HARMONY AUTO
和諧汽車

China Harmony New Energy Auto Holding Limited
中國和諧新能源汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3836

2018
Annual Report

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. FENG Changge *(Chairman)*
Mr. LIU Fenglei
Ms. MA Lintao
Ms. FENG Guo
Mr. HAN Yang (appointed on June 30, 2018)

Non-executive Directors

Mr. FAN Qihui (resigned on June 30, 2018)

Independent Non-executive Directors

Mr. WANG Nengguang
(appointed on February 4, 2019)
Mr. LIU Zhangmin
Mr. XUE Guoping
Mr. XIAO Changnian
(resigned on February 4, 2019)

AUDIT COMMITTEE

Mr. WANG Nengguang *(Chairman)*
(appointed on February 4, 2019)
Mr. LIU Zhangmin
Mr. XUE Guoping
Mr. XIAO Changnian
(resigned on February 4, 2019)

REMUNERATION COMMITTEE

Mr. XUE Guoping *(Chairman)*
Mr. LIU Zhangmin
Mr. LIU Fenglei
(appointed on December 10, 2018)
Ms. FENG Guo (retired on December 10, 2018)

NOMINATION COMMITTEE

Mr. FENG Changge *(Chairman)*
Mr. XUE Guoping
Mr. WANG Nengguang
(appointed on February 4, 2019)
Mr. XIAO Changnian
(resigned on February 4, 2019)

COMPANY SECRETARY

Ms. WONG Wai Yee, Ella
(appointed on January 24, 2018)
Ms. WONG Wai Ling
(resigned on January 24, 2018)

AUTHORIZED REPRESENTATIVES

Mr. LIU Fenglei
Ms. Wong Wai Yee, Ella
(appointed on January 24, 2018)
Ms. WONG Wai Ling
(resigned on January 24, 2018)

LEGAL ADVISER

Morrison & Foerster
33/F, Edinburgh 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

PRINCIPAL BANKS

China CITIC Bank, Zhengzhou Branch
Shanghai Pudong Development Bank, Zhengzhou Branch
China Merchants Bank, Zhengzhou Branch
The Bank of East Asia, Zhengzhou Branch
Bank of Communications, Zhengzhou Branch

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND HEADQUARTER IN THE PRC

15A, Tower A, World Trade Center Building
Shangwuneihuan Road
CBD Zhengdong New District
Zhengzhou, Henan Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

CAYMAN ISLANDS SHARE REGISTRAR

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

HONG KONG SHARE REGISTRAR

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

COMPANY'S WEBSITE

www.hexieauto.com

STOCK CODE

3836

Chairman's Statement

Dear Shareholders:

On behalf of the board of directors (the "**Board**") of China Harmony New Energy Auto Holding Limited ("**China Harmony Auto**"or the "**Group**" or "**we**"), I am pleased to present the report of the results of the Company and its subsidiaries (the "**Group**") for 2018.

2018 was the key year for the transformation and upgrading of China automobile market. It has registered a negative sales growth in the market. On the contrary, the sales of the new energy vehicles ("**NEV**") have increased sharply, with this flourish development, the new energy industry accelerated its intelligent revolution. In 2018, we refine our business strategy into "One Body Three Wings". We increased the sale service of NEV business to build the stable and balance of our auto service ecosystem. We continued to regard new energy automobile industry as our strategic layout and took the lead of building up the auto service ecosystem covering EV manufacture, sales and after-sale services. In the future, we will further enhance the optimization of the synergy between various business segments.

Key operating results during the period from January 1, 2018 to December 31, 2018 (the "**Reporting period**") are as follows:

- Revenue of the Group was RMB10,639.9 million for 2018, representing a decrease of 1.8% as compare with RMB10,840.4 million in 2017. As the revenue for 2017 included the revenue from comprehensive after-sale services, a non-spin-off business, of RMB236.3 million, a slight increase was recorded in 2018 as compared to the adjusted revenue of RMB10,604.1 million for 2017.

- As the 31 December 2018, the Group recorded a sales volume of new vehicles of a total of 26,998 units, representing a year-on-year increase of 4.2% as compared to that of 2017. Revenue from sales of new vehicles amounted to RMB10,639.9 million.

- The Group achieved profit attributable to owners of the parent for the year 2018 of RMB683.7 million.

Chairman's Statement

I would like to extend my sincere gratitude to all staff for their continuous network layout and shareholders and business partners for their greatest support. In the future, we will continuously insist on our unique strategy of "One Body Three Wings". "One Body" is represent for expanding the luxury car dealer business actively and steadily. As for "Three Wings", we encourage and support the Comprehensive After-sales services Business and New Energy Auto Manufacturing project introduce external strategic investors. The sale of new energy vehicles business is an extension and supplement of the" One Body" – the luxury car dealer business with wide prospects. We firmly believe that the strategy will form an ecosystem of automobile service with mutual support and business collaboration. The unique business strategy and cooperative development of various business are our core strengths that make us stand out from market competitions and constantly create even more value for our company and shareholders in the time to come.

Feng Changge
Chairman of the Board

March 29, 2019

Management Discussion And Analysis

INDUSTRY OVERVIEW

In 2018, China's automobile industry recorded a negative growth in sales volume for the first time in the past 20 years. According to China Association of Automobile Manufacturers (中國汽車工業協會), compared with 2017 the sales volume of passenger vehicles in China was 23.71 million units, representing a year-on-year decrease of 4.1%. On the contrary, according to relevant statistics, an upward trend was seen in the sales volume of luxury vehicles in the PRC market in 2018 with a total sales volume of over 2.8 million units. The growth in the luxury vehicle market of China was primarily attributable to consumption upgrade driven by the increasing demand from second- and third-tier cities. Given to the current trend, such second- and third-tier cities that are mainly formed by provincial capitals and sub-provincial cities in the central and western regions have become the main contributors to luxury vehicle consumption.

Despite the decline in overall sales volume of vehicles nationwide, the sales volume of new energy vehicles continued rapid growth in 2018. According to CPCA, the sales volume of new energy passenger vehicles of wholesaler for the year was 1.008 million units, representing a year-on-year increase of 88.5%. The rapid growth in the sales volume of new energy vehicles has become one of the highlights in the automobile market in China in 2018.

BUSINESS OVERVIEW

Overall Completion of Network Layout and Steady Improvement of Dealership Business

As of the date of this report, the Group had a total of 67 dealership outlets covering 33 cities across the country and distributed 14 brands, which include 10 luxury brands, namely, BMW, MINI, Lexus, Jaguar, Land Rover, Volvo, Zinoro, Lincoln, Audi, Alfa Romeo; and 4 ultra-luxury brands, namely, Rolls Royce, Ferrari, Maserati and Bentley.

As of the date of this report, the Group engages in a total of 12 authorized dealership outlets under construction or to be constructed. The authorized outlets are mainly luxury and ultra-luxury brands, including BMW, Lincoln, Lexus, Audi, Maserati and Alfa Romeo.

Such 12 outlets under construction and to be constructed are mainly located in the central and western regions in China, i.e. the typically advantageous areas of the Group, and the network covers first-tier and new first-tier cities including Beijing, Wuhan and Ningbo. The strategic layout in the cities located in the central and western regions facilitated the Group in further enhancing and consolidating its position in the market and the layout in new first-tier cities and such cities with great potential for growth is beneficial to the Group to expand market share nationwide, grow brand awareness, and enhance the market penetration rate.

As of 31 December 2018, the Group recorded a sales volume of new vehicles of a total of 26,998 units, representing an increase of 4.2% as compared with 25,917 units in 2017. Sales volume of Lexus brand was 2,962 units, increased by 17.9% when comparing with the same period of 2017.

The Group has established an automobile lease finance company to engage in lease finance business since the second half of 2017 by leveraging the capital strength and the sales network for new vehicles of 4S shops of the Group. We, by adhering to the concept of "car butler service" and the selling points of "good product that saves time and money and without worries", provide customers with direct-lease finance services. The Company has established a stringent risk management mechanism that tracks the credit and repayment record of its customers in real time in order to detect outstanding and bad debts. As of December 31, 2018, the accumulated loans amounted to RMB250.87 million and it is expected to record profit of projects of RMB33.8 million and profit margin of 13.5%.

Comprehensive After-sales Services Business

Henan Hexie Automobile Aftersales Services Co., Ltd.* (河南和諧汽車維修服務有限公司) (the Independent Aftersales Company), an associate of the Group, is currently formed in the planning of a three-in-one industry layout of luxury vehicles, new energy vehicles, and car-sharing. As of the date of this report, there were a total of 80 services outlets, of which 42 were centre outlets and 38 were community outlets, which are all wholly-owned subsidiaries of the Independent Aftersales Company and operated under the brand of "Harmony Auto Maintenance (和諧修車)", covering 18 provinces across the country, including 33 cities such as Beijing, Shanghai, Shenzhen and Hangzhou.

In regard to the after-sales services of luxury vehicles, Harmony Auto Maintenance adopted a chain operation model of "centre outlets + community outlets". In this model, we provide after-sales services with our integrity and professionalism for the car owners at 80 outlets nationwide, which gained the trust and support from 200,000 car owners. In 2018, the Company actively advanced the progress on informationization and implemented the SASS management system and the launch of service platform for customers, going further to achieve the target to establish a smart after-sales service platform for luxury vehicles in China.

* *For identification purpose only*

Management Discussion And Analysis

In regard to the after-sales services of new energy vehicles, Harmony Auto Maintenance took the initiative to plan an industrial distribution that relies on technological innovation, talents and experiences, cooperated with the new automobile manufacturers and has become one of the market leaders. China's start up electronic vehicles companies are leading the way in innovating auto retail formats to match the consumer trends and expectations. In order to adapt to the new retail trends, we are well prepared to offer after-sales service in the whole life cycle of new energy vehicles. Before that, Harmony Auto Maintenance was the first batch of partners of TESLA authorised in the sheet-metal spraying centres in China and was one of the first batch who concentrated on the after-sales services for new energy vehicles. In 2017, Harmony Auto Maintenance has become the after-sales service company that set up the comprehensive cooperation with NIO (蔚來汽車). In the future, Harmony Auto Maintenance will strive to build up a new business eco-system to provide intensive service for the new energy vehicles and brands including providing exclusive working station, sharing technician resources and supports. Currently, we have achieved business cooperation with new energy vehicle brands including NIO, TESLA and Qiantu Motor. Meanwhile, we are approaching various well-known innovative new energy electric vehicle companies, with an aim to become one of the largest and leading after-sales service suppliers for new energy vehicles in China.

In regard to car-sharing services, according to our experiences and market insights, the Internet have redirected the minutiae of daily life including the diversification of our commutes. Car-sharing has become one of main ways to travel. With the rapid development of this trend, the operators need to rely on the independent after-sales service to provide the maintenance and repair service of those vehicles, which will bring us new opportunities for business expansion and great potential for growth. Most of the car-sharing operators used new energy electric vehicle. For automotive maintenance and repair industry, maintenance and repair of electric vehicle constitute a barrier to the traditional vehicle repair company. Harmony Auto Maintenance is the first batch of enterprises to engage in the after-sale service for new energy vehicle, which has rich experience for after-sale service and equipment in terms of maintenance and repair of electric vehicle. This meets the demand of the car-sharing operators. We reached many companies in the industry and achieved business cooperation with companies including Xiaojuchefu (小桔車服) under Didi (滴滴出行), Shouqi Limousine & Chauffeur (首汽約車) and Banma (斑馬智行). Therefore, it becomes the preferred supplier for repair and maintenance at the designated place of sharing vehicle.

Progress of BYTON Manufacturing Projects

BYTON (company name: Future Mobility Corporation), a globally renowned high-end smart intuitive electric vehicle manufacturer of which the Group is one of the shareholders, had closed USD500 million in Series B funding in the second quarter of 2018 from multiple major investors and partners that including FAW Group (一汽集團), Contemporary Amperex Technology (寧德時代) and Tus-Holdings (啟迪控股). BYTON also signed a strategic cooperation framework agreement with FAW Group, the strategic investor, with focus on in-depth cooperation in industrial coordination, technology, investment and procurement supply chain. Meanwhile, BYTON has started its series-C fundraising and is currently discussing with various reputable investors with abundant financial resources. The series-C fundraising is expected to be completed in mid-2019.

The R&D and production of BYTON products were progressing on schedule. After the launch of M-Byte Concept in January 2018, BYTON released K-Byte Concept, the second concept vehicle, in June in the same year, and is now developing the new large luxury MPV. In January 2019, BYTON revealed new details about its first production model, the M-Byte. The production version of the BYTON M-Byte is expected to debut in Mid-2019 with mass-production starting at the end of 2019. The second and third vehicle models are planned to achieve mass production by the end of 2021 and 2022, respectively. Solid progress has been made in the construction of Intelligent Manufacturing Plant in Nanjing. In April 2018, the Prototype Room in the smart manufacturing base in Nanjing plant had been put into operation officially and the first batch of M-Byte prototype vehicles had rolled off the production line and had been put into trial operation. Five major workshops, including stamping, coating, welding, final assembly and battery, had completed construction in January 2019 and in the process of equipment installation and commissioning. This is a vital year for BYTON to achieve the goal of mass production.

The deployment of offline sales service network was comprehensively initiated. In January 2019, BYTON Place, the first experience store of BYTON brand in the world duly commenced business in Shanghai. BYTON will adopt the form combining "direct-sales shops and partnership shops" for active deployment for offline sales service network, and planned to establish 25–30 offline stores during the year. The Group is under discussion with BYTON about distribution rights of the brand stores.

With the release of several BYTON vehicle models, the completion of Intelligent Manufacturing Plant in Nanjing and the mass production of new cars, BYTON is currently negotiating with various parties in terms of sales, after-sales service and delivery of new vehicles.

Management Discussion And Analysis

Sale Services for New Energy Vehicles

In 2018, the Group established Beijing Automobile Zhilian New Energy Automotive Sales Co., Ltd. (北京和諧智聯新能源汽車銷售服務有限公司) in order to adapt to the rapid development of new energy automobile industry. The newly formed company will concentrate on the network development of the authorization and service for new energy vehicle brands across China and focus on the popularization of brands and products as well as expanding the business in sales and service in this new energy vehicle industry.

In order to meet the high standard on customer service experiences required by innovative new energy car enterprises, the company carried out reform on the models and made flexible adjustment on the operation strategy. Models comprise 4S shop model and business experience outlet model, business experience outlet with service center model and comprehensive brand electric vehicle center model, covering from first-tier and second-tier cities to third-tier and fourth-tier cities.

The business model is centered on vehicle sales and continues to extend the new energy vehicle service chain, including deep cooperation with numbers of car-sharing platforms, electric vehicle charging equipment and services, automobile finance insurance, spare parts maintenance, vehicle replacement and key account sales. Under this business model, a sharing platform that covers sale services for new energy vehicles, automobile finance, social function and information disclosure has been established on top of the concept of "Beijing Automobile Zhilian". Everything starts from the actual needs of clients, we focus on customer experience, providing users with cross-brand services and professional advice on new energy vehicles, so as to achieve the best match between manufacturers and users.

Future Outlook and Development Strategy

In the opinion of the Group, despite the slight decline in the overall sales volume of automobiles in China in 2018, the market penetration in local luxury vehicles and ultra-luxury vehicles industry is far from saturation. Along with upgraded consumer spending in the local market, the temporary suspension of US-China trade war and the successive launch of new products of various luxury brands, which will drive the growth in sales volume in the market of luxury and ultra-luxury vehicles.

The favorable national policies that strongly support the development of new energy vehicles should be conducive to the sound environment for the market. The Group expects there will be a continued high growth rate in the new energy vehicles in the future. In the future, the Group will continue to deepen the overall layout of the entire new energy vehicle industry chain, strengthen and explore the related business expansion of manufacturing, sales and after-sales services of new energy vehicles and active synergy effects, continue to develop in new energy vehicle segments and clarify the strategic significance and direction of new energy vehicle business in the development of the Group.

The Group has comprehensively upgraded and completed the business layout of "One Body and Three Wings", and in the future, the Group will progressively execute the following development strategies on ongoing basis with an aim to further boost up its scale in income and profitability to create greater value for its shareholders:

- To proactively expand dealership network, increase market penetration, and further enhance sales volume and revenue from new vehicles and the profitability of new outlets.

- As an important participant in the new energy vehicle industry in China, the Group will take the initiative to expand the layout of the relevant industry. Along with the launch of various vehicle model, the completion of the Intelligent Manufacturing Plant in Nanjing, the mass production of new vehicles, the Group will be supported with the dual-drivers of business development and investment income, which continue in-depth collaboration in term of new vehicle sale and after-sales services and achieve synergies between the industry and investment.

- To actively support comprehensive after-sales services, and increase the loyalty and reliance of customers, enhance revenue from after-sales services, and encourage the introduction of more external strategic investors through the interconnection with traditional dealership business and the new business of New Energy automotive sales.

- New energy auto sales company takes the advantage from the traditional experience of the sales and services in the Luxury and ultra-Luxury vehicles, to grasp the opportunities in the market and observe the customers' demands, dedicates to be one of the country's leading enterprises in the full services industry chain of New Energy Vehicle.

FINANCIAL OVERVIEW

Revenue

Revenue of the Group was RMB10,639.9 million for 2018, representing a decrease of 1.8% as compared with RMB10,840.4 million in 2017. As the revenue for 2017 included the revenue from comprehensive after-sale services, a non spin-off business, of RMB236.3 million, a slight increase was recorded in 2018 as compared to the adjusted revenue of RMB10,604.1 million for 2017.

Revenue from sales of new vehicles amounted to RMB9,353.6 million, basically remaining at the same level as compared to that of 2017. Revenue from after-sale services amounted to RMB1,279.7 million, accounting for 12.0% to the total revenue and representing an increase of 1.3% as compared to 10.7% in 2017. As the revenue for 2017 included the revenue from comprehensive after-sale services, a non-spin-off business, of RMB236.3 million, an increase of 13.2% was recorded in 2018 as compared to RMB1,130.0 million, net of revenue from the spin-off business, for 2017.

Cost of sales and services

Cost of sales and services of the Group amounted to RMB9,883.4 million in 2018, basically remaining at the same level as compared to that of 2017.

Gross profit

Gross profit of the Group was RMB756.5 million in 2018, representing a decrease of 25.7% as compared to the gross profit of RMB1,017.8 million for 2017. The decrease in gross profit was mainly attributable to the relatively large amount of newly-opened shops in 2018 with relatively low gross profit, together with the impact from the decline in gross profit of new vehicles as a result of the macro-economic policies implemented in 2018. Along with the more favorable international trade environment and the national policies' focus on the automobile industry, the gross profit of new vehicles is expected to rebound. Meanwhile, the shops newly opened in 2018 will contribute more profit to the Group in the coming one to three years.

Selling expenses

In 2018, selling expenses of the Group amounted to RMB549.1 million, representing a decrease of 30.3% from RMB787.5 million in 2017. Due to the inclusion of comprehensive after-sale services, a growth of 9.7%, net of expense from the spin-off business, was recorded in 2018 as compared to 2017. The growth was mainly attributable to the large amount of newly-opened shops in 2018 with relatively high initial operating cost. The Group has attached greater importance to marketing and promotion to increase customer's loyalty and made more investment for marketing purpose.

Administrative expenses

As compared to RMB147.0 million in 2017, administrative expenses of the Group increased by RMB8.2 million, or 5.6%, to RMB155.2 million in 2018, mainly due to the increase of administrative expenses in the newly-opened 4S shops.

Other income and gains, net

Other income and gains, net decreased from RMB1,321.2 million in the corresponding period of 2017 to RMB942.0 million in 2018, of which other income and gains, net, of principal businesses recorded a slight increase as compared to that of 2017. The decrease was mainly due to the relatively high incremental gains in valuation of FMC investment projects in 2017 and the decline in the incremental gains in valuation of such investment projects in 2018.

Finance costs

The Group's finance costs for 2018 was RMB67.7 million, representing an increase of RMB4.3 million as compared to RMB63.4 million in 2017, primarily due to the increase of new shops in operation and bank loans of the Group in 2018.

Profit from operations

Based on the above, the Group's profit from operations for 2018 was RMB994.3 million as compared to RMB1,404.5 million in 2017.

Profit for the period attributable to the owners of the parent

The Group's profit for the period attributable to owners of the parent for 2018 was approximately RMB683.7 million, while there was profit of RMB1,009.4 million recorded for the corresponding period of 2017. The decrease was mainly due to the gross profit of new vehicles and the decline in the valuation gains in FMC investment projects.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

The Group's primary uses of cash are to pay for the purchases of passenger vehicles, spare parts and automobile accessories, to establish new dealership outlets and to fund our working capital and operating expenses. The Group's liquidity needs was financed through a combination of short-term bank loans and cash flows generated from its operating activities.

