabilities in other payables and accruals	**1,195,726**	**–**	**–**	**–**	**–**	**1,195,726**
	1,575,503	**8,158,121**	**3,313,837**	**5,656,234**	**530,496**	**19,234,191**

As at 31 December 2017

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	29,000	1,523,235	2,015,778	255,861	5,575,893	9,399,767
Trade and bills payables	446,472	5,527,144	292,677	11,107	–	6,277,400
Financial liabilities in other payables and accruals	1,147,896	–	–	–	–	1,147,896
	1,623,368	7,050,379	2,308,455	266,968	5,575,893	16,825,063

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group conducts its business primarily in Renminbi. Certain bank deposits and bank loans were denominated in foreign currencies. However, the Group's operating cash flows and liquidity have not been subject to significant influence from fluctuations in exchange rates. The Group has entered into forward currency contracts to manage its exchange rate exposures.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by the equity attributable to owners of the parent plus net debt. Net debt includes bank loans and other borrowings, trade, bills and other payables and accruals less cash and bank. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods are as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Interest-bearing bank and other borrowings	**9,670,476**	8,971,226
Trade and bills payables	**7,519,402**	6,277,400
Other payables and accruals	**1,308,198**	1,382,255
Less: Cash and bank	**(2,561,065)**	(3,179,357)
Net debt	**15,937,011**	13,451,524
Equity attributable to owners of the parent	**7,063,946**	6,909,814
Gearing ratio	**69%**	66%

49. COMPARATIVE FIGURE

As further explained in note 39(b), on January 5, 2018, the Group obtained 100% equity interests in Shanghai Xinjie from CGA. Since Shanghai Xinjie and the Group are subsidiaries of CGA, the acquisition was a business combination under common control. The comparative information which includes the consolidated statement of financial position, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows, and notes to the consolidated financial statements for the comparative period is re-presented as if Shanghai Xinjie and the Group had been combined at the beginning of the comparative period.

50. EVENT AFTER THE REPORTING PERIOD

There was no significant event undertaken by the Company or by the Group after 31 December 2018.

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**1,677,828**	1,602,133
Derivative financial instruments-non-current	**10,359**	6,573
Total non-current assets	**1,688,187**	1,608,706
CURRENT ASSETS		
Prepayments, other receivables and other assets	**1,192**	1,123
Amounts due from subsidiaries	**5,527,025**	5,297,892
Derivative financial instruments	**16,649**	–
Cash and cash equivalents	**114,336**	412,095
Total current assets	**5,659,202**	5,711,110
CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**1,030,009**	490,357
Trade and bills payables	**570**	543
Other payables and accruals	**108,223**	98,268
Amounts due to subsidiaries	**3,368**	3,169
Derivative financial instruments	**2,995**	19,786
Total current liabilities	**1,145,165**	612,123
NET CURRENT ASSETS	**4,514,037**	5,098,987
TOTAL ASSETS LESS CURRENT LIABILITIES	**6,202,224**	6,707,693
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**5,072,204**	5,324,669
Derivative financial instruments	**–**	13,739
Total non-current liabilities	**5,072,204**	5,338,408
NET ASSETS	**1,130,020**	1,369,285
EQUITY		
Share capital	**23,275**	23,275
Reserves	**1,106,745**	1,346,010
Total equity	**1,130,020**	**1,369,285**

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 1 January 2017	1,767,128	29,019	(140,673)	2,651	(512,649)	1,145,476
Total comprehensive income for the year	–	–	(60,079)	–	(583,884)	(643,963)
Issue of shares	844,497	–	–	–	–	844,497
As at 31 December 2017 and 1 January 2018	2,611,625	29,019	(200,752)	2,651	(1,096,533)	1,346,010
Total comprehensive income for the year	–	–	39,668	–	(87,698)	(48,030)
Equity-settled share-based transactions	–	47,979	–	–	–	47,979
Final 2017 dividend declared	(239,214)	–	–	–	–	(239,214)
As at 31 December 2018 and 1 January 2019	2,372,411	76,998	(161,084)	2,651	(1,184,231)	1,106,745

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

52. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of Directors on 29 March 2019.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as applicable, is set out below:

	Year ended December 31,				
	2018	2017*	2016*	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)		
REVENUE	**36,723,758**	34,557,985	25,708,800	23,776,461	30,723,432
Cost of sales and services provided	**(33,939,267)**	(31,622,151)	(23,675,264)	(21,587,955)	(27,935,772)
Gross profit	**2,784,491**	2,935,834	2,033,536	2,188,506	2,787,660
Other income and gains, net	**833,640**	601,145	524,034	357,311	454,574
Selling and distribution expenses	**(1,247,031)**	(1,091,154)	(878,775)	(977,024)	(983,221)
Administrative expenses	**(738,959)**	(557,014)	(608,355)	(643,434)	(608,813)
Profit from operations	**1,632,141**	1,888,811	1,070,440	925,359	1,650,200
Finance costs	**(706,522)**	(730,513)	(486,616)	(540,111)	(617,234)
Share of profit of a joint venture	**1,978**	542	5,795	5,830	6,783
Share of profit/(loss) of associates	**(14,550)**	4,919	(137)	(16,151)	–
Profit before tax	**913,047**	1,163,759	589,482	374,927	1,039,749
Income tax expense	**(346,226)**	(357,423)	(172,583)	(150,656)	(326,115)
Profit for the year	**566,821**	806,336	416,899	224,271	713,634
Attributable to:					
Owners of the parent	**565,999**	807,923	414,226	220,094	706,644
Non-controlling interests	**822**	(1,587)	2,673	4,177	6,990
	566,821	806,336	416,899	224,271	713,634
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**28,129,855**	25,741,972	21,803,552	18,811,426	19,776,287
TOTAL LIABILITIES	**21,030,869**	18,792,796	16,761,232	13,838,970	14,627,487
NON-CONTROLLING INTEREST	**35,040**	39,362	39,731	37,526	60,139
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**7,063,946**	6,909,814	5,002,589	4,934,930	5,088,661

* The amounts of 2017 and 2016 were restated because of business combination under common control.

GRAND BAOXIN AUTO GROUP LIMITED
廣匯寶信汽車集團有限公司