As at December 31, 2018, cash and deposits of the Group totaled RMB1,259.2 million.

In 2018, our net cash from operating activities was RMB264.0 million, net cash used in investing activities was RMB821.0 million, which was mainly due to the increase in self-operated dealership outlets in 2018 and the relatively substantial amount in newly-opened shops and the capital expenditure for shops under construction, and net cash from financing activities was RMB31.2 million.

Taking into account the Group's existing cash and cash equivalents, anticipated cash flow from the operating activities, available bank facilities and other borrowings, the Board believes that the Group's liquidity needs can be satisfied.

Net current assets

As at December 31, 2018, the Group had net current assets of RMB474.8 million as compared to RMB2,076.3 million as at December 31, 2017, which was mainly due to the spin-off of comprehensive after-sale business and the spin-off of assets by the end of 2017.

Capital expenditure

In 2018, the Group's capital expenditure was RMB668.9 million (2017: RMB313.9 million), which was primarily used for the expenditure and prepayment for purchase of items of property, plant and equipment in connection with the establishment of new outlets.

Inventories

The Group's inventories primarily consist of new passenger vehicles, spare parts and automobile accessories. Inventories decreased by RMB147.0 million from RMB1,271.4 million as at 31 December 2017 to RMB1,124.4 million as at 31 December 2018. The decrease in the inventories of new vehicles of the Group is because each of the Group's outlets has reinforced their management in their respective orders for new passenger vehicles and after-sales products. Meanwhile, the headquarters of the Group implements active warning, supervision and management on inventories of all stores, and adjusts the allocation of resources on each dealership shop to ensure a reasonable inventory balance.

The Group's average inventory turnover days for 2018 were 44 days.

Bank loans and other borrowings

As at December 31, 2018, the Group had bank loans and other borrowings in the aggregate amount of RMB2,137.6 million, representing a year-on-year increase of 17.7% as compared to RMB1,816.3 million as at December 31, 2017. The additional loans were mainly used for the construction works and payment for equipment for newly-opened shops.

	December 31, 2018 ***RMB'000***	December 31, 2017 *RMB'000*
Bank loans repayable:		
Within one year	**1,281,883**	732,800
Within the second year	**–**	15,980
	1,281,883	748,780
Other borrowings repayable:		
Within one year	**855,721**	1,067,556
Total	**2,137,604**	1,816,336

As at December 31, 2018, the gearing ratio of the Group, calculated by total liabilities divided by total assets, was 37.2%, remaining at the same level as compared with that of December 31, 2017.

As at December 31, 2018, certain of the Group's bank loans and other borrowings were secured by mortgages or pledges over the Company's assets. The Company's assets, subject to these mortgages or pledges as at December 31, 2018, consisted of (i) inventories in the amount of RMB596.1 million; (ii) property, plant and equipment in the amount of RMB23.2 million; and (iii) prepaid land lease payments in the amount of RMB11.1 million. In addition, certain of the Group's bank loans and other borrowings were guaranteed by the Chairman of the Company or affiliates of the Chairman of the Company.

Contingent liabilities

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

Interest rate risk and foreign exchange risk

The Group is exposed to interest rate risk resulting from fluctuations in interest rate on our debt. Increases in interest rate could result in an increase in the Group's cost of borrowing. If this occurs, it could adversely affect the Group's finance costs, profit and the Group's financial condition. The interest rates on bank loans and overdrafts in China depend on the benchmark lending rates published by the People's Bank of China. The Group does not currently use any derivative instruments to manage its interest rate risk.

Substantially all of the Group's revenue, cost of revenue and expenses are denominated in Renminbi. The Group also use Renminbi as its reporting currency. The Group is of the view that its operations are currently not subject to any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge its exposure to such risk.

Employees and remuneration policies

As at December 31, 2018, the Group had a total of 3,693 employees (December 31, 2017: 3,303 employees). The change in number of employees was due to increase in number of new stores. Relevant staff cost for 2018 was approximately RMB304.0 million (including employee share incentive of RMB26.0 million), while the staff cost was approximately RMB363.4 million for 2017 (including employee share incentive of RMB7.7 million).

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to success of the Group's operations. Eligible participants of the share option scheme include employees of the Company and its subsidiaries. The share option scheme became effective on June 26, 2015, and unless otherwise cancelled or amended, will remain in force for ten years from that date. As of December 31, 2018, the Company had 81,791,000 share options outstanding under the share option scheme, which represented approximately 5.36% of the Company's share in issue as at that date.

For further details of the share option scheme, please refer to "SHARE OPTION SCHEME" set out on pages 43 to 44 of this annual report. The Group will regularly review its compensation policies and employee benefits with reference to market practices and individual performance.

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

The Board has committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Company to formulate its business strategies and policies, and to enhance its transparency and accountability.

For the year ended December 31, 2018, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**" or "**Hong Kong Stock Exchange**"), save and except for the deviation as set out below.

In accordance with code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting and should also invite the chairmen of the nomination, audit and remuneration committees to attend. Mr. FENG Changge, the chairman of the Board and the chairman of the Nomination Committee and Mr. XIAO Changnian, the then chairman of the Audit Committee were not able to attend the annual general meeting of the Company held on June 13, 2018 due to business commitments.

The Board will continue to review and monitor the corporate governance practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

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 code of conduct regarding directors' securities transactions.

All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code for the year ended December 31, 2018.

BOARD OF DIRECTORS

As at the date of this report, the Board of the Company comprises the following directors:

Executive Directors:
Mr. FENG Changge *(Chairman)*
Mr. LIU Fenglei *(President)*
Ms. MA Lintao *(Vice-president)*
Ms. FENG Guo *(Vice-president)*
Mr. Han Yang

Independent Non-executive Directors:
Mr. Wang Nengguang
Mr. LIU Zhangmin
Mr. XUE Guoping

The biographical details of the Directors are set out in the section headed "Directors and Senior Management" on pages 29 to 33 of this annual report. The relationships between the members of the Board are also disclosed under that section.

Chairman and President

The position of Chairman is held by Mr. FENG Changge and that of President, is held by Mr. LIU Fenglei. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The President focuses on the Company's business development and daily management and operations generally.

Independent Non-executive Directors

During the year ended December 31, 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 possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Directors' Appointment and Re-election

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

Each of the Directors of the Company has entered into either a service agreement or a letter of appointment with the Company for a term of three years subject to retirement by rotation in accordance with the articles of association (the "**Articles of Association**") of the Company.

In accordance with the Articles of Association, all Directors are subject to retirement by rotation and re-election at an annual general meeting at least once every three years and any Director appointed to fill a casual vacancy shall hold office until the first general meeting and any Director appointed as an addition to the Board shall hold office only until the next annual general meeting and shall then be eligible for re-election at that meeting.

Responsibilities, Accountabilities and Contributions of the Board and Management

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 Board shall take decisions objectively in the interests of the Company.

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

All Directors have full and timely access to all the information of the Company. The Directors may, upon request, seek independent professional advice in appropriate circumstances for discharging their duties to the Company.

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

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

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

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

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and appropriate.

The Company had from time to time provided relevant reading materials including industry updates and corporate governance to all Directors subsequent to the listing of the Company for their reference and studying. This is to ensure that all the Directors are sufficiently aware of their responsibilities under the Listing Rules and other relevant regulatory requirements.

In addition, all the Directors of the Company had participated in various trainings and/or read materials of relevant topics, including:

– Corporate strategic management/Corporate operational management

– Financial strategic management

– Investment strategies

– Research on audit development strategies

The Company understands that the Directors should participate in appropriate continuous professional development programs to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the 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. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

Audit Committee

The Company established the Audit Committee on May 20, 2013 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and code provision C.3.3 of the CG Code and terms of reference amended on August 31, 2016 and March 29, 2019.

The Audit Committee consists of three members, namely Mr. Wang Nengguang (chairman), Mr. LIU Zhangmin and Mr. XUE Guoping, all of whom are independent non-executive Directors of the Company (including one independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

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

The Audit Committee held 2 meetings to review interim and annual financial results and reports during the year ended December 31, 2018 and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, the effectiveness of the internal audit function, scope of work and engagement of external auditors.

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

Remuneration Committee

The Company established the Remuneration Committee on May 20, 2013 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and code provision B.1.2 of the CG Code.

The Remuneration Committee consists of three members, namely Mr. XUE Guoping (chairman) and Mr. LIU Zhangmin, both being independent non-executive Directors; and Mr. LIU Fenglei, an executive Director.

The primary functions of the Remuneration Committee include 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 establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee held 2 meetings during the year ended December 31, 2018. During the meeting, the Remuneration Committee reviewed and advised on the remuneration packages of the executive Directors and senior management.

Nomination Committee

The Company established the Nomination Committee on May 20, 2013 with written terms of reference in compliance with code provisions A.5.1 and A.5.2 of the CG Code.

The Nomination Committee consists of three members, namely Mr. FENG Changge (chairman), an executive Director, and Mr. WANG Nengguang and Mr. XUE Guoping, both being independent non-executive Directors.

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

The Company firmly believes that the increasing diversity at the board level is one of essential elements in supporting the attainment of its strategic objectives and its sustainable development, therefore, the Company has adopted a Board Diversity Policy in accordance with the requirement set out in the CG Code.

Various factors in relation to diversity of the members of the Board, including but not limited to: gender, age, culture and education background, professional experience, skills, knowledge and industry and region experience and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate. After the review and assessment, the Nomination Committee will make recommendation to the Board. The Nomination Committee also discusses and makes decision (if required) to attain the measurable targets of diversity of the members of the Board, and propose relevant recommendations to the Board.

In evaluating and selecting any candidate for directorship, the Nomination Committee and/or the Board shall consider the following criteria, including, but not limited to, character and integrity, qualifications including professional qualifications, skills, knowledge and experience relevant to the Company's business and strategy, and diversity elements mentioned in the Board Diversity Policy, any measurable targets adopted for attaining diversity of the members of the Board and willingness and ability to devote adequate time to discharge duties as a member of the Board and committees under the Board.

Nomination process of directors of the Company is as follows: -

(a) Appointment of new directors

  (i) The Nomination Committee and/or the Board may select candidates for directors from various channels, including but not limited to internal promotion, re-designation, referral by other members of the management and external recruitment agents.

  (ii) The Nomination Committee and/or the Board shall, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

(iii) If the process yields one or more desirable candidates, the Nomination Committee and/or the Board shall rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

(iv) The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.

(v) For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the Nomination Committee and/or the Board shall evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Where appropriate, the Nomination Committee and/or the Board shall make recommendation to shareholders in respect of the proposed election of directors at the general meeting.

(b) Re-election of director at general meeting

(i) The Nomination Committee and/or the Board shall review the overall contribution and service to the Company of the retiring director and the level of participation and performance on the Board.

(ii) The Nomination Committee and/or the Board should also review and determine whether the retiring director continues to meet the criteria as set out above.

(iii) The Nomination Committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

The Nomination Committee held 3 meetings during the year ended December 31, 2018 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and to consider the qualification of the retiring Directors standing for re-election at the Annual General Meeting.

Corporate Governance Functions

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

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Attendance Record of Directors and Board Committee Members

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

Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Mr. FENG Changge	1/5	–	–	3/3	0/1
Mr. LIU Fenglei	5/5	–	–	–	1/1
Ms. MA Lintao	4/5	–	–	–	0/1
Ms. FENG Guo	3/5	–	2/2	–	1/1
Mr. HAN Yang (appointed on June 30, 2018)	1/5	–	–	–	–
Mr. FAN Qihui (resigned on June 30, 2018)	3/5	–	–	–	0/1
Mr. XIAO Changnian (resigned on February 4, 2019)	4/5	2/2	–	3/3	0/1
Mr. LIU Zhangmin	4/5	2/2	2/2	–	1/1
Mr. XUE Guoping	4/5	2/2	2/2	3/3	1/1
Mr. Wang Nengguang (appointed on February 4, 2019)	–	–	–	–	–

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

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

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

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 statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 75 to 76.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

AUDITOR'S REMUNERATION

An analysis of the remuneration paid to the external auditors of the Company, Ernst & Young, in respect of audit services and non-audit services for the year ended December 31, 2018 is set out below:

Service Category	**Fees Paid/ Payable** *RMB'000*
Audit Services	4,000
Non-audit Services	–
	4,000

RISK MANAGEMENT AND INTERNAL CONTROL

During the year under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control systems of the Company, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. The Directors consider that the Group's existing risk management and internal control systems are effective and adequate.

The Group's internal audit department plays an important role in monitoring the internal governance of the Company. The major duties of internal audit department are to regulate and review the internal control and compliance related matters of the Company and conduct comprehensive audits of all branches and subsidiaries of the Company on a regular basis. The Group's internal audit department performs regular evaluation on the effectiveness of risk control measures taken by each operating department and issues an appraisal report which shall be submitted to our Audit Committee for approval.

The Company has established a risk management process, pursuant to which each operating department is required to identify any significant risks associated with their work and corporate strategies of the Company. Based on the assessment of the identified risks in terms of their likelihood and potential impact, the Company prioritizes and pairs each risk with a mitigation plan. Furthermore, any emergencies are required to be reported, evaluated and managed in time to mitigate the impact.

The Group has established a three-tier risk control corporate structure in implementing our internal control and risk management policies and procedures. First, the Board and the senior management oversee and manage the overall risks associated with our business operations. Second, the Audit Committee provides the Directors with an independent review of the effectiveness of the financial reporting process, internal controls, and risk management system of the Group. Third, the Group's internal audit department supervises the implementation of our risk management policy at the corporate level and organizes an annual audit progress for regularly evaluating the effectiveness of the risk management and internal control measures taken by each operating department and issues an appraisal report which shall be submitted to the Audit Committee for approval.

The Board is responsible for the management of inside information. Without the approval of the Board, the Company prohibits any inside information from being disclosed to the public.

COMPANY SECRETARY

Ms. WONG Wai Yee, Ella of Tricor Services Limited, an external service provider, was engaged by the Company as its company secretary on January 24, 2018. She has taken no less than 15 hours of relevant professional training during the year ended December 31, 2018 in compliance with the relevant requirements on training of Rule 3.29 of the Listing Rules.

The primary contact person of the Company is Mrs. CHEN Ran, the Board Secretary of the Company.

SHAREHOLDERS' RIGHTS

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

Convening an Extraordinary General Meeting and Proposing Resolutions at Extraordinary General Meetings by Shareholders

Pursuant to Article 58 of the Articles of Association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If, within twenty-one days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Shareholders should follow the requirements and procedures as set out above for proposing resolutions at extraordinary general meetings of the Company.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company normally does not deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	19/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong
Tel:	(852) 2251 1830
Fax:	(852) 2251 1823
Email:	hk@hexieauto.com

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor's understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings.

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee (or their delegates) will make themselves available at the annual general meetings to meet shareholders and answer their enquiries.

The 2019 Annual General Meeting of the Company ("**AGM**") will be held on June 13, 2019. The notice of AGM will be despatched to shareholders at least 21 clear days and 20 clear business days before the AGM in accordance with the Articles of Association of the Company and the CG Code.

To promote effective communication, the Company maintains a website at www.hexieauto.com where up-to-date information and updates on the Company's financial information, corporate governance practices and other information are posted.

During the year ended December 31, 2018, the Company has not made any changes to its Articles of Association. An up-to-date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

FENG Changge (馮長革), aged 48, is an executive Director and the Chairman of the Board. Mr. FENG was appointed as an executive Director of the Company on September 24, 2012 and is responsible for the overall strategic and business direction of the Group. He is the founder of the Group, and has been in the automobile industry since 2005 when he founded Henan Zhongdebao Automobile Sales & Services Co., Ltd ("**Zhongdebao**"). Zhongdebao is a wholly-owned subsidiary of the Company and the first BMW dealership outlet in Henan Province. Mr. FENG graduated with a bachelor's degree in economic law from Zhongnan Institute of Politics and Law (中南政法學院) (now known as Zhongnan University of Economics and Law (中南財經政法大學)) in 1992 and received a master's degree in law from the same institution in 2001. After graduation in 1992, Mr. FENG entered the judiciary system in Henan Province, serving as assistant judge and judge of the Higher People's Court of Henan Province (河南省高級人民法院). In 2002, Mr. FENG left the judicial system and established a law firm, while at the same time starting various business enterprises. He became involved in real estate investment through his vehicle, Yuanda Investment, and was also involved in the auction and valuation businesses. He is also the controlling shareholder of Hexie Industrial Group, a privately-owned group headquartered in Zhengzhou, Henan Province, China, with business interests focusing on branded and luxury lifestyle goods and services, including property development, golf courses and automobile sales. Over the past three years, Mr. FENG has not been a director of any other listed companies. Mr. FENG is the husband of Ms. MA Lintao and the uncle of Ms. FENG Guo.

LIU Fenglei (劉風雷), aged 43, was appointed as an executive Director and chief executive officer of the Company on October 19, 2015. Mr. LIU is one of the initial founders of the Group. He has approximately 14 years' experience in China's automobile industry. He obtained a Bachelor's degree of Business English from Zhengzhou University (鄭州大學) in 1998. He joined the Group in February 2003 and worked at Henan Zhongdebao Automobile Sales & Service Co., Ltd. (河南中德寶汽車銷售服務有限公司) as the assistant to the chairman. From August 2006 to April 2013, he was the general manager of Zhengzhou Yuanda Lexus Automobile Sales & Services Co., Ltd. (鄭州遠達雷克薩斯汽車銷售服務有限公司). From April 2013 to October 2015, he was the senior vice president of the Company in charge of the Group's network development and luxury passenger vehicles' business. Over the past three years, Mr. LIU has not been a director of any other listed companies.

Directors and Senior Management

MA Lintao (馬林濤), aged 51, is an executive Director and a vice-president of the Company. She is responsible for the Group's overall administrative matters and public relationships. Ms. MA graduated from Henan Institute of Finance and Economics (河南財經學院) (now known as Henan University of Economics and Law (河南財經政法大學)) with a bachelor's degree in national economic planning and statistics in June 1992. From July 1992 to December 2003, Ms. MA worked in China Construction Bank Henan branch (中國建設銀行河南分行) in various positions such as director of the credit approval committee of the Zhengzhou branch and vice-president of the Zhengzhou futures branch office, where she was responsible for matters such as credit assessment and approval and public and retail sales. Ms. MA joined our Group in September 2006 as the chairlady of Yuanda Lexus, our wholly-owned subsidiary. Over the past three years, Ms. MA has not been a director of any other listed companies. Ms. MA is the wife of Mr. FENG Changge.

FENG Guo (馮果), aged 37, was appointed as an executive Director and vice-president of the Company on August 31, 2017. Ms FENG graduated with a bachelor's degree in law from Zhengzhou University in July 2004, obtained a master's degree in business administration from Zhongnan University of Economics and Law in December 2009 and obtained an executive master's degree in business administration from China Europe International Business School in July 2017. She joined the Group in March 2004 as a financial manager, and was appointed as a deputy general manager from March 2008 to September 2010 and was responsible for finance matters. In October 2010, Ms. FENG was appointed as the financial controller of the Company and was responsible for financial affairs of the Group, including financial budgeting, accounting, fund planning, financial talent management and assistance in formulating various approval processes and policies as well as development objectives. Ms. FENG has rich experience in the operations of automobile distribution group, financial accounting, fund planning and financial data analysis for luxury and ultra-luxury automobile brands. She was involved in establishing our partnership with BMW China in Henan Province and setting up Zhongdebao. Ms. FENG was also tasked with the development of automobile brands such as BMW, Land Rover and Rolls Royce. Ms. FENG is the niece of Mr. FENG Changge, the chairman and executive Director of the Group. Over the past three years, Ms. FENG has not been a director of any other listed companies.

HAN Yang (韓陽), aged 38, graduated from Beijing University of Technology with a degree of law in 2002. Mr. Han joined the Group in April 2013, served as the sales director and responsible for the BMW brand. From March 2014 to July 2015, he was promoted to the general manager and was responsible for the operation of ultra-luxury brands. In July 2015, Mr. Han was appointed as the Vice President of Harmony Auto, responsible for the operation of luxury and ultra-luxury brands of the Group (including assistance to the top senior management of the Group in formulating strategic plans for the next three to five years; organisation, formulation and review of the annual operational planning and budget for the dealerships under his management as well as supervision of their implementation; establishment of external connection with OEMs of each brand and discussion of business policies to timely adjust strategic direction; and assistance in formulating various approval procedures and systems as well as development goals). Mr. Han has extensive experience in the operation of automobile dealership business, coordination between internal and external parties, resources sharing and integration, budget planning, management of luxury and ultra-luxury automobile brands and network development. Harmony Auto has been included by BMW China as one of its best partners, and Mr. Han was also appointed as a member of the expert committee of the BMW Group. Mr. Han is also responsible for the development of automobile brands including BMW, Rolls Royce, Bentley, Land Rover, Maserati, Ferrari and Lincoln.

Independent Non-executive Directors

WANG Nengguang (王能光), aged 60, was appointed as an independent non-executive Director of the Company on February 4, 2019. Mr. Wang graduated from Party School of the Central Committee of C.P.C (中共中央黨校) with a master's degree in economic management in July 2001. He is qualified as a senior accountant and a certified public accountant. From August 1991 to July 1992, he served as financial manager of China Record (Shenzhen) Co., Ltd. of Ministry of Broadcasting and Television (廣電部中唱深圳公司). From April 1994 to March 2001, he served as general manager of the financial department of Lenovo Group Limited (聯想集團), a company listed on the Stock Exchange (stock code: 992). From April 2001 to December 2003, he served as managing director and chief financial officer of Legend Capital Limited (聯想投資有限公司). From January 2004 to February 2012, he served as managing director and chief financial officer of Beijing Legend Investment Advisor Co., Ltd. (北京聯想投資顧問有限公司). From September 2012 to November 2015, he served as a non-executive Director of the Company. From April 2001 to March 2018, he served as managing director and chief financial officer of Beijing Legend Capital Management Co., Ltd. (北京君聯資本管理有限公司). From April 2018, he served as a director of Beijing Legend Capital Management Co., Ltd. (北京君聯資本管理有限公司). Since May 2014, he served as an independent director of Digital China Information Service Company Ltd. (神州數碼資訊服務股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000555.SZ).

Directors and Senior Management

LIU Zhangmin (劉章民), aged 69, was appointed as our independent non-executive Director on March 18, 2013. Mr. LIU graduated with a college degree in industrial accounting from the Beijing Institute of Machinery Management (北京機械工業管理學院) (now known as the Beijing Information Science and Technology University (北京資訊科技大學)) in 1986. He also qualified as a senior auditor in 1996, and as a senior accountant in 2006. Mr. LIU has over 40 years of experience in the automobile industry since he joined the Dongfeng Motor Corporation (東風汽車公司) in 1970. Mr. LIU started as a deputy head of factory in Dongfeng Motor Corporation in July 1982, and held different positions in procurement, finance and other departments. Mr. LIU was appointed as a vice president of Dongfeng Motor Corporation in July 1995 and chief accounting officer in April 2005. He was appointed as chairman of the board of directors of Dongfeng Motor Finance Co., Ltd. (東風汽車財務有限公司) in November 1997, Dongfeng Checheng Logistics Co., Ltd (東風車城物流股份有限公司) in February 2004 and Dongfeng Nissan Auto Finance Co., Ltd (東風日產汽車金融有限公司) in July 2007. Mr. LIU was an external director of China Poly Group Corporation (中國保利集團公司) (from April 2014 to December 2017).

Mr. LIU is an external director of the China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司) (since January 2016). He also held the following positions in the relevant listed companies:

- the president and an executive director of Dongfeng Motor Group Company Limited (東風汽車集團股份有限公司) (stock code: 0489.HK), a company listed on the Hong Kong Stock Exchange (from October 2004 to October 2010);

- an independent director of China First Heavy Industries Co., Ltd (中國第一重型機械股份公司) (stock code: 601106.SS), a company listed on the Shanghai Stock Exchange (from December 2011 to April 2015);

- an independent director of China Yangtze Power Co., Ltd (中國長江電力股份有限公司) (stock code: 600900.SS), a company listed on the Shanghai Stock Exchange (from June 2010 to May 2015); and

- an independent non-executive director of China Communications Construction Co., Ltd (中國交通建設股份有限公司) (stock code: 1800.HK, 601800.SS), a company listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange (from December 2009 to November 2017).

XUE Guoping (薛國平), aged 68, was appointed as an independent non-executive Director of the Company on March 18, 2013. Mr. XUE graduated from Beijing University of Foreign Trade (北京對外貿易大學) (now known as University of International Business and Economics (對外經濟貿易大學)) in 1976. Mr. XUE began his career in the COFCO Group (中糧集團) and was appointed as the deputy chief executive officer in 1994. He also served as the deputy general manager and general manager of COFCO Hong Kong (previously known as Top Glory International Holdings Limited (鵬利國際集團有限公司)) between 1994 and 2004. Mr. XUE continued to serve as the deputy chief executive officer of the COFCO Group until he retired in 2010. Mr. XUE was an executive director and later the chairman of the board of directors of China Foods Limited (中國食品有限公司) (stock code: 0506.HK), a company listed on the Hong Kong Stock Exchange and a branch of the COFCO Group, from 1995 to 2007, and chairman of the board of directors of CPMC Holdings Limited (中糧包裝控股有限公司) (stock code: 0906.HK), a company listed on the Hong Kong Stock Exchange and a branch of the COFCO Group, from 2008 to 2011. Save as the above, Mr. Xue has not been a director of any other listed companies.

Senior Management

Zhang Lei (張雷), aged 39, graduated from Henan University of Finance and Economics majoring in financial accounting in June 2000, obtained a bachelor's degree in management from Zhongnan University of Economics and Law in December 2009, and obtained an executive master's degree in business administration from Zhengzhou University in July 2017. Mr. Zhang has 16 years of experience in financial affairs in the automobile industry, and has been engaging in financial related works in the Company for 13 years. Mr. Zhang served for Henan Zhongdebao Automobile Sales & Services Co., Ltd. from March 2005 to May 2011 as the head of accounting affairs and financial manager and the chief accountant of the Group since May 2011 and was appointed as the Chief Financial Officer of the Company since August 31, 2017. Mr. Zhang is a qualified senior accountant.

Company Secretary

Ms. WONG Wai Yee, Ella, aged 43, is a director of Corporate Services of Tricor Services Limited ("**Tricor**"), a global professional services provider specializing in integrated business, corporate and investor services. Ms. Wong has over 20 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. Wong is a Chartered Secretary and a Fellow of both The Hong Kong Institute of Chartered Secretaries ("**HKICS**") and The Institute of Chartered Secretaries and Administrators ("**ICSA**") in the United Kingdom. Ms. Wong is also a holder of the Practitioner's Endorsement from the HKICS.

Directors' Report

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

PRINCIPAL PLACE OF BUSINESS

The Company is a company incorporated in the Cayman Islands with limited liability where its registered office is located in the Cayman Islands. Its principal place of business and headquarter in PRC is located in Zhengzhou, Henan Province.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities and other particulars of the subsidiaries of the Company are set out in note 1 to the financial statements.

BUSINESS REVIEW

A review of the Group's business during the year, which includes a discussion of the principal risks and uncertainties facing by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year, and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 6 to 15 of this annual report. In addition, discussions on the Group's environmental policies and compliance with relevant laws and regulations which have a significant impact on the Group are also included in the Management Discussion and Analysis, Corporate Governance Report and Environment, Social and Governance Report of this annual report. The review forms part of this directors' report.

SUBSIDIARIES

Please refer to note 1 to the financial statements.

RESULTS AND DIVIDEND

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

The Board recommended the payment of a final dividend of HK12 cents per ordinary share for the year ended December 31, 2018, subject to the approval of such final dividend by the shareholders at the forthcoming AGM and if approved, the final dividend shall be paid on or before August 13, 2019 to the shareholders of the Company. Further announcements will be published for details on the closure of register of members to determine the entitlement of shareholders to the proposed final dividend.

USE OF PROCEEDS FROM THE ALLOTMENT OF NEW SHARES

(1) On December 22, 2014, the Company entered into a subscription agreement with Foxconn (Far East) Limited ("**Foxconn**"), a wholly-owned subsidiary of Hon Hai Precision Industry Co. Ltd., pursuant to which Foxconn conditionally agreed to subscribe for an aggregate of 128,734,000 Shares with a nominal value of HK$0.01 each at the subscription price of HK$4.73 per Share. The net issue price per Share of the aforesaid subscription was approximately HK$4.67. On December 22, 2014, the closing price of the Shares of the Company was HK$5.31 per Share as quoted on the Stock Exchange. The allotment of the said Shares was completed on March 2, 2015.

(2) On January 9, 2015, the Company and Eagle Seeker Company Limited ("**Eagle Seeker**") entered into separate placing agreements with each of First Shanghai Securities Limited ("**First Shanghai**") and Haitong International Securities Company Limited ("**Haitong Securities**"), respectively, pursuant to which First Shanghai and Haitong Securities as the placing agents have agreed to severally, as agents of Eagle Seeker, procure placees to purchase a total of up to 90,113,000 Shares owned by Eagle Seeker at the price of HK$6.08 per Share. The net issue price per the new Share was approximately HK$5.90 per Share. On January 9, 2015, the closing price of the Shares was HK$6.15 per Share as quoted on the Stock Exchange. The placing and subscription were completed on January 13, 2015 and January 21, 2015, respectively. The Company intends to use the net proceeds for potential investments in the manufacturing of new energy electric vehicles.

(3) On May 22, 2015, the Company, Mr. FENG Chengge and Eagle Seeker entered into a placing agreement with Credit Suisse (Hong Kong) Limited and Haitong (collectively, the "**Joint Placing Agents**"), pursuant to which the Joint Placing Agents have agreed to, as agents of Eagle Seeker, procure placees to purchase a total of up to 262,616,779 Shares owned by Eagle Seeker at the placing price of HK$8.18 per Share. The net issue price per the new Share was approximately HK$8.04 per Share. On May 22, 2015, the closing price of the Shares was HK$8.91 per Share as quoted on the Stock Exchange. The completion of the placing agreements of May 22, 2015 is subject to the entering into of the subscription agreement between the Company and Eagle Seeker which conditionally agrees to subscribe from the Company for an aggregate of up to 262,616,779 new Shares at the subscription price of HK$8.18 per subscription Share. The placing and the subscription were completed on May 27, 2015 and June 3, 2015, respectively.

As mentioned in the announcement dated May 22, 2015, the Company has been pursuing a proactive strategy of diversifying its business from the traditional automobile dealership business into the new energy vehicles sector and intended to use the net proceeds from all the above placings (totaling approximately HK$3,242.2 million) as follows:

- approximately 20% for investments in GFMC and Aiche Company of which HK$375 million was committed to be used as stated in the announcement relating to the acquisition of GFMC, and the rest for the acquisition of the remaining minority stake in GFMC if and when the Company is able to do so;
- approximately 15% as initial investment capital from the Group into one or more funds or other investment platforms to be set up with the Company's chosen partners to co-invest in suitable opportunities in the new energy vehicles sector;
- approximately 20% for investments in opportunities in the new energy vehicles sector with best-in-class partners, including developing and/or investing in the manufacture (approximately 19%) and research and development (approximately 1%) of high speed electric vehicles;
- approximately 10% for investment in the after-sales services center of Tesla Motors, Inc. operated by the Group;
- approximately 20% for investment in comprehensive after-sales services through online to offline platforms; and
- approximately 15% for general working capital.

As of the date of this report, approximately 78% of the net proceeds had been applied.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Detail of the movement in the share capital of the Company during the year are set out in note 33 to the financial statements.

DISTRIBUTABLE RESERVES

As at December 31, 2018, the Company's reserves available for distribution, subject to the Cayman Companies Law and the Articles of Association of the Company, amounted to RMB3,186.3 million.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 47 to the financial statements and in the consolidated statement of changes in equity, respectively.

MAJOR RISKS AND UNCERTAINTIES

(1) Macro policies

As a pillar industry of the national economy, the auto mobile sector is considerably correlated to the volatile cycles of the macro-economy in terms of timing and extent. Being a dealer of luxury and ultra-luxury vehicles, the Group's operating conditions are more associated with the macro economic environment as compared to the industry. Currently, China's auto mobile market continues to hold out strong potential for development. However, if significant fluctuations occur in the auto industry as a result of cyclical developments in the macro-economy, the sales of whole-vehicle will be inevitably affected. As such, the Group is required to monitor any changes in the economic landscape in a timely manner and adjust its overall business planning, network development plans and marketing plans under different market conditions.

(2) Industry policies

The Group must comply with policies and regulations promulgated by the PRC government in its business operation. The alterations in the finance system of China, for instance, the introduction of new tax and increase in tax rate, may affect the profit of the Group. The acceleration in promotion and application of new energy automobiles by the Chinese government may also exert impact on the automobile industry. On the other hand, the limits or other measures imposed by local governments may have an influence on the sales of passenger vehicle, which in turn controls the number of the passenger vehicles in the cities where the network of the Group are located. As a result, the Group will monitor closely any developments in government policies on our industry, while enhancing our service standards on an ongoing basis to address any risks arising from changes in industry policies.

(3) Automobile manufacturers' policies

As an automobile dealership group, the Group maintains sound cooperation with branded automobile manufacturers. The Group generates the majority of the revenue from operation of dealership outlets, which relies on the authorization from manufacturers on operating our existing dealership outlets and establishing new outlets. Changes in the policies of such manufacturers might result in changes in the sales strategies for their brands, sales incentives and business policy support for us, and such changes might lead to a decrease in products sales and revenue. Hence, the Group will actively enhance communication with the manufacturers and continue to adopt a development strategy that covers a diverse range of brands.

(4) Market competition

The Group competes not only with other automobile dealers, but also players in the general express auto mobile repair service sector and the e-commerce sector, in a number of segments, such as sales, repair, maintenance and extended services. Our inability to respond to challenges presented by different competitors in a timely manner may result in the decline in customers' demand for our products and the decrease in our revenue and profit. Hence, the Group is required to adjust its strategy in a timely manner and enhance its overall service standards to address intense competition.

(5) Market risks

The Group exposes to various types of market risks, including credit risks, liquidity risks, interest rate risks and exchange risks, the details of which are set out in note 45 to the financial statements in this annual report. The Group has exercised effective control over market risks through continuous monitoring of risks and changes, timely risk warnings, appropriate application of hedge instruments and other methods.

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended December 31, 2018, the aggregate purchases from our top five suppliers and our largest supplier accounted for approximately 94.3% and 49.8% of our total purchases, respectively.

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year ended December 31, 2018, no major customer information is presented in accordance with HKFRS 8 "Operating Segments".

As far as the Directors are aware, neither the Directors, their close associates, nor shareholders who own more than 5% of the Company's number of issued shares as at December 31, 2018 had any interest in any of the five largest suppliers and customers disclosed above.

RELATIONSHIP WITH CUSTOMERS

In respect of customer service, the Group listened to various demands of consumers on motor use carefully and provided them with high-quality services to constantly raise customer satisfaction. The Group proactively conducted customer satisfaction surveys, scored evaluation on sales team and customer service to fully understand the Company's shortcomings in terms of service so as to pursue improvement. In the provision of maintenance services, the Group's stores are established taking the customer's consumption experience into full consideration, which provide customers with barrier-free communication, and offers them with catering, entertainment, leisure and other activities to render services of the finest quality. At the same time, the Group places emphasis on securing customer privacy, confidentiality and filing of customer information to protect information security of customers. During the Reporting Period, no leakage of customer information has been occurred.

The Group has established a complete motor recall service system and actively took the initiative of liaising and negotiating with customers on motor quality issues to minimize the potential safety threats to motor owners caused by product quality. For recalled vehicles, recall solutions were carried out in the Group's stores according to the "Recall Emergency Plan" to ensure that the recall indicators of motor manufacturers are reached after sales, increase the contribution from warranty to output value of aftersales, and enhance smooth experience of the recall process. During the Reporting Period, the Group has not experienced any incident and complaint of motor recall due to safety and health. In response to complaints, the customer service department first classifies the complaints according to the types of complaints, and then hands over to professional technicians or account managers to offer system solutions in order to fully satisfy various demands of customers.

RELATIONSHIP WITH SUPPLIERS

The Group maintains long-term and stable cooperation with major automobile suppliers, being luxury and ultra-luxury brands such as BMW, Maserati, Lexus, Land Rover, Ferrari, etc., ensuring the sound development of the sales business of vehicles. In addition, the Group also maintains long-term and stable relationships with 31 suppliers for not originally manufactured vehicle equipment and accessories in the PRC. The Group also provides tendering opportunities for various kinds of projects on an open, fair, transparent and fair basis in order to select the most excellence. Furthermore, the Group conducts regular assessment and rating on the performance of existing suppliers to realize the performance of suppliers, promote its level of provision of supply, while continuously cooperating with outstanding suppliers and terminating partnered suppliers with unsatisfactory performance. The Group attaches great emphasis on maintaining the relationship with suppliers and establishes long-term cooperation based on the concept of "equality and mutual benefit".

RELATIONSHIP WITH EMPLOYEES

The Group lays much stress on maintaining sound relationship with employees. The Group regards employees as the most essential asset of the Group and a very foundation of the sustainable development of the Group. Providing employees with competitive salaries and premier working environment and benefits are conducive to establish good relationship with our staff and retain our staff. The remuneration policies of the Group are determined and reviewed regularly based on the performance of employees. Discretionary bonus is granted to employees for encouraging contribution to the Group from them and promotion is released to excellent employees by the Group depending on the profitability and employees' performance. The Group also offers trainings for new employees and existing employees to enhance their technical knowledge. These initiatives are beneficial to the improvement of the production capacity and efficiency of the Group. Staff is recruited and treated equally by the Group regardless of gender, race and age. The Group provides staff with healthy, safe, enjoyable and harmonious working environment and pays attention to and satisfies various needs of staff, endeavoring to build the Group as a big family which is harmonious, united, healthy and pleasant.

DETAILED INFORMATION ON MAJOR CUSTOMERS AND SUPPLIERS

The Directors of the Group are of the view that the Group does not rely on any individual customer.

The largest supplier of the Group is an automobile manufacturer. The Group has maintained business relationship with the five largest suppliers for more than 14 years.

DIRECTORS

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

Executive Directors:

Mr. FENG Changge *(Chairman)*
Mr. LIU Fenglei *(President)*
Mr. HAN Yang (appointed on June 30, 2018)
Ms. MA Lintao *(Vice-president)*
Ms. FENG Guo *(Vice-president)*

Non-executive Director:

Mr. FAN Qihui (resigned on June 30, 2018)

Independent Non-executive Directors:

Mr. WANG Nengguang (appointed on February 4, 2019)
Mr. LIU Zhangmin
Mr. XUE Guoping
Mr. XIAO Changnian (resigned on February 4, 2019)

In accordance with Article 83(3) of the Company's Articles of Association, Mr. HAN Yang, an executive Director, who has been appointed on June 30, 2018 and Mr. WANG Nengguang, an independent non-executive Director, who has been appointed on February 4, 2019, shall hold office until the forthcoming AGM and shall then be eligible for re-election at that meeting.

Pursuant to Article 84 of the Company's Articles of Association, Mr. FENG Changge, being an executive Director, Mr. LIU Zhangmin and Mr. XUE Guoping, being independent non-executive Directors, will retire by rotation.

All of the above retiring Directors, being eligible, will offer themselves for re-election at the AGM. Biographical details of the directors of the Company and the senior management of the Group are set out in pages 29 to 33 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors has entered into a service agreement with the Company for an initial fixed period of three years commencing from their respective date of appointment unless terminated earlier. The appointments of the executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles of Association of the Company.

Each of our non-executive Director and independent non-executive Directors has signed a letter of appointment with the Company for an initial fixed period of three years commencing from their respective date of appointment. Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed director's fee of HK$300,000 per annum while the non-executive Director is not entitled to any remuneration. The appointments of the non-executive Director and independent non-executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles of Associations of the Company.

None of the Directors proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY

A permitted indemnity provision for the benefit of the Directors of the Company is currently in force and was in force throughout the year.

DIRECTORS' INTEREST IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Except for the service contracts detailed above, no Director nor an entity connected with him/her had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' COMPETING INTERESTS

None of our Directors are interested in any business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the business of the Group.

MANAGEMENT CONTRACT

No contracts concerning the management and distribution of the whole or any substantial part of the business of the Company was entered into or existed during the year ended December 31, 2018.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

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

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme of the Company as set out in this report, no equity-linked agreements were entered into by the Group, or existed during the year ended December 31, 2018.

SHARE OPTION SCHEME

The Company has adopted a share option scheme on June 26, 2015 ("**Share Option Scheme**"), which is made pursuant to Chapter 17 of the Listing Rules, in relation to grant of share options (the "**Existing Share Options**") to certain employees of the Company or its subsidiaries (the "**Existing Grantees**") to subscribe for up to aggregate number of 45,000,000 shares (the "**Shares**") of HK$0.01 each of the Company, for the purpose of attracting, retaining and motivating talented employees to strive towards long-term performance targets set by the Group and to provide them with an incentive to work better for the interest of the Group. Out of the 45,000,000 Existing Share Options, 29,600,000 share options have lapsed and 15,400,000 share options have not been exercised ("**Outstanding Options**") on May 9, 2017.

The Board has resolved to grant up to 70,000,000 new Share Options to the Existing Grantees and certain new grantees (collectively, the "**Grantees**", each a "**Grantee**") to replace the Outstanding Options, subject to the acceptance of each of these Existing Grantees. No compensation shall be payable to them for cancellation of the Outstanding Options. New Grantees are mainly senior management of the subsidiaries of the Company and general managers of its outlets.

On December 15, 2017, the Company further offered to grant new Share Options to certain Grantees under the Share Option Scheme, entitling them to subscribe for a total of 15,000,000 Shares of HK$0.01 each of the Company. The grant of the Share Options will be subject to the acceptance of the Grantees. The Grantee is not a Director, chief executive or substantial shareholder of the Company or an associate (as defined under the Listing Rules) of any of them.

Summary of each of the Share Option Scheme and the new Share Options has been set out in note 35 to the financial statement.

Details of the Share Options granted to Directors of the Company to subscribe ordinary shares of the Company and its movement for the year ended December 31, 2018 are as follows:

Name of Grantees	Date granted	Exercise price per Share	Outstanding as at January 1, 2018	Number of Share Options: Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at December 31, 2018
Directors							
Mr. FENG Changge – Executive Director and Chairman of the Board	May 9, 2017	HK$3.00	5,000,000	–	–	–	5,000,000(1)
Mr. LIU Fenglei – Executive Director and President	May 9, 2017	HK$3.00	5,000,000	–	–	–	5,000,000(1)
Ms. FENG Guo – Executive Director and Vice President	May 9, 2017	HK$3.00	800,000	–	–	–	800,000(1)
Mr. HAN Yang(3) – Executive Director	May 9, 2017	HK$3.00	1,600,000	–	–	–	1,600,000(1)
	December 15, 2017	HK$4.80	800,000	–	–	–	800,000(2)
Former Directors							
Mr. YANG Lei – Former Executive Director, Chief Operating Officer and Vice President	May 9, 2017	HK$3.00	2,250,000	–	–	–	2,250,000(1)
Mr. QIAN Yewen – Former Executive Director and Chief Financial Officer	May 9, 2017	HK$3.00	6,000,000	–	–	–	6,000,000(1)
Other eligible employees	May 9, 2017	HK$3.00	48,400,000	–	759,000	1,100,000	46,541,000(1)
	December 15, 2017	HK$4.80	14,200,000	–	–	400,000	13,800,000(2)
Total							81,791,000

Notes:

(1) Such Share Option period of the new Share Options Scheme is valid from May 9, 2017 (i.e. date of grant) till the earlier of (i) the day on which the relevant Grantee ceases to be an employee or a director of the Company and its subsidiaries on one or more of the grounds of termination of employment, appointment or directorship specified in paragraph 8(vi) of the Share Option Scheme, and (ii) June 28, 2025, the cessation of directorships of the former Directors Mr. QIAN Yewen and Mr. YANG Lei did not involve the grounds of termination as specified in the above (i), and their Share Options remained valid as at December 31, 2018.

(2) Such Share Option period of the new Share Options is valid from December 15, 2017 (i.e. date of grant) till the earlier of (i) the day on which the relevant Grantee ceases to be an employee or a director of the Company and its subsidiaries on one or more of the grounds of termination of employment, appointment or directorship specified in paragraph 8(vi) of the Share Option Scheme, and (ii) June 28, 2025.

(3) Mr. HAN Yang was appointed as an executive Director with effect from June 30, 2018.

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

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

		Ordinary Shares			Underlying Shares under Share Options		
		Nature of Interests					
Name	**Position**	**Personal Interests[5]**	**Family Interests[6]**	**Interest of controlled corporation**	**Personal Interests**	**Total Interests[7]**	**Approximate % of Shareholding Interest**
Mr. FENG Changge	Director	–	–	690,066,160 (L)[1]	5,000,000[3][4]	695,066,160 (L)	45.51%
Ms. MA Lintao	Director	–	695,066,160 (L)[2]	–	–	695,066,160 (L)	45.51%
Mr. LIU Fenglei	Director	778,587 (L)	–	–	5,000,000[3][4]	5,778,587 (L)	0.38%
Ms. FENG Guo	Director	360,285 (L)	–	–	800,000[3][4]	1,160,285 (L)	0.08%
Mr. HAN Yang	Director	390,000 (L)	–	–	2,400,000[3][4]	2,790,000 (L)	0.18%
Mr. WANG Nengguang[8]	Director	40,000(L)	–	–	–	40,000 (L)	0.00%

Notes:

(1) These 690,066,160 shares in the Company are held by Eagle Seeker Company Limited ("Eagle Seeker"). Mr. FENG Changge is deemed to be interested in the said 690,066,160 shares by virtue of Eagle Seeker being held indirectly by Cititrust Private Trust (Cayman) Limited through Eagle Pioneer Company Limited, whereas Mr. Feng Changge is the founder of the trust.

(2) Ms. MA Lintao is Mr. FENG Changge's spouse and is therefore deemed to be interested in all the shares of the Company in which Mr. FENG Changge is deemed to be interested in.

(3) These interests represent options to subscribe Shares in accordance with the Share Option Scheme granted to the relevant Directors. For further details, please refer to the section headed "Share Options Scheme".

(4) These options were granted by the Company in May 2017 and December 2017 and accepted by the relevant grantees in May 2017 and December 2017.

(5) "Personal Interests" represents interests directly beneficially owned.

(6) "Family Interests" represents interests of spouse or child under 18.

(7) The letter "L" denotes the long position in the shares of the Company.

(8) Mr. WANG Nengguang was appointed on February 4, 2019.

Save as disclosed above, as at December 31, 2018, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at December 31, 2018, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name	Capacity/Nature of Interest	Number of Shares Directly or Indirectly Held[4]	Approximate % of Shareholding Interest
Eagle Seeker Company Limited	Beneficial owner	690,066,160 (L)	45.19%
Eagle Pioneer Company Limited[1]	Interest of controlled corporation	690,066,160 (L)	45.19%
Cititrust Private Trust (Cayman) Limited[2]	Interest of controlled corporation	690,066,160 (L)	45.19%
Foxconn (Far East) Limited[3]	Beneficial owner	128,734,000 (L)	8.43%
Hon Hai Precision Industry Co. Ltd[3]	Interest of controlled corporation	128,734,000 (L)	8.43%

Notes:

(1) Eagle Seeker Company Limited is wholly owned by Eagle Pioneer Company Limited. Accordingly, Eagle Pioneer Company Limited is deemed to have interest in the 690,066,160 Shares held by Eagle Seeker Company Limited.

(2) Eagle Pioneer Company Limited is wholly owned by Cititrust Private Trust (Cayman) Limited. Accordingly, Cititrust Private Trust (Cayman) Limited is deemed to have interest in the 690,066,160 Shares held by Eagle Seeker Company Limited (the controlling Shareholder of the Company), indirectly via Eagle Pioneer Company Limited. Mr. Feng Changge, Executive Director and Chairman of the Company, is the founder of the trust of Cititrust Private Trust (Cayman) Limited.

(3) Foxconn (Far East) Limited ("**Foxconn**") is wholly owned by Hon Hai Precision Industry Co. Ltd. ("**Hon Hai**"), a company listed on the Taiwan Stock Exchange. Accordingly, Hon Hai is deemed to have interest in the 128,734,000 Shares held by Foxconn.

(4) The letter "L" denotes long position in such Shares.

Save as disclosed above, as at December 31, 2018, no persons (other than the Directors or the chief executive of the Company) had any interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

CHANGE IN DIRECTORS’ BIOGRAPHICAL DETAILS

Save as disclosed above, no other information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Apart from the Share Options, at no time during the year was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of Shares in, debentures of, the Company or any other body corporate.

NON-COMPETITION UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

The Company has received annual confirmations from the controlling shareholders, Mr. FENG Changge and Eagle Seeker Limited, in respect of their compliance with the terms of the non-competition undertaking as described in the prospectus of the Company dated May 31, 2013 and that they have not engaged, nor interested, in any business which directly or indirectly, competes or may compete with the business of the Group during the year 2018.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at December 31, 2018 are set out in note 28 to the financial statements.

EMOLUMENT POLICY

The emolument policy of the general staff of the Company is set up by the management of the Group on the basis of their merit, qualifications and competence. The emoluments of the Directors and senior management of the Company are proposed by the Remuneration Committee of the Company to the Board, having regard to the Company’s operating results, individual performance and comparable market statistics, subject to the final decision by the Board. The remuneration of the Directors and chief executive are set out in note 8 to the financial statements. Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended December 31, 2018 is set out below:

Remuneration bands	Number of persons
Nil to HK$1,000,000	–
HK$1,000,001 to HK$1,500,000	–
HK$1,500,001 to HK$2,000,000	1
	1

RELATED PARTY TRANSACTIONS

During the year, the Group entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Details of the related party transactions entered into by the Group during the year are disclosed in note 42 to the financial statements. The related party transactions disclosed in note 42 were not regarded as connected transactions or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules.

CORPORATE GOVERNANCE

For the year ended December 31, 2018, the Company has complied with the applicable code provisions of the CG Code as set out in Appendix 14 to the Listing Rules, save and except for the deviation as set out below.

In accordance with code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting and should also invite the chairmen of the nomination, audit and remuneration committees to attend. Mr. FENG Changge, the chairman of the Board and the chairman of the Nomination Committee and Mr. XIAO Changnian, the then chairman of the Audit Committee were not able to attend the annual general meeting of the Company held on June 13, 2018 due to their other business commitments.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code throughout the period from the Listing Date to December 31, 2018.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained a sufficient public float.

PURCHASES, SALE AND REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2018, the Company repurchased a total of 12,270,500 of ordinary shares of HK$0.01 each on the Stock Exchange for a total consideration of approximately HK$46,937,375.00 (excluding transaction cost). The 12,270,500 repurchased shares were subsequently cancelled on August 15, 2018 and November 6, 2018 respectively. Details of the shares repurchased during the reporting period are set out as follows:

Month of repurchase	Number of shares	Repurchase price per share		Aggregate consideration (excluding transaction cost)
		Highest	Lowest	
		(HK$)	*(HK$)*	
April 2018	5,200,000	4.96	4.60	24,686,075.00
September 2018	3,025,500	3.28	2.97	9,486,665.00
October 2018	4,045,000	3.39	2.95	12,764,635.00
Total	12,270,500			46,937,375.00

The Directors believe that repurchases of shares are in the best interests of the Company and its shareholders and that such repurchases of shares would benefit shareholders as a whole by enhancing the earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities for the year ended December 31, 2018.

EVENTS AFTER THE REPORTING PERIOD

From February 21, 2019 to February 28, 2019, the Company has repurchased 5,852,500 shares. Save for the above, there is no other event affecting the Group which have occurred after the Reporting Period to the date of this report.

PRE-EMPTIVE RIGHTS

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

DONATIONS

Donations made by the Group during the year ended December 31, 2018 amounting to RMB20,000 (2017: RMB9,400).

AUDITORS

The consolidated financial statements have been audited by Ernst & Young who retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM of the Company to be held in June 13, 2019. A resolution for the re-appointment of Ernst & Young as auditors of the Company is to be proposed at the forthcoming AGM of the Company.

By Order of the Board
CHINA HARMONY NEW ENERGY AUTO HOLDING LIMITED
FENG Changge
Chairman and Executive Director

March 29, 2019

2018 Environmental, Social and Governance Report

I. OUR ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITMENT AND APPROACH

China Harmony New Energy Auto Holding Limited (the "**Company**") and its subsidiaries (collectively, the "Group" or "China Harmony Auto" or "we") recognise the importance of environmental, social and governance ("**ESG**") measures to business operation. The direction of ESG work of China Harmony Auto is governed by the board of directors (the "**Board**") of the Company, so that ESG strategies reflect the Company's core value. Therefore, in addition to working with the management to improve the value and performance of the Company, the Board assumes the responsibilities of assessing and identifying risks related to ESG matters of China Harmony Auto, ensuring that relevant risk management and internal control systems are operating properly and effectively.

With the core values, "harmony, sunlight, broadness, simplicity, happiness and success", we provide stakeholders with long-term benefits by responsible operation, taking into account economic as well as social and environmental factors in the course of business operation, so as to maintain the sustainable development of the Company.

The Company adopts top-down approach in its ESG framework to incorporate ESG concepts and principles into every aspect of business operation. This facilitates staffs' understanding about ESG matters, engages them to participate in the sustainable development, and ensures that the ESG framework can effectively cover the key parts of our businesses. Thus, we can ensure the sustainable development of the Group while devoting ourselves to providing high-quality services to customers.

II. REPORTING STANDARDS, PERIOD AND SCOPE

This environmental, social and governance report (the "**ESG Report**") is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") as set out in the Appendix 27 to the Listing Rules, and presents the ESG progress of the Company in the period from 1 January 2018 to 31 December 2018 (the "**Reporting Period**"). The scope of this report covers the head office of China Harmony Auto and over 37 dealers across the country.

Aspects and key performance indicators as defined in the ESG Reporting Guide which are deemed related and material to the operation of China Harmony Auto will be presented below in four subjects areas, "Our Environment", "Our Staff", "Our Services" and "Our Community".

III. STAKEHOLDERS AND MATERIALITY ASSESSMENT

Through constructive communication China Harmony Auto collects feedback from and protect the interest of stakeholders (including shareholders, customers, staffs, suppliers, regulators and the public), so as to guarantee the long-term development of the Company and maintain close relationship with such parties. During the Reporting Period, stakeholders of the Company included shareholders, staffs, consumers, suppliers, the government and regulators, the media and the community; material issues of concerns and measures are stated in the table below:

Stakeholders	Major concerns	Communication channels	Measures adopted by the Company
Shareholders/ investors	Business strategies Sustained and steady returns on investment Prompt information disclosure Positive corporate image Compliant corporate operation	General meeting Information disclosure of listed company Road shows/teleconference/ meet-and-greet Media communication mechanism Enquiry via telephone/email Investors visits Information disclosure on the website	Issue notices of annual general meeting and proposals according to the regulations Disclosure of corporate information on schedule Disclosure of announcements and release of periodic reports according to the regulations Create smooth communication channel
Staff	Training and room for career development Remuneration package Working condition Health and safety assurance	Direct Communication Health check Staff activities Staff feedback Staff training	Create a healthy and safe work environment Build a fair promotion system Create an exchange platform for staff Organize staff activities
Consumers	Product quality Service quality Customer information protection	Customer satisfaction survey After-sales services and complaints	Conduct customer surveys Conduct after-sales services management Handle complaints and other aftersales problems promptly
Suppliers	Fulfillment of contract obligations on schedule Long-term stable cooperation Corporate credibility	Negotiation meeting Daily communications	Fulfill contract obligations Maintain long-term partnership

Stakeholders	Major concerns	Communication channels	Measures adopted by the Company
Government and regulators	Compliant operation Payment of tax according to laws Governance transparency Information disclosure and reporting materials	Compliance with laws and regulations Daily work reports Information disclosure	Comply with laws and regulations strictly Disclose information accurately Pay taxes according to laws Accept governmental inspection and investigation
Community	Employment opportunities Ecological environment Community development Social welfare	Community activities	Give priority to hiring local employees Protect ecological environment Organize community activities
Media	Open access of information Good relationship with the media	Information disclosure	Maintain good communication Disclose information promptly

We reviewed the operation of the Group, and identified and assessed ESG matters which were related and material to our businesses in accordance with the ESG Reporting Guide. Assessment results were as follows:

ESG Aspect	ESG Matter Related and Material to our Business
(A) Environmental	
Aspect A1: Emissions	Electricity consumption
Aspect A2: Use of Energy and Resources	Gasoline consumption
Aspect A3: The Environment and Natural Resources	Development of new energy
(B) Social	
Aspect B1: Employment	Employment rules
Aspect B2: Health and Safety	Workplace safety
Aspect B3: Development and Training	Staff training
Aspect B4: Labour Standards	Opposition to child and forced labour
Aspect B5: Supply Chain Management	Supply chain management
Aspect B6: Product Responsibility	Product responsibility
Aspect B7: Anti-corruption	Anti-corruption
Aspect B8: Community Investment	Community investment

The Company will continuously adopt suggestions to improve our ESG performance and to meet stakeholders' expectations.

IV. OUR ENVIRONMENT

As a leading dealership group that deals exclusively in luxury and ultra-luxury passenger vehicles in China, the Company establishes distribution outlets in more than 20 medium- and large-sized cities across the country, and it has been devoted to developing itself into China's largest luxury vehicle dealer for years. The Company closely follows and strictly complies with requirements set by national environmental laws and regulations, including but not limited to Environmental Protection Law of the People's Republic of China, Water Pollution Prevention and Control Law of the People's Republic of China, Atmospheric Pollution Prevention and Control Law of People's Republic of China and Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes.

Our performance related key performance indicators of emissions, waste treatment and use of energy and resources are introduced in the paragraphs below.

Aspect A1: Emissions

Air pollutant and greenhouse gas emissions

Air pollutant and greenhouse gas emissions for 2018 and 2017 are listed below:

(Unit: kg)		2018		2017	
Air pollutant	Source of emission	**Emission**	**Density** *(Note 1)*	Emission	Density *(Note 1)*
Nitrogen oxides (NOx)	• Natural gas • Company's vehicles	**2,671.70**	**0.72**	2,387.20	0.72
Sulfur dioxides (SOx)	• Natural gas • Company's vehicles	**7.35**	**<0.01**	2.60	<0.01
Particulate matter (PM)	• Company's vehicles	**254.16**	**0.07**	212.10	0.06

Note 1: Density is based on the total emission divided by the number of current staffs.

(Unit: Tonne of CO2e) *(Note 1)*	**2018**	2017
Total greenhouse gas emission for the year	**19,673.53**	13,962.70
Density	**5.33**	4.23

Note 1: CO2e (tonne) is the unit of measure based on the greenhouse effect produced by every tonne of CO_2; it is to measure and compare the greenhouse effect produced by different greenhouse gases, including carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O).

The scope of greenhouse gas emission for 2018 is listed below:

(Unit: Tonne of CO2e) (Note 2) Scope of greenhouse gas emission	Source of emission	**2018** Emission	**2018** Density(Note 1)
Scope 1 Direct emission	• Natural gas consumption • Lead-free gasoline, diesel consumption of Company's vehicles • Refrigerant	**1,823.89**	**0.49**
Scope 2 Indirect emission	• Electricity consumption	**17,154.84**	**4.65**
Scope 3 Other indirect emission	• Business flight • Government sewage treatment	**694.80**	**0.19**
Total		**19,673.53**	**5.33**

Note 1: Density is based on the total emission divided by the number of in-service staffs.

Note 2: CO2e (tonne) is the unit of measure based on the greenhouse effect produced by every tone of CO_2; it is to measure and compare the greenhouse effect produced by different greenhouse gases, including carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O).

Air pollutant emission of the Group during the Reporting Period mainly included nitrogen oxide, sulfur dioxide and particulate matter, which were produced in the course of sales activities when vehicles were used and the engine consumed gasoline while idling and driving. Direct emission of greenhouse gas (Scope 1) during the Reporting Period was mainly from vehicles, and a lesser part was from refrigerant, used in the cooling system of air conditioner. Businesses we operated did not involve direct emission of air pollutant or greenhouse gas through combustion of fuel from fixed source.

Indirect emission of greenhouse gas (Scope 2 and 3) during the year increased slightly from the same period of prior year, which was mainly due to the operation of newly opened outlets commenced in 2018. Such emission was mainly from the daily consumption of electricity and natural gas, and a lesser part was from the treatment of waste paper and water, and business flights of staffs.

The design of all outlets of the Group in operation took full account of factors such as natural lighting and energy conservation, adopted environment-friendly materials and technologies to minimise various types of energy consumption of buildings. For instance, the exterior wall of a building adopted thermal insulating coating; highly energy-efficient LED lighting facilities were installed; solar heaters and other renewable energy equipment were adopted. In addition, the Group set up a stringent energy management system, under which, administrative departments implemented the monitoring and management mechanism to review all energy consumption data of outlets on monthly basis, detecting any excessive energy consumption or exception in a timely manner and establishing an effective response and punishment mechanism.

Furthermore, the Group adopted a series of measures on regular basis in the course of business operation to realise environmental protection and energy conservation, which included:

1. Paint room new filtering and monitoring system was installed in outlets as needed to reduce greenhouse gas emission;

2. Green travel was promoted among staffs, and staffs are encouraged to walk or commute by public transit to reduce direct emission of $CO2_e$ produced by private cars;

3. Administrative departments supervised the use of air conditioner and the inventory of refrigerant to ensure reasonable use of air conditioner and other cooling equipment;

4. The elevators in the outlets of the Group are turned on during certain period of the day. They are turned off from Monday to Friday and turned on during weekend when there are more customers, which reduced electricity consumption to some extent.

5. Designated personnel were appointed to check and turn off water dispensers, computers, printers, air conditioners and other electrical equipment after work. No entertainment on the office computer is allowed;

6. The Company updated the OA system in November 2018, expanding the scope of intelligent approval online, reducing paper use and document delivery, etc.

Waste

Hazardous wastes produced by outlets of the Group include waste oil and waste auto parts in the course of after-sales services and auto maintenance business. Due to the great variety and complex constituents of waste, we were unable to collect relevant data in a cost effective way during the Reporting Period; therefore, we did not disclose relevant data. The Company produced certain non-hazardous wastes in the course of ordinary business operation, which mainly included food package, beverage cans and bottles, waste paper products and office supplies produced in daily working activities. As the analysis results and the effect of such data is immaterial compared to other key performance indicators, we did not collect relevant data during the Reporting Period.

To prevent such hazardous wastes from damaging the environment, the Group prohibited outlets from directly discharge such hazardous wastes, adopted a recycling system, and when necessary, engaged third-party professional institutions to recycle and treat hazardous wastes.

Aspect A2: Use of Energy and Resources

The Company consistently stressed energy conservation and complied with requirements of Energy Conservation Law of the People's Republic of China. It encouraged energy conservation and resource re-utilisation in the course of business operation, which was environment-friendly and conducive to improvement of operation efficiency. Energy used by the Company mainly included gasoline, diesel, natural gas and electricity, and resources included water resource and paper.

Energy

Energy consumption for 2018 and 2017 is listed below:

		2018		2017	
Type of energy and resource	Unit	**Consumption**	**Density** *(Note 1)*	Consumption	Density *(Note 1)*
Electricity	MWh	**18,011.58**	**4.88**	13,450.70	4.07
Natural gas	m^3	**23.72**	**<0.01**	79,127.00	23.90
Utility gas	m^3	**12.77**	**<0.01**	1,428.50	0.43
Gasoline	litre	**485,428.78**	**131.45**	177,533.90	53.78

Note 1: Density is based on the total emission divided by the number of current staffs.

Compared with consumption of the same period of prior year, electricity, gasoline, natural gas and utility gas consumption in 2018 all experienced significant fluctuation. The increase in electricity and gasoline consumption was mainly due to the increase in sales and after-sales business in 2018. Meanwhile, in order to provide customers with a better service environment, the air-conditioning life cycle of the outlets has increased compared with the previous period. The significant decrease in natural gas and utility gas was due to the policy for environmental protection and safety which required that the kitchens in each outlet should be converted from natural gas and utility gas to electricity in 2018.

The Group set clear systems including rules on vehicle management and rules on use of air conditioner, to standardise staff utilisation and to ensure that energy and resources were properly used with less wastage.

Water resource

Water consumed by outlets of the Group was supplied by municipal water network or was derived from wells drilled underground. The Group passed all the regular water quality testing each year. Waste water was discharged into municipal drainage pipelines and treated by waste water treatment plants, and no waste water was directly discharged into clean waters and lands. Water consumption for 2018 and 2017 is listed below:

(Unit: tonnes)	**2018**	2017
Total water consumption	**90,830.16**	22,574.00
Density *(Note 1)*	**24.6**	6.84

Note 1: Density is based on the total emission divided by the average number of in-service staffs.

Water consumption in 2018 increased by 4 times from the level of prior year, which was due to the increase in sales activities. In addition, customers were inclined to return to the outlet for free car wash due to the increase in price of car wash services in the market, leading to the increase in water consumption.

The Company advocated staffs to save water and minimise unnecessary wastage. It adopted a range of water conservation measures, including water reuse, water conservation posters at water taps and carried out inspection, daily record of water and electricity consumption, and analysis and follow-up of exceptions. The Group did not directly manufacture or produce any finished products, and all automobiles available for sales were provided by suppliers; therefore, the Group did not use any packaging materials.

Aspect A3: The Environment and Natural Resources

The business operations of the Group do not have a significant impact on the environment and natural resources. The Group is committed to building a harmonious, sustainable and environmental-friendly enterprise, constantly pursuing coordinated development between the Company's business and ecological environment, and incorporating the protection of environment and natural resources into the scope for consideration of corporate strategic planning and policy implementation. In the meantime, the Group devotes itself to vigorously developing new energy vehicle projects, spreading the awareness of environmental protection to consumers, and practically fulfilling its obligation on environmental protection at business level.

V. OUR STAFF

Aspect B1: Employment

The Company regards employees as an important strategic asset for development. During the Reporting Period, the Company strictly followed Labour Law of the People's Republic of China, Labour Contract Law of the People's Republic of China and relevant laws and regulations, earnestly protected the legitimate interest of staff, improved staff benefits and enhanced staff sense of belonging.

Staff of the Company enjoy rights as set out in laws and Company's systems. Staff of different races, family background, nations, genders, educational background are offered equal opportunities of employment, position and salary adjustment, promotion, training and education. The Company highly respects and earnestly protects such rights, and does not tolerates any form of discrimination in the course of business. The Company has developed relevant human resource policies in relation to remuneration, dismissal, employment and promotion, working hours and leave application, equal opportunities and other staff benefit, and has delivered such policies effectively to all staff.

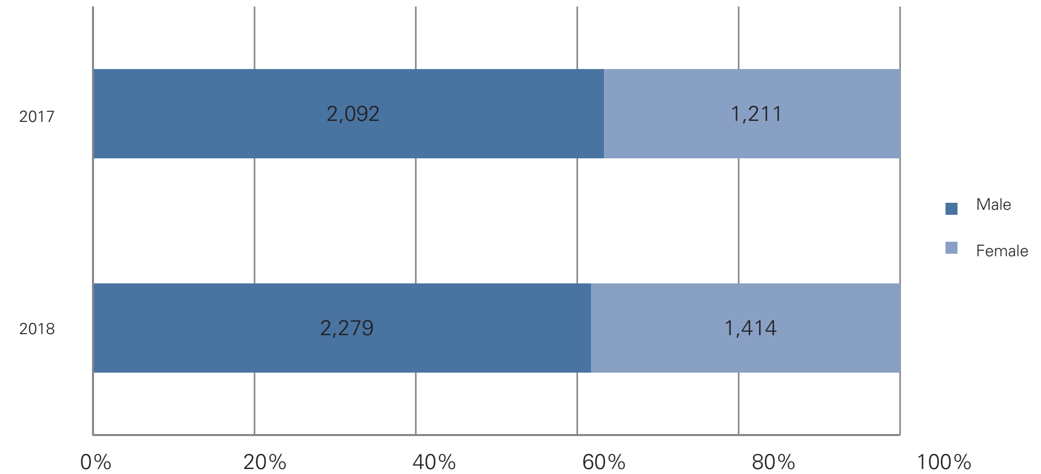
In addition to ensuring entitlement of statutory salaries and fringe benefits for employees, the Group also constantly optimizes employee salaries and fringe benefits subject to corporate conditions. For example, the Group purchases commercial insurance for employees who do not meet the eligibility for social security; provides additional festive benefits for staff; distributes meal allowances and outbound allowances for employees and those who are dispatched to other locations, etc. The Group also organizes a variety of staff activities, such as team building, travelling, sports competitions, to strengthen cohesion among employees and enrich their spiritual lives. At present, an effective top-down feedback and complaint mechanism has been established within the Group to create an unimpeded communication channel for staff complaints and suggestions.

Our workforce

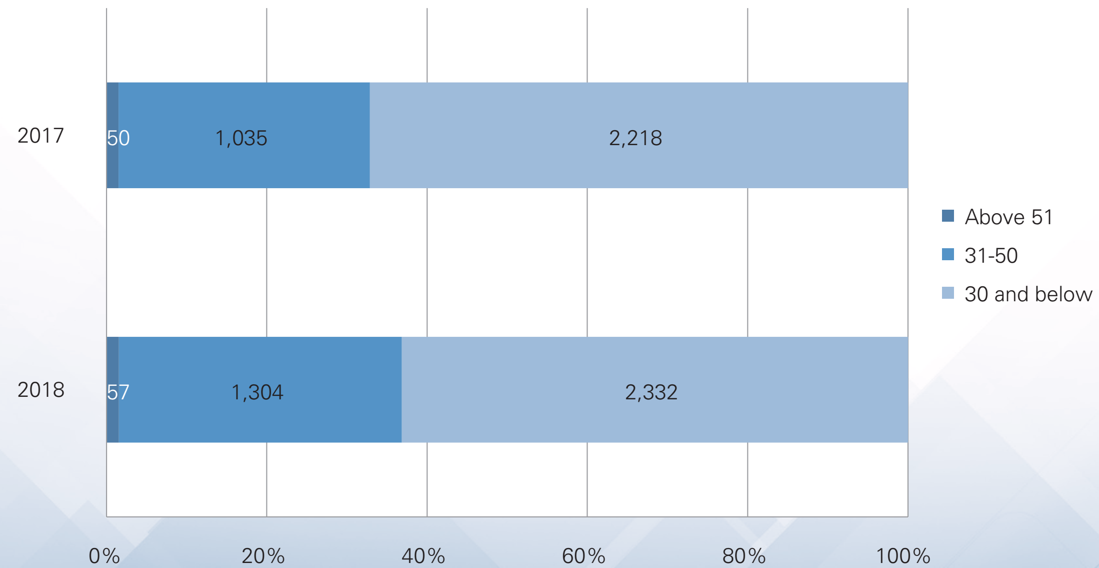
As at December 31, 2018, the Group had a total of 3,693 employees (2017: 3,303), including 3,689 staff in Chinese Mainland and 4 staff in Hong Kong. As most of staff engaged in after-sales and maintenance services were males, male staff took up the majority of our workforce, and the male-to-female ratio in the Group stood at 1.6:1.

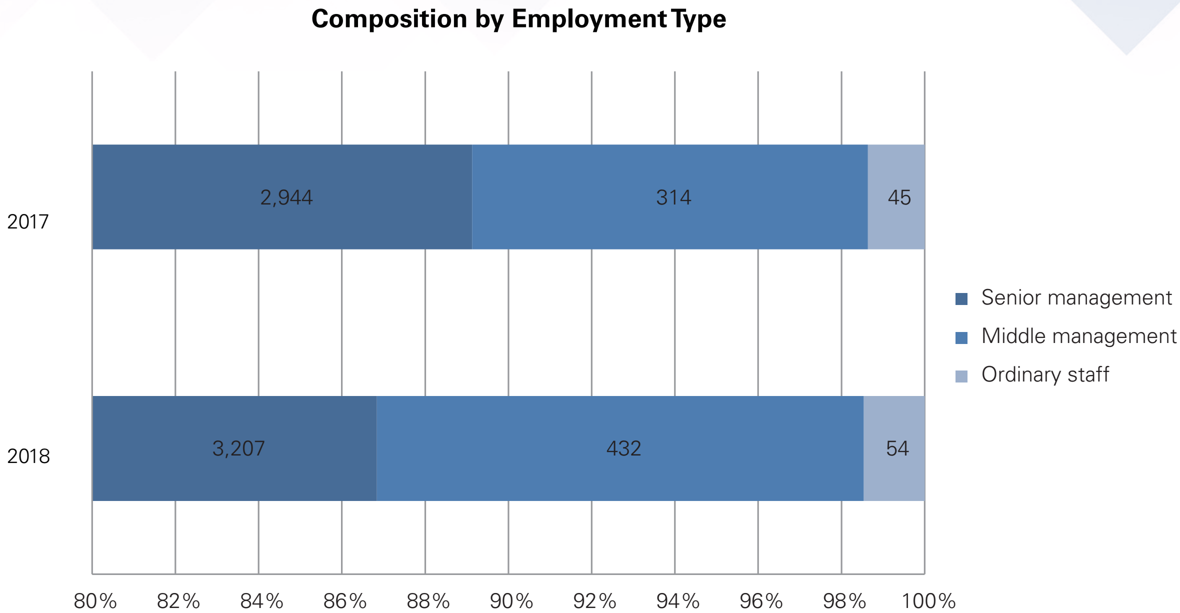
Staff composition by gender, age group and employment type is listed below:

Composition by Gender



Composition by Age Group



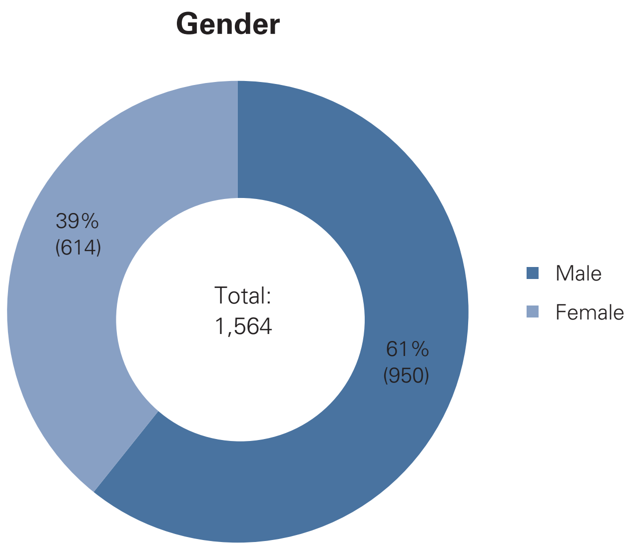


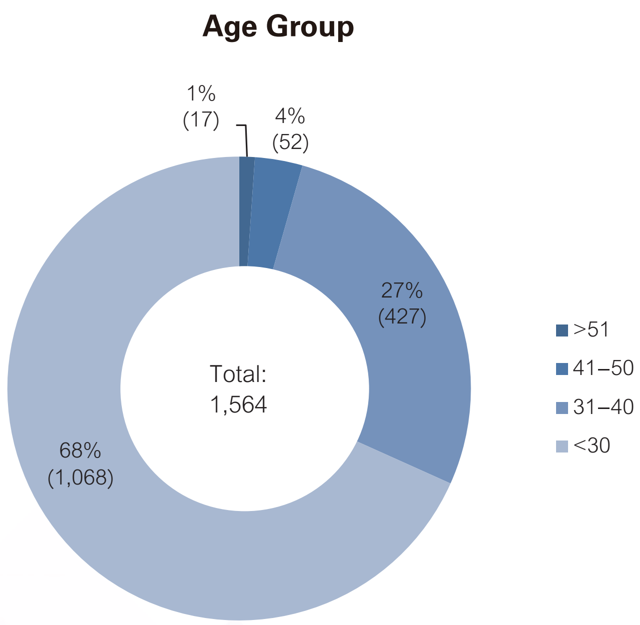
Employee turnover

Employee turnover is listed below:

	2018	2017
Former employees	**1,564**	1,614
Existing employees	**3,693**	3,303
Employee turnover rate	**0.42**	0.48

Employee turnover by gender and age group in 2018 is shown in the following figures:





The Company offers staff competitive remuneration and benefit, develops a fairer remuneration structure, proposes salary adjustment in accordance with actual circumstances in each year, improves remuneration management system and comprehensive performance appraisal mechanism, thereby minimising employee turnover. Employee turnover rate in the year decreased from the level of prior year. During the Reporting Period, the Company recorded no major non-compliance issues related to labour practice.

Aspect B2: Health and Safety

The Group is committed to offering staffs a comfortable and safe working environment, protecting and improving staff benefit and ensuring the Company has complied with Law of the People's Republic of China on the Prevention and Control of Occupational Diseases and other laws and regulations related to occupational and workplace safety.

Specific measures in respect of workplace safety included the following aspects:

1. The Group attached great importance to staffs' occupational health, provided them with an efficient and favorable working environment, and cooperated with professional healthcare listed companies to offer regular health checks to staff every year.

2. The Group placed emphasis on the fire prevention and safety of workplace, incorporated fire prevention and safety education and training into its annual fire prevention work plan, offered financial support to fire prevention and safety education and training, and organised safety promotion and education in various forms.

3. Designated personnel were appointed to conduct fire prevention and safety inspection on daily basis, to ensure that evacuation channels and safe exits remain unblocked and that evacuation-purpose facilities including fire-proof doors, evacuation signs, fire lighting remain intact and ready for intended use, and to repair and replace those damaged and lost.

4. The Group accepted annual and random inspections of local environmental protection authorities and occupational disease administration centres, and attended annual fire prevention training held by local fire departments and fire emergency drills organised by property management companies.

5. The Group bought staff protection articles and operation uniforms.

6. In order to avoid occurrence of major safety incidents, the Group has formulated the Management System for Avoidance of Major Safety Incidents with an aim of tightening control over potential risks and preventing emergence of major incidents. The manager of the administration department and the general managers of the Group's subsidiaries are responsible for enforcing management, monitoring and controlling the potential risks of major incidents in the areas under their jurisdiction, realizing the distribution of hidden dangers and their dynamic changes, formulating and improving emergency rescue plans for emergency rescue teams, strictly implementing the safety operation procedures as well as safety management rules and regulations, thereby practically discharging their safety responsibility to make potential risks nipped in the bud.

During the Reporting Period, the Company recorded no major violation of health and safety laws and regulations.

Aspect B3: Development and Training

In order to enhance the business abilities and occupational skills of the Group's employees, the Group has established a systematic training system to provide employees with continuous and systematic training activities on career development through accumulation of knowledge, experience, capabilities, dissemination, application and innovation and other forms. The Group attaches great importance to talent cultivation. We believe that systematic development and training does not only facilitate employees to become mature quickly and adapt to the requirements of business development, but also serve as a good way to cultivate helpful talents for social development.

The Group's training activities can be further divided into four categories by subject of trainings:

- **Induction trainings for new employees**: To assist new comers to integrate into the Company in a faster and better way, the Group provides systematic training activities for each new employee, including basic training and on-job training.

- **Competency training**: This is a training activity organized to renew and extend the scope of knowledge of employees, enhance their ability of performance of duties, and prepare for promotion of office and improve their work efficiency. Trainings offered in the year covered Financial Management of Potential Managers, Human Resource Management for Non-Human-Resource Managers, and Financial Manager Training Program of China Harmony Auto 2018.

- **External trainings**: The Group's companies also provide external training activities to employees due to work requirements, as the Company is temporarily unable to provide such training. They may, upon obtaining approval from the Group, apply for participation in those training activities organized by the Group, industry peers, manufacturers, and professional training institutions. A total of 45 senior management members attended trainings of manufacturers during the year.

- **Additional trainings**: The Group encourages employees to use their spare time to participate in learning activities related to their professions, in order to enrich themselves, and improve their own occupational skills and career qualities.

Average training hours of every staff by gender and employment type are listed below:

Category	Trainee	Average training *(hours)*
By gender		
Female	801	12.68
Male	1,228	23.09
By employment type		
Senior management	45	8.06
Middle management	158	8.28
Ordinary staff	1,826	20.75

During the Reporting Period, the proportion of senior management, middle management and ordinary staff who have attended trainings was 83%, 37% and 57% respectively.

Aspect B4: Labour Standards

The Group, in strict compliance with legal requirements including Labor Law of the PRC, Provisions on the Prohibition of Using Child Labor and Law of the PRC on the Protection of Minors, is determined to resists and oppose the occurrence of forced labor and child labor. At present, all full-time employees, either being recruited or holding office, are aged 18 or above, and interns and apprentices are aged 16 or above. Labour contracts signed and agreements about working hours and job duties are in strict compliance with requirements of the Labour Law and the Labour Contract Law, and contain no terms of forced labour. In addition, the Group conducts assessment on the work tasks and achievements of the Company's internal employees through regular performance appraisal scheme, and stringently monitors the work intensity that employees can withstand to avoid behaviors of forced labor. During the Reporting Period, the Group has not encountered any form of child labor or forced labor.

VI. OUR BUSINESS

As an integrated auto service group with a leading position in China, China Harmony Auto is specialised in the dealership of luxury and ultra-luxury auto brands, and offers one-stop services covering sales, maintenance, development of intelligent manufacturing. With the dream of building a respectable centennial enterprise and the strategy of "One Core with Two Complements" (one core: 4S outlet core business; two complements: integrated after-sales services and new energy auto), China Harmony Auto takes sales of luxury auto brands as the core, develops independent after-sales services and intelligent manufacturing of new energy auto as two complements, energizing the whole auto industry chain, building a new-generation auto ecosystem, and blazing up harmonious life of the digital era for customers with exceptional intelligence technology and service experience.

Aspect B5: Supply Chain Management

The Group has formulated the Tendering and Bidding Administration Measures in accordance with the Tendering and Bidding Law of the People's Republic of China to regulate the tendering and bidding activities of the Group companies' projects such as construction engineering and procurement of materials. The Group, by adopting such administration measures as general principles, also formulated the Supplier Evaluation and Administration Measures to regulate the screening behaviors of suppliers, strengthen supervision and management on suppliers, fully safeguard product quality, and ensure the stability of supply chain management.

The Company cooperated with major automobile suppliers, being luxury and ultra-luxury brands such as BMW, Maserati, Lexus, Land Rover, Ferrari, etc. and maintained long term and stable relationships with them, ensuring the stable development of the sales business of vehicles. In addition, the Group also maintains long-term and stable relationships with 31 suppliers for not originally manufactured vehicle equipment and accessories in the PRC. During the Reporting Period, the distribution of major suppliers for vehicle equipment and accessories by region was 10 in Guangdong, 7 in Shanghai, 4 in Beijing, 1 in Zhejiang, 5 in Henan, 2 in Shandong, 1 in Jiangsu and 1 in Hebei.

In screening suppliers for not originally manufactured equipment and accessories, in addition to requiring the party to have the most basic operation qualifications and product quality, the Group will also fully consider the supplier's own environmental and social risk factors, such as whether the materials used by the supplier on products are in compliance with standards of environment protection, as well as market reputation of the supplier's brand and other factors. Meanwhile, the Group will also provide tendering opportunities for various kinds of projects on an open, fair, transparent and fair basis in order to select the most favourable opportunity. Furthermore, the Group conducted regular assessment and rating on the performance of existing suppliers to realize the performance of suppliers, promote its level of provision of supply, while continuously cooperating with outstanding suppliers and terminating partnered suppliers with unsatisfactory performance.

Aspect B6: Product Responsibility

The Company offered world-famous motors from luxury and ultra-luxury brands to numerous consumers. Supply of motors come from automobile manufacturers, such as BMW, Lexus, Maserati, etc. and the Company maintained long term and stable relationships with them. As motors are end products for sales, the Group has established a sound product quality management system covering the entire supply chain and sales service process from ex-factory, transportation, inventory and sale of motors to consumers, thereby delivering high-quality and all-round integrated motor products to consumers. Upon exiting from factories after production, all of the motors obtain certification of compliance from their manufacturers, and meet the international and national production quality standards required by the state and the industry. In the meantime, the Group's quality inspection department will also examine various standards of the motors to ensure that the production quality of motors fulfils the sale requirements of the Group.

In respect of customer service, the Group carefully listened to various demands of consumers on motor use and provided them with high-quality services to constantly raise customer satisfaction. The Group proactively conducted customer satisfaction surveys, scored evaluation on sales team and customer service to fully understand the Company's shortcomings in terms of service so as to pursue improvement. In the provision of maintenance services, the Group's stores are established taking the customer's consumption experience into full consideration, which provide customers with barrier-free communication, and offers them with catering, entertainment, leisure and other activities to render services of the finest quality. At the same time, the Group places emphasis on securing customer privacy, confidentiality and filing of customer information to protect information security of customers. During the Reporting Period, no information leakage of customer information has been occurred.

The Group has established a complete motor recall service system and actively took the initiative of liaising and negotiating with customers on motor quality issues to minimize the potential safety threats to motor owners caused by product quality. For recalled vehicles, recall solutions were carried out in the Group's stores according to the "Recall Emergency Plan" to ensure that the recall indicators of motor manufacturers are reached after sales, increase the contribution of warranty to the output value of aftersales, and enhance smooth experience of the recall process. During the Reporting Period, the brand outlets of the Group promptly carried out recall in accordance with the recall information of each OEM and the Group has not experienced any incident and complaint of motor recall due to safety and health. Among which, BMW recalled 7 times and Lexus recalled 5 times for vehicle upgrading. In response to complaints, the customer service department first classifies the complaints according to the types of complaints, and then hand over to professional technicians or account managers to offer system solutions in order to fully satisfy various demands of customers.

Aspect B7: Anti-corruption

The Group strictly abided by Anti-Unfair Competition Law of the PRC, Anti-Money Laundering Law of the PRC, Interim Provisions on Prohibiting Commercial Bribery and other laws and regulations, stringently prohibited any employee of the Company from bribery, racketeering, fraud, money laundering and other illegal criminal offences. Currently, the Group's human resources department, finance department, and audit department have a public mailbox for complaints and whistleblowing. The form of contact is open to the public. If bribery, racketeering, fraud, money laundering and other illegal criminal offence is discovered, any of the employee within the Company may report the same directly in an anonymous manner, which will, after verification, be handed over to relevant departments for handling according to law. In addition, in the course of routine work and training activities, the Group will also promote awareness of anti-corruption and advocate integrity, and increase the ability to identify corruption behaviors among employees, and remind the management members and employees at all levels to think of adversity in the time of prosperity, and act as role models.

VII. OUR COMMUNITY

Aspect B8: Community Investment

While creating economic benefits to shareholders, investors and the society, the Group performs the social responsibility of building a harmonious society and promoting community construction and development. During the Reporting Period, the Group actively participated in community life to understand what community needs, and its subsidiaries launched a range of charity activities, participating in community construction and building a harmonious enterprise-community relationship with common prosperity through concrete actions.

During the Reporting Period, distributors of the Group launched a series of charity activities:

Head office of China Harmony Auto

In August 2018, Party Branch of Business District under Ruyihu Sub-district Office, Zhengdong New District, Zhenzhou City, which was the community where the head office of the Group was located, organised the "Summer Heat Relief" volunteer activity, and staff of the head office actively attended the activity to offer volunteer services. Volunteers of China Harmony Auto spent a whole morning sending 350 bags of mung beans to sanitation workers, traffic policemen and urban management personnel in the community, hoping that they would enjoy a moment of pleasant coolness offered by sweet mung bean soup in the extremely hot weather.

Henan Zhongdebao

1. In December 2018, Henan Zhongdebao organised a charitable visit to Wangwushan Fengmen Primary School. At the early stage, Henan Zhongdebao called for staff and customers to make donations, which attracted a great many of participants. Then Henan Zhongdebao headed for Wangwushan Fengmen Primary School to visit the children, and sent them charitable materials.

2. In September 2018, Henan Zhongdebao launched the "Paradise of Happy Childhood" charity activity, and set up recreational facilities for children of Wutai Primary School, Yaoji Town, Shangshui County, Henan Province, promoting the concept "to boost children's development through sports and games", enriching school activities and improving sport culture in the school.

Henan Andebao

In March 2018, Henan Andebao organised "Visit to Anyang Children's Home" to send greetings to children.

Zhengzhou Hejun

1. In July 2018, Zhengzhou Hejun sponsored children's painting summer camp, attracting children in the community to participate in painting activities and making children's summer holiday more wonderful.

2. In August 2018, Zhengzhou Hejun sponsored the community fitness campaign to improve the fitness consciousness of the community.

Changzhou Changjunhang

In August 2018, Changzhou Changjunhang sponsored the three-day "Alfa Romeo Care and Love to Autistic Children of Hualong Lane", and visited autistic children in the rehabilitation centre. Charitable funds raised subsequently by trunk sale in stores and supermarkets were donated to help autistic children.

Zhengzhou Yuanda

1. In March 2018, Zhengzhou Yuanda joined hands with customers of renewed contracts to plant trees on the bank of Yellow River in Zhengzhou City, making contribution to developing a larger green land on the earth.

2. In May 2018, Zhengzhou Yuanda organised its staff to participate in the "Blood Donation and Love Offering" activity. Staff voluntarily donated their blood to support the public welfare undertaking, making their own contribution and delivering positive energy to other people.

Zhoukou Zhoudebao

In May 2018, Zhoukou Zhoudebao sponsored a charitable visit to Zhanglou Primary School themed "Limited Roads but Boundless Love". Regarding caring about the health and happiness of poverty-stricken and left-behind children as the common responsibility of the whole society, Zhoukou Zhoudebao hoped that through active participation of car owners and far-sighted people, this activity would converge love and care from the society, and children would feel cared for by the society.

To sum up, the Company conducted a range of work in environmental protection and social caring in the year. In the future, we will invest more in environmental protection, and fully fulfill our duties in respect of environmental protection and social matters.

Independent Auditor's Report

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To the shareholders of China Harmony New Energy Auto Holding Limited
(Incorporated in the Cayman Islands as an exempted company with limited liability)

OPINION

We have audited the consolidated financial statements of China Harmony New Energy Auto Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 77 to 204, 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 matter	How our audit addressed the key audit matter
Estimation of rebates	
The Group recognises volume-related vendor rebates on an accrual basis based on the terms of the supplier contracts. As at 31 December 2018, the rebate receivables recognised in the consolidated statement of financial position amounted to approximately RMB823 million. The balance of rebate receivables was significant and the process of estimating the accrual was complex. Information of the rebate receivables is disclosed in note 23 to the financial statements.	Our audit procedures included, among others, checked the rebate policies adopted against the terms of the relevant supplier contracts and checked the calculation of the rebate receivables based on the rebate policies. We also checked subsequent cash collections of rebate receivables.

Key audit matter	How our audit addressed the key audit matter
Valuation of equity interests of an unlisted company	
The Group has classified its available-for-sale investments carried at cost under HKAS 39 as financial assets measured at fair value through profit or loss upon the adoption of HKFRS9. As at 31 December 2018, the value of an equity interests in an unlisted company designated as financial assets measured at fair value through profit or loss was RMB1,377 million. The transitional adjustment against the applicable opening balances in equity at 1 January 2018 was RMB69 million and a fair value gain of approximately RMB697 million was recognized during year ended 31 December 2018. The Company engaged an external valuer to perform a valuation of its equity interests of an unlisted company. The valuation involved significant management judgements and assumptions. Information relating to financial assets measured at fair value through profit or loss and the gain or loss are disclosed in note 5 and note 24 to the financial statements.	Our audit procedures included, among others, evaluating the independent professional valuer's competence, capabilities and objectivity; checking the accuracy and reasonableness of the key assumptions provided by management to the independent professional valuer, such as future development plan, future selling price and cost, growth rate to supporting evidence; involving our internal valuation expert to assist in the review of the valuation methodology, discount rate and perpetual growth rate. We also compared the fair value with recent capital contribution from other investors.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and 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 NG CHEUNG.

Ernst & Young
Certified Public Accountants
Hong Kong
29 March 2019

Consolidated Statement of Profit or Loss

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5(a)	**10,639,877**	10,840,411
Cost of sales and services	6(b)	**(9,883,361)**	(9,822,566)
Gross profit		**756,516**	1,017,845
Other income and gains, net	5(b)	**942,016**	1,321,199
Selling and distribution expenses		**(549,060)**	(787,488)
Administrative expenses		**(155,172)**	(147,013)
PROFIT FROM OPERATIONS		**994,300**	1,404,543
Finance costs	7	**(67,686)**	(63,437)
Share of profits and losses of:			
Joint ventures		**17**	(18,587)
Associates		**(109,461)**	(99,137)
PROFIT BEFORE TAX	6	**817,170**	1,223,382
Income tax expense	10	**(127,186)**	(202,094)
PROFIT FOR THE YEAR		**689,984**	1,021,288
Attributable to:			
Owners of the parent		**683,692**	1,009,356
Non-controlling interests		**6,292**	11,932
		689,984	1,021,288
Earnings per share attributable to ordinary equity holders of the parent	12		
Basic *(RMB)*		**0.45**	0.66
Diluted *(RMB)*		**0.44**	0.65

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	Notes	2018 *RMB'000*	2017 *RMB'000*
PROFIT FOR THE YEAR		**689,984**	1,021,288
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences:			
Exchange differences on translation of foreign operations		**(1,290)**	(46,072)
Other comprehensive loss for the year, net of tax		**(1,290)**	(46,072)
Total comprehensive income for the year, net of tax		**688,694**	975,216
Attributable to:			
Owners of the parent		**682,402**	963,284
Non-controlling interests		**6,292**	11,932
		688,694	975,216

Consolidated Statement of Financial Position

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**2,522,989**	1,976,165
Prepaid land lease payments	14	**11,097**	11,497
Intangible assets	15	**104,991**	108,379
Goodwill	16	**57,911**	57,911
Prepayments and other assets	17	**1,603,233**	420,183
Finance lease receivables	18	**81,528**	14,512
Investments in joint ventures	19	**5,606**	5,589
Investments in associates	20	**686,222**	789,041
Available-for-sale investments	24	**–**	887,023
Financial assets at fair value through profit or loss	24	**1,377,410**	–
Deferred tax assets	32	**48,823**	50,366
Total non-current assets		**6,499,810**	4,320,666
CURRENT ASSETS			
Inventories	21	**1,124,419**	1,271,376
Trade receivables	22	**123,352**	106,190
Finance lease receivables	18	**50,532**	6,724
Prepayments, other receivables and other assets	23	**1,797,166**	2,553,068
Available-for-sale investments	24	**–**	120,577
Financial assets at fair value through profit or loss	24	**167,577**	–
Pledged and restricted bank deposits	25	**74,947**	81,043
Cash in transit	26	**35,964**	37,085
Cash and bank balances	27	**1,148,300**	1,580,378
Total current assets		**4,522,257**	5,756,441
CURRENT LIABILITIES			
Bank loans and other borrowings	28	**2,137,604**	1,800,356
Trade and bills payables	29	**136,317**	206,207
Other payables and accruals	30	**987,420**	918,371
Income tax payable		**786,111**	755,221
Total current liabilities		**4,047,452**	3,680,155

Consolidated Statement of Financial Position

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NET CURRENT ASSETS		**474,805**	2,076,286
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,974,615**	6,396,952
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	28	**–**	15,980
Deferred tax liabilities	32	**53,337**	50,507
Total non-current liabilities		**53,337**	66,487
NET ASSETS		**6,921,278**	6,330,465
EQUITY			
Equity attributable to owners of the parent			
Share capital	33	**12,085**	12,176
Reserves	36	**6,866,308**	6,275,144
		6,878,393	6,287,320
Non-controlling interests		**42,885**	43,145
Total equity		**6,921,278**	6,330,465

Liu Fenglei
Director

Feng Guo
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to owners of the parent										
	Share capital	Share premium	Capital reserve	Statutory reserve	Merger reserve	Share option reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000**	*RMB'000**	*RMB'000**	*RMB'000**	*RMB'000**	*RMB'000**	*RMB'000**	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2017	12,176	3,384,541	1,943	213,450	371,200	35,563	113,749	2,154,698	6,287,320	43,145	6,330,465
Effect of adoption of HKFRS 9	-	-	-	-	-	-	-	68,604	68,604	-	68,604
At 1 January 2018 (restated)	12,176	3,384,541	1,943	213,450	371,200	35,563	113,749	2,223,302	6,355,924	43,145	6,399,069
Profit for the year	-	-	-	-	-	-	-	683,692	683,692	6,292	689,984
Other comprehensive income for the year:											
Exchange differences related to foreign operations	-	-	-	-	-	-	(1,290)	-	(1,290)	-	(1,290)
Total comprehensive income for the year	-	-	-	-	-	-	(1,290)	683,692	682,402	6,292	688,694
Shares repurchased and cancelled *(note 33)*	(97)	(39,425)	-	-	-	-	-	-	(39,522)	-	(39,522)
Acquisition of non-controlling interests	-	-	52	-	-	-	-	-	52	(2,552)	(2,500)
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(4,000)	(4,000)
Final 2017 dividend declared	-	(160,973)	-	-	-	-	-	-	(160,973)	-	(160,973)
Exercise of share options	6	2,194	-	-	-	(349)	-	-	1,851	-	1,851
Equity-settled-share option arrangement *(note 35)*	-	-	-	-	-	25,957	-	-	25,957	-	25,957
Share of reserve of an associate	-	-	-	-	-	12,702	-	-	12,702	-	12,702
Transfer from retained profits	-	-	-	24,964	-	-	-	(24,964)	-	-	-
At 31 December 2018	12,085	3,186,337	1,995	238,414	371,200	73,873	112,459	2,882,030	6,878,393	42,885	6,921,278

* These reserve accounts comprise the consolidated other reserves of RMB6,866,308,000 (2017: RMB6,275,144,000) in the consolidated statement of financial position.

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to owners of the parent											
	Share capital	Share premium	Capital reserve	Statutory reserve	Merger reserve	Share award reserve	Share option reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000**	*RMB'000**	*RMB'000**	*RMB'000**	*RMB'000**	*RMB'000**	*RMB'000**	*RMB'000**	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	12,498	3,484,857	1,583	187,666	371,200	22,275	28,082	159,821	1,171,126	5,439,108	30,350	5,469,458
Profit for the year	–	–	–	–	–	–	–	–	1,009,356	1,009,356	11,932	1,021,288
Other comprehensive income for the year:												
Exchange differences related to foreign operations	–	–	–	–	–	–	–	(46,072)	–	(46,072)	–	(46,072)
Total comprehensive income for the year	–	–	–	–	–	–	–	(46,072)	1,009,356	963,284	11,932	975,216
Capital injection by non-controlling interests arising from establishment of a new subsidiary	–	–	–	–	–	–	–	–	–	–	2,700	2,700
Deemed disposal of subsidiaries	–	–	–	(15,808)	–	–	–	–	15,808	–	(477)	(477)
Shares repurchased and cancelled *(note 33)*	(327)	(124,317)	–	–	–	–	–	–	–	(124,644)	–	(124,644)
Acquisition of non-controlling interests	–	–	360	–	–	–	–	–	–	360	(1,360)	(1,000)
Exercise of share options	5	1,726	–	–	–	–	(238)	–	–	1,493	–	1,493
Equity-settled-share option arrangement *(note 35)*	–	–	–	–	–	–	7,719	–	–	7,719	–	7,719
Restricted shares exercised *(note 33)*	–	22,275	–	–	–	(22,275)	–	–	–	–	–	–
Transfer from retained profits	–	–	–	41,592	–	–	–	–	(41,592)	–	–	–
At 31 December 2017	12,176	3,384,541	1,943	213,450	371,200	–	35,563	113,749	2,154,698	6,287,320	43,145	6,330,465

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Operating activities			
Profit before tax		**817,170**	1,223,382
Adjustments for:			
Share of profits and losses of joint ventures and associates		**109,444**	117,724
Depreciation of items of property, plant and equipment	13	**133,769**	232,405
Amortisation of prepaid land lease payments	14	**400**	400
Amortisation of intangible assets	15	**4,644**	2,998
Interest income	5(b)	**(102,333)**	(31,259)
Loss on disposal of a subsidiary	6(c)	**–**	1,727
Net loss on disposal of items of property, plant and equipment	6(c)	**16,649**	9,497
Gain on deemed disposal of subsidiaries	5(b)	**–**	(27,935)
Gain on deemed partial disposal of an associate	5(b)	**–**	(29,765)
Gain on transferring the investment in an associate to available-for-sale investment	5(b)	**–**	(815,700)
Gain on disposal of shares in an associate	5(b)	**–**	(29,304)
Loss on disposal of shares in a financial asset at fair value through profit or loss	42	**235,603**	–
Fair value gains, net:			
Fair value gain on a financial asset at fair value through profit or loss	5(b)	**(697,004)**	–
Impairment/(reversal of impairment) of inventories	6(b)	**8,125**	(1,771)
Equity-settled share option expense	6(a)	**25,957**	7,719
Finance costs	7	**67,686**	63,437
		620,110	723,555
Decrease in pledged and restricted bank deposits		**6,096**	53,074
Decrease/(increase) in cash in transit		**1,121**	(11,587)
(Increase)/decrease in trade receivables		**(17,162)**	132,906
Increase in prepayments, other receivables and other assets		**(280,196)**	(673,443)
Decrease/(increase) in inventories		**138,832**	(412,142)
Increase in finance lease receivables		**(110,824)**	(21,236)
Decrease in trade and bills payables		**(69,890)**	(50,976)
Increase in other payables and accruals		**67,883**	471,592

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Cash generated from operations		**355,970**	211,743
Income tax paid		**(91,923)**	(104,398)
Net cash generated from operating activities		**264,047**	107,345
Investing activities			
Interest received		**30,446**	42,862
Purchase of items of property, plant and equipment		**(668,905)**	(313,943)
Proceeds from disposal of items of property, plant and equipment		**88,722**	86,731
Purchase of intangible assets		**(1,256)**	(7,685)
Acquisition of a subsidiary		**–**	(150,916)
Disposal of a subsidiary		**–**	280
Deemed disposal of subsidiaries		**–**	(93,927)
Investments in associates		**–**	(53,441)
Proceeds from capital reduction in the investment in a joint venture		**–**	273,420
Proceeds from liquidation of an associate		**–**	50,000
Proceeds from disposal of financial assets at fair value through profit or loss/available-for-sale investments		**246,618**	38,000
Purchases of financial assets at fair value through profit or loss/available-for-sale investments		**(254,000)**	(120,577)
Loans to a third party		**(260,000)**	–
Advance made to a related party		**(107,671)**	(1,021,716)
Collection of loans and receivables from third parties		**200,000**	–
Proceeds from disposal of shares in an associate		**–**	58,876
(Increase)/decrease in time deposits		**(95,000)**	1,277,388
Net cash (used in)/generated from investing activities		**(821,046)**	65,352

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Financing activities			
Proceeds from exercise of share options		**1,851**	1,493
Repurchase of shares		**(39,522)**	(124,644)
Proceeds from bank loans and other borrowings		**11,610,356**	10,748,435
Repayment of bank loans and other borrowings		**(11,289,088)**	(10,795,458)
Acquisition of non-controlling interests		**(2,500)**	(1,000)
Dividends paid		**(160,973)**	–
Dividends paid to a non-controlling shareholder		**(4,000)**	–
Capital contributions from non-controlling shareholders		**–**	2,700
Interest paid		**(84,913)**	(69,483)
Net cash generated from/(used in) financing activities		**31,211**	(237,957)
Net decrease in cash and cash equivalents		**(525,788)**	(65,260)
Cash and cash equivalents at beginning of year		**1,475,378**	1,586,710
Effect of foreign exchange rate changes, net		**(1,290)**	(46,072)
Cash and cash equivalents at end of year		**948,300**	1,475,378
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	**948,300**	1,475,378
Cash and cash equivalents as stated in the statement of cash flows		**948,300**	1,475,378
Non-pledged time deposits with original maturity of more than three months when acquired		**200,000**	105,000
Cash and bank balances as stated in the statement of financial position		**1,148,300**	1,580,378

1. CORPORATE AND GROUP INFORMATION

China Harmony New Energy Auto Holding Limited (the "Company") was incorporated on 24 September 2012 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 June 2013 ("Listing").

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the sale of automobiles and provision of after-sales services in Mainland China.

In the opinion of the directors of the Company (the "Directors"), the ultimate holding company of the Company is Cititrust Private Trust (Cayman) Limited, which is incorporated in the Cayman Islands ("Cayman Islands"). Eagle Seeker Company Limited is wholly owned by Eagle Pioneer Company Limited. Accordingly, Eagle Pioneer Company Limited is deemed to have interest in the shares held by Eagle Seeker Company Limited. Eagle Pioneer Company Limited is wholly owned by Cititrust Private Trust (Cayman) Limited. Accordingly, Cititrust Private Trust (Cayman) Limited is deemed to have interest indirectly through Eagle Seeker Company Limited, in the shares held by Mr. Feng Changge ("the Chairman and a director of the Company, the "Controlling Shareholder"), who is the founder of the trust of Cititrust Private Trust (Cayman) Limited.

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Proportion of equity attributable to the Company Direct	Indirect	Principal activities
Crystalline Prestige Investments Limited	Tortola, British Virgin Islands 2012	Registered capital of US$500 and paid-in capital of US$0.01	100%	–	Investment holding
LC Gloricar Investment Limited	Tortola, British Virgin Islands 2011	Registered capital of US$1,000,000 and paid-in capital of US$10,000	–	100%	Investment holding
Ace Manufacturing Holding Limited	Hong Kong, the PRC 2012	Paid-in capital of HK$100	–	100%	Investment holding

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Proportion of equity attributable to the Company Direct	Indirect	Principal activities
Daoable Future Limited	Hong Kong, the PRC 2011	Paid-in capital of US$100	–	100%	Investment holding
河南和諧汽車貿易有限公司 (Henan Hexie Automobile Trading Co., Ltd.)	Zhengzhou, the PRC	Registered and paid-in capital of RMB1,815,000,000	–	100%	Investment holding
河南中德寶汽車銷售服務有限公司 (Henan Zhongdebao Automobile Sales & Services Co., Ltd.)	Zhengzhou, the PRC	Registered and paid-in capital of RMB42,860,000	–	100%	Sale of automobiles and provision of after-sales services
鄭州鄭德寶汽車銷售服務有限公司 (Zhengzhou Zhengdebao Automobile Sales & Services Co., Ltd.)	Zhengzhou, the PRC	Registered and paid-in capital of RMB40,000,000	–	100%	Sale of automobiles and provision of after-sales services
西安華都汽車銷售服務有限公司 (Xi'an Huadu Automobile Sales & Services Co., Ltd.)	Xi'an, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Sale of automobiles and provision of after-sales services
河南英之翼汽車銷售服務有限公司 (Henan Yingzhiyi Automobile Sales & Services Co., Ltd.)	Zhengzhou, the PRC	Registered and paid-in capital of RMB10,010,000	–	100%	Sale of automobiles and provision of after-sales services
廣州市廣德寶汽車銷售服務有限公司 (Guangzhou Guangdebao Automobile Sales & Services Co., Ltd.)	Guangzhou, the PRC	Registered and paid-in capital of RMB30,000,000	–	100%	Sale of automobiles and provision of after-sales services
鄭州華鼎汽車銷售服務有限公司 (Zhengzhou Huading Automobile Sales & Services Co., Ltd.)	Zhengzhou, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Sale of automobiles and provision of after-sales services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Proportion of equity attributable to the Company Direct	Indirect	Principal activities
上海上德寶駿汽車銷售服務有限公司 (Shanghai Shangdebaojun Automobile Sales & Service Co., Ltd.)	Shanghai, the PRC	Registered and paid-in capital of RMB50,000,000	–	90%	Sale of automobiles and provision of after-sales services
宜昌路順汽車銷售服務有限公司 (Yichang Lushun Automobile Sales & Services Co., Ltd.)	Yichang, the PRC	Registered and paid-in capital of RMB10,000,000	–	65%	Sale of automobiles and provision of after-sales services
洛陽豫德寶汽車銷售服務有限公司 (Luoyang Yudebao Automobile Sales & Services Co., Ltd.)	Luoyang, the PRC	Registered and paid-in capital of RMB30,000,000	–	100%	Sale of automobiles and provision of after-sales services
南陽宛德寶汽車銷售服務有限公司 (Nanyang Wandebao Automobile Sales & Services Co., Ltd.)	Nanyang, the PRC	Registered and paid-in capital of RMB30,000,000	–	100%	Sale of automobiles and provision of after-sales services
鄭州華誠汽車銷售服務有限公司 (Zhengzhou Huacheng Automobile Sales & Services Co., Ltd.)	Zhengzhou, the PRC	Registered and paid-in capital of RMB20,000,000	–	100%	Sale of automobiles and provision of after-sales services
安陽安德寶汽車銷售服務有限公司 (Anyang Andebao Automobile Sales & Services Co., Ltd.)	Anyang, the PRC	Registered and paid-in capital of RMB30,000,000	–	100%	Sale of automobiles and provision of after-sales services
開封汴德寶汽車銷售服務有限公司 (Kaifeng Biandebao Automobile Sales & Services Co., Ltd.)	Kaifeng, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Sale of automobiles and provision of after-sales services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Proportion of equity attributable to the Company Direct	Indirect	Principal activities
北京市華德寶汽車銷售服務有限公司 (Beijing Huadebao Automobile Sales & Services Co., Ltd.)	Beijing, the PRC	Registered and paid-in capital of RMB55,000,000	–	100%	Sale of automobiles and provision of after-sales services
鄭州遠達雷克薩斯汽車銷售服務有限公司 (Zhengzhou Yuanda Lexus Automobile Sales & Services Co., Ltd.)	Zhengzhou, the PRC	Registered and paid-in capital of RMB50,000,000	–	100%	Sale of automobiles and provision of after-sales services
廈門遠達雷克薩斯汽車銷售服務有限公司 (Xiamen Yuanda Lexus Automobile Sales & Services Co., Ltd.)	Xiamen, the PRC	Registered and paid-in capital of RMB30,000,000	–	100%	Sale of automobiles and provision of after-sales services
武漢漢德寶汽車銷售服務有限公司 (Wuhan Handebao Automobile Sales & Services Co., Ltd.)	Wuhan, the PRC	Registered and paid-in capital of RMB20,000,000	–	100%	Sale of automobiles and provision of after-sales services
武漢華鄭汽車銷售服務有限公司 (Wuhan Huazheng Automobile Sales & Services Co., Ltd.)	Wuhan, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Sale of automobiles and provision of after-sales services
蘇州意駿汽車銷售服務有限公司 (Suzhou Yijun Automobile Sales & Services Co., Ltd.)	Suzhou, the PRC	Registered and paid-in capital of RMB50,000,000	–	100%	Sale of automobiles and provision of after-sales services
新鄉和德寶汽車銷售服務有限公司 (Xinxiang Hedebao Automobile Sales & Services Co., Ltd.)	Xinxiang, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Sale of automobiles and provision of after-sales services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Proportion of equity attributable to the Company Direct	Indirect	Principal activities
北京豪駿行汽車銷售服務有限公司 (Beijing Haojunhang Automobile Sales & Services Co., Ltd.)	Beijing, the PRC	Registered and paid-in capital of RMB50,000,000	–	100%	Sale of automobiles and provision of after-sales services
漯河漯德寶汽車銷售服務有限公司 (Luohe Luodebao Automobile Sales & Services Co., Ltd.)	Luohe, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Sale of automobiles and provision of after-sales services
常州常駿行汽車銷售服務有限公司 (Changzhou Changjunhang Automobile Sales & Services Co., Ltd.)	Changzhou, the PRC	Registered and paid-in capital of RMB20,000,000	–	100%	Sale of automobiles and provision of after-sales services
無錫龍駿行汽車銷售服務有限公司 (Wuxi Longjunhang Automobile Sales & Services Co., Ltd.)	Wuxi, the PRC	Registered and paid-in capital of RMB50,000,000	–	100%	Sale of automobiles and provision of after-sales services
河南和諧汽車融資租賃有限公司 (Henan Lease Finance Co., Ltd.)	Zhengzhou, the PRC	Registered and paid-in capital of HK$250,000,000	–	100%	Service of finance leases
上海谷卡二手車有限公司 (Shanghai Goocar Pre-owned Automobile Co., Ltd.)	Shanghai, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Sale of pre–owned motor vehicles
洛陽遠達雷克薩斯汽車銷售服務有限公司 (Luoyang Yuanda Lexus Automobile Sales & Services Co., Ltd.)	Luoyang, the PRC	Registered and paid-in capital of RMB30,000,000	–	100%	Sale of automobiles and provision of after-sales services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Proportion of equity attributable to the Company		Principal activities
			Direct	Indirect	
鄭州華德寶汽車銷售服務有限公司 (Zhengzhou Huadebao Automobile Sales & Services Co., Ltd.)	Zhengzhou, the PRC	Registered and paid-in capital of RMB30,010,000	–	100%	Sale of automobiles and provision of after-sales services
邯鄲遠達雷克薩斯汽車銷售服務有限公司 (Handan Yuanda Lexus Automobile Sales & Services Co., Ltd.)	Handan, the PRC	Registered and paid-in capital of RMB30,000,000	–	100%	Sale of automobiles and provision of after-sales services
商丘商沃汽車銷售服務有限公司 (Shangqiu Shangwo Automobile Sales & Services Co., Ltd.)	Shangqiu, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Sale of automobiles and provision of after-sales services
商丘商德寶汽車銷售服務有限公司 (Shangqiu Shangdebao Automobile Sales & Services Co., Ltd.)	Shangqiu, the PRC	Registered and paid-in capital of RMB10,000,000	–	90%	Sale of automobiles and provision of after-sales services
南陽宛沃汽車銷售服務有限公司 (Nanyang Wanwo Automobile Sales & Services Co., Ltd.)	Nanyang, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Sale of automobiles and provision of after-sales services
上海君諾汽車服務有限公司 (Shanghai Junnuo Automobile Services Co., Ltd.)	Shanghai, the PRC	Registered and paid-in capital of RMB5,000,000	–	100%	Sale of automobiles and provision of after-sales services
上海和諧進出口貿易有限公司 (Shanghai Hexie Import & Export Trading Co., Ltd.)	Shanghai, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Parallel–import vehicles

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Proportion of equity attributable to the Company Direct	Indirect	Principal activities
周口周德寶汽車銷售服務有限公司 (Zhoukou Zhoudebao Automobile Sales & Services Co., Ltd.)	Zhoukou, the PRC	Registered and paid-in capital of RMB10,000,000	–	51%	Sale of automobiles and provision of after-sales services
焦作遠達雷克薩斯汽車銷售服務有限公司 (Jiaozuo Yuanda Lexus Automobile Sales & Services Co., Ltd.)	Jiaozuo, the PRC	Registered and paid-in capital of RMB30,000,000	–	100%	Sale of automobiles and provision of after-sales services
鄭州和駿汽車銷售有限公司 (Zhengzhou Hejun Automobile Sales Co., Ltd.)	Zhengzhou, the PRC	Registered and paid-in capital of RMB50,000,000	–	100%	Sale of automobiles and provision of after-sales services
鞏義市義德寶汽車銷售服務有限公司 (Gongyi Yidebao Automobile Sales & Services Co., Ltd.)	Gongyi, the PRC	Registered and paid-in capital of RMB20,000,000	–	100%	Sale of automobiles and provision of after-sales services
鄭州賓馳汽車銷售服務有限公司 (Zhengzhou Binchi Automobile Sales & Services Co., Ltd.)	Zhengzhou, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Sale of automobiles and provision of after-sales services
河南和諧汽車控股有限公司 (Henan Hexie Automobile Holding Co., Ltd.)	Zhengzhou, the PRC	Registered capital of RMB100,000,000	–	100%	Investment holding
鄭州鄭沃汽車銷售有限公司 (Zhengzhou Zhengwo Automobile Sales Co., Ltd.)	Zhengzhou, the PRC	Registered and paid-in RMB30,000,000	–	100%	Sale of automobiles and provision of after-sales services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Proportion of equity attributable to the Company Direct	Indirect	Principal activities
信陽市申沃汽車銷售服務有限公司 (Xinyang Shenwo Automobile Sales & Services Co., Ltd.)	Xinyang, the PRC	Registered and paid-in RMB10,000,000	–	100%	Sale of automobiles and provision of after-sales services
河南鑫和諧汽車保險代理有限公司 (Henan Xinhexie Automobile Insurance Agent Co., Ltd.)	Zhengzhou, the PRC	Registered and paid-in RMB10,000,000	–	100%	Insurance agent
廣州市粵駿汽車銷售服務有限公司 (Guangzhou Yuejun Automobile Sales & Services Co., Ltd.)	Guangzhou, the PRC	Registered and paid-in RMB10,000,000	–	100%	Sale of automobiles and provision of after-sales services
鄭州和諧鄭駿汽車銷售有限公司 (Zhengzhou Hexie Zhengjun Automobile Sales Co., Ltd.)	Zhengzhou, the PRC	Registered and paid-in RMB10,000,000	–	100%	Sale of automobiles and provision of after-sales services
漯河漯德奧汽車銷售服務有限公司 (Luohe Luodeao Automobile Sales & Services Co., Ltd.)	Luohe, the PRC	Registered and paid-in RMB30,000,000	–	100%	Sale of automobiles and provision of after-sales services
新鄉和諧新駿汽車銷售服務有限公司 (Xinxiang Hexie Xinjun Automobile Sales & Services Co., Ltd.)	Xinxiang, the PRC	Registered and paid-in RMB20,000,000	–	100%	Sale of automobiles and provision of after-sales services
商丘和諧銘駿汽車銷售服務有限公司 (Shangqiu Hexie Mingjun Automobile Sales & Services Co., Ltd.)	Shangqiu, the PRC	Registered and paid-in RMB20,000,000	–	100%	Sale of automobiles and provision of after-sales services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Proportion of equity attributable to the Company Direct	Indirect	Principal activities
新鄉遠達雷克薩斯汽車銷售服務有限公司 (Xinxiang Yuanda Lexus Automobile Sales & Services Co., Ltd.)	Xinxiang, the PRC	Registered and paid-in RMB20,000,000	–	100%	Sale of automobiles and provision of after-sales services
包頭市燁德寶汽車銷售服務有限公司 (Baotou Yedebao Automobile Sales & Services Co., Ltd.)	Baotou, the PRC	Registered and paid-in RMB16,000,000	–	100%	Sale of automobiles and provision of after-sales services
鄭州頤駿行汽車銷售服務有限公司 (Zhengzhou Yijun Automobile Sales & Services Co., Ltd.)	Zhengzhou, the PRC	Registered and paid-in RMB20,000,000	–	100%	Sale of automobiles and provision of after-sales services
山西賓馳汽車銷售服務有限公司 (Shanxi Bingchi Automobile Sales & Services Co., Ltd.)	Shanxi, the PRC	Registered and paid-in RMB20,000,000	–	100%	Sale of automobiles and provision of after-sales services
洛陽裕駿汽車銷售服務有限公司 (Luoyang Yujun Automobile Sales & Services Co., Ltd.)	Luoyang, the PRC	Registered and paid-in RMB20,000,000	–	100%	Sale of automobiles and provision of after-sales services
信陽遠達雷克薩斯汽車銷售服務有限公司 (Xinyang Yuanda Lexus Automobile Sales & Services Co., Ltd.)	Xinyang, the PRC	Registered and paid-in RMB10,000,000	–	100%	Sale of automobiles and provision of after-sales services
北京和諧嘉駿汽車銷售服務有限公司 (Beijing Hexie Jiajun Automobile Sales & Services Co., Ltd.)	Beijing, the PRC	Registered and paid-in RMB50,000,000	–	100%	Sale of automobiles and provision of after-sales services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Proportion of equity attributable to the Company Direct	Indirect	Principal activities
北京和諧智聯新能源汽車銷售有限公司 (Beijing Automobile Zhilian New Energy Automotive Sales Co., Ltd.	Beijing, the PRC	Registered and paid-in RMB30,000,000	–	100%	Sale of automobiles and provision of after-sales Services
三門峽鈞德寶汽車銷售服務有限公司 (Sanmenxia Jundebao Automobile Sales & Services Co., Ltd.)	Sanmenxia, the PRC	Registered and paid-in RMB20,000,000	–	100%	Sale of automobiles and provision of after-sales Services
平頂山和諧豫駿汽車銷售服務有限公司 (Pingdingshan Hexie Yujun Automobile Sales & Services Co., Ltd.)	Pingdingshan, the PRC	Registered and paid-in RMB20,000,000	–	100%	Sale of automobiles and provision of after-sales Services

All the subsidiaries were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

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"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Other than as explained below regarding the impact of HKFRS 9 *Financial Instruments*, HKFRS 15 *Revenue from Contracts with Customers* and amendments to HKFRS 15 *Clarifications to 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Except for the amendments to HKFRS 4, *Annual Improvements to HKFRSs 2014–2016 Cycle*, Amendments to HKAS 40 and HK(IFRIC)-Int 22, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

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

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

The Group has recognised the transition adjustments 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)

(b) (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:

	Notes	HKAS 39 measurement Category	HKAS 39 measurement Amount *RMB'000*	Reclassification *RMB'000*	ECL *RMB'000*	Other *RMB'000*	HKFRS 9 measurement Amount *RMB'000*	HKFRS 9 measurement Category
Financial assets								
Available-for-sale investments		AFS[1]	1,007,600	(1,007,600)	-	-	-	N/A
To: Financial assets at fair value through profit or loss	(i)			(1,007,600)	-	-		
Financial lease receivables		L&R[2]	21,236	-	-	-	21,236	AC[3]
Trade receivables		L&R	106,190	-	-	-	106,190	AC
Financial assets included in prepayments, other receivables and other assets		L&R	2,321,150	-	-	-	2,321,150	AC
Financial assets at fair value through profit or loss		FVPL[4]	-	1,007,600	-	68,604	1,076,204	FVPL (mandatory)
From: Available-for-sale investments	(i)			1,007,600	-	-		
Pledged and restricted bank deposits		L&R	81,043	-	-	-	81,043	AC
Cash in transit		L&R	37,085	-	-	-	37,085	AC
Cash and bank balances		L&R	1,580,378	-	-	-	1,580,378	AC
Total assets			5,154,682	-	-	68,604	5,223,286	

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (continued)

Classification and measurement (Continued)

		HKAS 39 measurement					HKFRS 9 measurement	
	Notes	Category	Amount	Reclassification	ECL	Other	Amount	Category
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Financial liabilities								
Trade and bills payables		AC	206,207	–	–	–	206,207	AC
Financial liabilities included in other payables and accruals		AC	138,934	–	–	–	138,934	AC
Bank loans and other borrowings		AC	1,816,336	–	–	–	1,816,336	AC
Total liabilities			2,161,477	–	–	–	2,161,477	

[1] AFS: Available-for-sale investments

[2] L&R: Loans and receivables

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

[4] FVPL: Financial assets at fair value through profit or loss

Note:

(i) The Group has classified its unlisted equity investment, unlisted private fund in the PRC and wealth management product previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these did not pass the contractual cash flow characteristics test in HKFRS 9.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (continued)

Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applies the simplified approach and record lifetime expected losses of trade receivables. The Group applies the general approach to other debt instruments recorded at amortised cost. The impacts relating to the provision for impairment are immaterial.

Impact on retained profits

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

	Retained profits *RMB'000*
Retained profits	
Balance as at 31 December 2017 under HKAS 39	**2,154,698**
Reclassification of available-for-sale investments to financial assets at fair value through profit or loss	**68,604**
Balance as at 1 January 2018 under HKFRS 9	**2,223,302**

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

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

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

The adoption of HKFRS 15 does not have any significant impact on the Group's consolidated financial statements.

Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as other payables. Under HKFRS 15, the amount is classified as contract liabilities which are included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified RMB252,763,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, RMB285,141,000 was classified as contract liabilities in relation to the consideration received from customers in advance for the sale of automobiles and provision of after-sales services.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

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

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

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

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

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of RMB767,265,000 and lease liabilities of RMB778,852,000 will be recognised at 1 January 2019 with a corresponding adjustment to the opening balance of retained earnings.

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

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

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

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

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

Annual Improvements to HKFRSs 2015–2017 Cycle, issued in February 2018, sets out amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23. The Group expects to adopt the amendments from 1 January 2019. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendments are as follows:

- *HKFRS 3 Business Combinations:* Clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value.

- *HKFRS 11 Joint Arrangements:* Clarifies that when an entity that participates in, but does not have joint control of a joint operation, obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation.

- *HKAS 12 Income Taxes:* Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend.

- *HKAS 23 Borrowing Costs:* Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sales are complete.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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 joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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 associate or 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

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

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

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

Fair value measurement

The Group measures its 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (Continued)

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 and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

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

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

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

Category	Estimated useful life	Estimated residual value
Buildings	20–40 years	5%
Leasehold improvements	Over the shorter of the lease terms and 10 years	–
Plant and machinery	5–10 years	5%
Furniture and fixtures	3–10 years	5%
Motor vehicles	4–10 years	5%

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (Continued)

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 during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

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

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

Category	Estimated useful life
Software	5 years
Dealership agreements	40 years
Customer relationships	15 years
Others	10 years

Leases

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Initial recognition and measurement (Continued)

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

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 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.

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 (Continued)

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

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

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss (Continued)

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

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

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Subsequent measurement (Continued)

Available-for-sale financial investments

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Subsequent measurement (Continued)

Available-for-sale financial investments (Continued)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

General approach

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

General approach (Continued)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Simplified approach (Continued)

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

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

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

Financial assets carried at amortised cost

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

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 (Continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of 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.

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.

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 (Continued)

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.

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

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

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

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

Subsequent measurement

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

Loans and borrowings

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is attributable to specific items of inventory as appropriate and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling price in the ordinary course less the estimated costs to be incurred to completion and 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, and assets similar in nature to cash, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right exists 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Where 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.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Revenue from contracts with customers (Continued)

(b) Rendering of services

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

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

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

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

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

Revenue from other sources

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

Other income

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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; and

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

Contract liabilities (applicable from 1 January 2018)

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

Vendor rebates

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments

The Company operates a share award scheme and 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 for grants is measured by reference to the fair value at the date at which they are granted. Further details of the fair value are given in note 34 and note 35 to the financial statements.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (Continued)

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 awards and 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs (Continued)

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 5.3% has been applied to the expenditure on the individual assets during the year ended 31 December 2018 (2017: 4.9%).

Dividends

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

Foreign currencies

The 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 recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

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

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and overseas subsidiaries 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:

Operating lease commitments – Group as lessee

The Group has entered into plant leases for its business. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the lessor retains all the significant risks and rewards of relevant properties and so accounts for them as operating leases.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was RMB57,911,000 (2017: RMB57,911,000). Further details are given in note 16.

Provision for excepted credit losses on trade receivables, financial lease receivables and financial assets included in prepayments, other receivables and other assets

For trade receivables and financial lease receivables to which the Group applies the simplified approach for impairment, an impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, 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. No loss allowance was provided because management estimated that the expected credit losses as at 31 December 2018 were not significant.

For the financial assets included in prepayments, other receivables and other assets to which the Group applies the general approach for impairment, there was no recent history of default. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. No loss allowance was provided because management estimated that the expected credit losses as at 31 December 2018 were not significant.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs 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.

Fair value of unlisted equity investments

The unlisted equity investments and unlisted private fund in the PRC have been valued based on a market-based valuation technique as detailed in note 44 to the financial statements. The valuation requires the Group to use discounted cashflow model. In addition, the Group makes estimates about the discount for liquidity. The Group classifies the fair value of these investments as Level 2. The fair value of the unlisted equity investments at 31 December 2018 was RMB1,377,410,000 (2017: nil). Further details are included in note 24 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 lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods.

Net realisable value of inventories

Net realisable value of an inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at the end of the reporting period.

Estimated rebate receivables

The Group receives incentive rebates from suppliers from time to time depending on the policies of the manufacturers. The amount of incentive rebates given by a manufacturer for a given period is generally determined with reference to the Group's purchase volume, sales volume, customer satisfaction and other performance indicators set by the manufacturer with respect to that period. The Group accrues incentive rebates based on management's best estimates and judgements as of the relevant reporting date while the actual amount of the incentive rebates is determined by the manufacturers after the end of the reporting period. These estimates and judgements involve, among other factors, the estimated results of assessment by the manufacturers for the Group's performance in various aspects during the reporting period. When the actual rebates received by the Group differ from the estimated amount, adjustment will be made and recognised in the period in which such event takes place.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets was RMB48,823,000 as at 31 December 2018 (2017: RMB50,366,000). The amount of unrecognised tax losses at 31 December 2018 was RMB135,883,000 (2017: RMB108,375,000). Further details are contained in note 32 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

Information about geographical area

Since all of the Group's revenue was generated from the sale of automobiles and provision of after-sales services in Mainland China and over 90% of the Group's identifiable non-current assets and liabilities were located in Mainland China, no geographical segment information is presented.

Information about major customers

Since no sales to a single customer amounted to 10% or more of the Group's revenue during the year, no major customer information is presented.

5. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue

An analysis of revenue is as follows:

	2018 **RMB'000**	2017 *RMB'000*
Revenue from contracts with customers		
Revenue from the sale of automobiles and others	**9,353,620**	9,474,086
Provision of after-sales services	**1,279,726**	1,366,325
Revenue from other sources		
Finance leasing services	**6,531**	–
	10,639,877	10,840,411

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

	2018 **RMB'000**
Type of goods or services	
Sale of automobiles and others	**9,353,620**
Provision of after-sales services	**1,279,726**
Total revenue from contracts with customers	**10,633,346**
Timing of revenue recognition	
Goods received by the customer at a point in time	**9,353,620**
Services rendered at a point in time	**1,279,726**
Total revenue from contracts with customers	**10,633,346**

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

(a) Revenue (Continued)

Revenue from contracts with customers (Continued)

(i) Disaggregated revenue information (Continued)

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018 *RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sales of automobiles and others	**224,719**
Provision of after-sales services	**28,044**
	252,763

(ii) Performance obligations

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

Sale of automobiles and others

The performance obligation is satisfied upon receipt of goods by the customer and payment in advance is normally required.

Provision of after-sales services

The performance obligation is satisfied upon the services are rendered and the payment is generally settled when the services are rendered.

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

(b) Other income and gains, net:

	Notes	2018 RMB'000	2017 RMB'000
Commission income		**319,752**	307,339
Advertisement support received from motor vehicle manufacturers		**44,759**	36,317
Bank interest income		**9,582**	22,438
Other interest income from financial assets at fair value through profit or loss		**12,028**	–
Interest income from loans to third parties		**8,836**	8,821
Interest income from loans to an associate		**71,887**	–
Government grants*		**3,551**	729
Gain on deemed disposal of subsidiaries		**–**	27,935
Gain on deemed partial disposal of an associate		**–**	29,765
Gain on disposal of shares in an associate	20	**–**	29,304
Gain on transferring the investment in an associate to available-for-sale investment	20	**–**	815,700
Fair value gains, net:			
Financial asset at fair value through profit or loss		**697,004**	–
Loss on disposal of shares in a financial asset at fair value through profit or loss	42	**(235,603)**	–
Others		**10,220**	42,851
Total		**942,016**	1,321,199

* Government grants include various subsidies received by the Company's subsidiaries from relevant government bodies. There are no unfulfilled conditions or contingencies related to these grants.

6. PROFIT BEFORE TAX

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

(a) Employee benefit expense (including directors' and chief executive's remuneration (note 8)):

	2018 **RMB'000**	2017 RMB'000
Wages and salaries	**236,328**	307,392
Equity-settled share option expense	**25,957**	7,719
Other welfare	**41,749**	48,297
	304,034	363,408

(b) Cost of sales and services:

	2018 **RMB'000**	2017 RMB'000
Cost of sales of automobiles *	**9,057,014**	8,908,856
Cost of after-sales services **	**696,174**	791,689
Others	**130,173**	122,021
	9,883,361	9,822,566

* As of 31 December 2018, the impairment provision for inventories amounted to RMB8,513,000 (2017: RMB388,000). The impairment provision for inventories amounted to RMB8,125,000 was included in "Cost of sales of automobiles" in the consolidated statement of profit or loss during the year.

** The employee benefit expenses of RMB56,033,000 (2017: RMB84,474,000) were included in the cost of after-sales services.

6. PROFIT BEFORE TAX (CONTINUED)

(c) Other items:

	Notes	2018 RMB'000	2017 RMB'000
Depreciation of items of property, plant and equipment	13	**133,769**	232,405
Amortisation of prepaid land lease payments	14	**400**	400
Amortisation of intangible assets	15	**4,644**	2,998
Auditor's remuneration		**4,000**	4,000
Loss on disposal of a subsidiary		**–**	1,727
Advertisement and business promotion expenses		**53,517**	48,036
Bank charges		**6,474**	8,069
Minimum lease payments under operating leases		**53,747**	123,674
Loss on disposal of items of property, plant and equipment, net		**16,649**	9,497
Foreign exchange differences, net		**(1,524)**	5,854
Fair value gains, net:			
Financial asset at fair value through profit or loss		**697,004**	–
Loss on disposal of shares in a financial asset at fair value through profit or loss	42	**(235,603)**	–

7. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank loans and other loans	**84,913**	69,483
Less: Interest capitalised	**(17,227)**	(6,046)
	67,686	63,437

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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					
	Fees	Salaries, allowances and other benefits	Equity-settled share award expense	Equity-settled share option expense	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director and chief executive:						
– Mr. Liu Fenglei	–	750	–	871	57	1,678
	–	750	–	871	57	1,678
Executive directors:						
– Mr. Feng Changge	–	2,477	–	871	–	3,348
– Ms. Ma Lintao	–	1,600	–	–	57	1,657
– Ms. Fengguo	–	735	–	139	57	931
– Mr. Han Yang(i)	–	400	–	799	91	1,290
	–	5,212	–	1,809	205	7,226
Non-executive director:						
– Mr. Fan Qihui(ii)	–	–	–	–	–	–
Independent non-executive directors:						
– Mr. Xiao Changnian	256	–	–	–	–	256
– Mr. Liu Zhangmin	254	–	–	–	–	254
– Mr. Xue Guoping	256	–	–	–	–	256
	766	–	–	–	–	766
	766	5,962	–	2,680	262	9,670

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

	Year ended 31 December 2017					
	Fees	Salaries, allowances and other benefits	Equity–settled share award expense	Equity-settled share option expense	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director and chief executive:						
– Mr. Liu Fenglei[iii]	–	540	–	1,301	54	1,895
	–	540	–	1,301	54	1,895
Executive directors:						
– Mr. Feng Changge	–	2,352	–	1,301	–	3,653
– Mr. Yang Lei[iv]	–	420	–	1,379	54	1,853
– Ms. Ma Lintao	–	1,170	–	–	–	1,170
– Mr. Qian Yewen[v]	–	1,947	–	3,331	–	5,278
– Ms. Fengguo[vi]	–	586	–	208	54	848
	–	6,475	–	6,219	108	12,802
Non-executive director:						
– Mr. Fan Qihui	–	–	–	–	–	–
Independent non-executive directors:						
– Mr. Xiao Changnian	243	–	–	–	–	243
– Mr. Liu Zhangmin	247	–	–	–	–	247
– Mr. Xue Guoping	243	–	–	–	–	243
	733	–	–	–	–	733
	733	7,015	–	7,520	162	15,430

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(i) Mr. Han Yang was appointed as an executive director of the Company with effect from 30 June 2018.

(ii) Mr. Fan Qihui resigned as the non-executive director of the Company with effect from 30 June 2018.

(iii) Mr. Liu Fenglei was appointed as an authorised representative of the Company with effect from 29 December 2017.

(iv) Mr. Yang Lei resigned as an executive director and an authorised representative of the Company with effect from 29 December 2017.

(v) Mr. Qian Yewen no longer served as an executive director and the chief financial officer of the Company with effect from 31 August 2017.

(vi) Ms. Feng Guo was appointed as an executive director and the vice-president of the Company with effect from 31 August 2017.

In 2017, 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 35 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.

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 director of the Company during the year (2017: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included four directors for the year (2017: four), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining non-director and non-chief executive highest paid employee for the year is as follow:

	2018	2017
	RMB'000	*RMB'000*
Salaries, allowances and other benefits	**480**	1,696
Equity-settled share option expense	**1,784**	781
Pension scheme contributions	**57**	34
	2,321	2,511

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$2,500,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$3,500,000	**–**	1
	1	1

In 2017, share options were granted to non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 35 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 non-director's and non-chief executive's remuneration disclosures.

10. INCOME TAX

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

	2018	2017
	RMB'000	*RMB'000*
Current Mainland China corporate income tax	**122,813**	203,271
Deferred tax *(note 32)*	**4,373**	(1,177)
	127,186	202,094

Pursuant to Section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or 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 on 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%) on the estimated assessable profits arising in Hong Kong during the year. There are no assessable profits arising in Hong Kong during the year (2017: Nil).

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

10. INCOME TAX (CONTINUED)

(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 rates for the regions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2018	2017
	RMB'000	*RMB'000*
Profit before tax from continuing operations	**817,170**	1,223,382
Tax at the statutory tax rate	**204,293**	305,846
Profits and losses attributable to joint ventures and associates	**27,361**	29,431
Income not subject to tax*	**(115,350)**	(225,676)
Tax effect of non-deductible expenses	**4,005**	5,150
Tax losses and temporary difference not recognised	**9,682**	92,943
Tax losses utilised from previous periods	**(2,805)**	(5,600)
Tax charge	**127,186**	202,094

No share of tax attributable to joint ventures and associates (2017: RMB520,000) is included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

11. DIVIDENDS

	2018	2017
	RMB'000	*RMB'000*
Proposed final – HK12 cents (2017: HK13 cents) per ordinary share	**156,757**	160,973

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The calculation of the proposed final dividend for the year ended 31 December 2018 is based on the proposed final dividend per ordinary share and the total number of ordinary shares as at the date of approval of these financial statements.

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 in issue during the year. The number of shares for the current year has been arrived at after eliminating the restricted shares of the Company held under the share award scheme.

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 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 of all dilutive potential ordinary shares under the share award scheme and share option scheme.

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

Earnings

	2018 ***RMB'000***	2017 *RMB'000*
Profit for the year attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**683,692**	1,009,356

Shares

	Number of shares	
	2018	2017
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,528,665,022**	1,536,113,504
Effect of dilution		
– weighted average number of ordinary shares:		
– Restricted shares	**–**	2,465,112
– Share options	**15,457,384**	6,676,267
	1,544,122,406	1,545,254,883

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2018							
At 1 January 2018:							
Cost	1,573,585	272,502	120,876	136,361	252,701	124,392	2,480,417
Accumulated depreciation	(185,737)	(96,755)	(60,578)	(80,892)	(50,290)	(30,000)	(504,252)
Net carrying amount	1,387,848	175,747	60,298	55,469	202,411	94,392	1,976,165
At 1 January 2018, net of accumulated depreciation and impairment	1,387,848	175,747	60,298	55,469	202,411	94,392	1,976,165
Additions	17,239	20,276	26,430	12,730	170,764	538,525	785,964
Transfer	56,506	230,303	2,130	1,689	-	(290,628)	-
Depreciation provided during the year	(37,011)	(30,051)	(12,069)	(17,056)	(37,582)	-	(133,769)
Disposals	(8,120)	(2,793)	(1,065)	(1,284)	(92,109)	-	(105,371)
At 31 December 2018, net of accumulated depreciation and impairment	1,416,462	393,482	75,724	51,548	243,484	342,289	2,522,989
At 31 December 2018:							
Cost	1,636,851	515,799	147,333	144,142	304,254	372,289	3,120,668
Accumulated depreciation and impairment	(220,389)	(122,317)	(71,609)	(92,594)	(60,770)	(30,000)	(597,679)
Net carrying amount	1,416,462	393,482	75,724	51,548	243,484	342,289	2,522,989

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 1 January 2017:							
Cost	1,497,959	1,013,291	149,683	156,935	212,939	274,846	3,305,653
Accumulated depreciation	(150,512)	(146,963)	(54,748)	(71,469)	(50,661)	(73,708)	(548,061)
Net carrying amount	1,347,447	866,328	94,935	85,466	162,278	201,138	2,757,592
At 1 January 2017, net of accumulated depreciation and impairment	1,347,447	866,328	94,935	85,466	162,278	201,138	2,757,592
Additions	9,064	52,914	14,517	18,222	146,615	122,341	363,673
Transfer	74,630	114,784	329	2,771	–	(192,514)	–
Depreciation provided during the year	(37,518)	(119,598)	(16,242)	(29,331)	(29,716)	–	(232,405)
Acquisition of a subsidiary	–	3,556	1,848	1,319	55	–	6,778
Deemed disposal of subsidiaries	–	(730,386)	(32,174)	(19,866)	(2,239)	(36,573)	(821,238)
Disposal of a subsidiary	–	(2,007)	–	–	–	–	(2,007)
Disposals	(5,775)	(9,844)	(2,915)	(3,112)	(74,582)	–	(96,228)
At 31 December 2017, net of accumulated depreciation and impairment	1,387,848	175,747	60,298	55,469	202,411	94,392	1,976,165
At 31 December 2017:							
Cost	1,573,585	272,502	120,876	136,361	252,701	124,392	2,480,417
Accumulated depreciation and impairment	(185,737)	(96,755)	(60,578)	(80,892)	(50,290)	(30,000)	(504,252)
Net carrying amount	1,387,848	175,747	60,298	55,469	202,411	94,392	1,976,165

At 31 December 2018, certain of the Group's buildings with an aggregate net book value of approximately RMB23,165,000 (2017: RMB25,664,000) were pledged as security for the Group's bank borrowings (note 28(a)).

The Group has yet to obtain property ownership certificates for certain buildings with an aggregate net book value of RMB1,393,297,000 as at 31 December 2018 (2017: RMB1,362,184,000). The directors are of the opinion that the Group is in the process to obtain the relevant certificates and does not expect any legal obstacles.

14. PREPAID LAND LEASE PAYMENTS

	2018	2017
	RMB'000	*RMB'000*
Cost:		
At the beginning and end of the year	**15,981**	15,981
Amortisation:		
At the beginning of the year	**(4,484)**	(4,084)
Charge for the year	**(400)**	(400)
At the end of the year	**(4,884)**	(4,484)
Net book value:		
At the end of the year	**11,097**	11,497

All of the Group's prepaid land lease payments were pledged as security for the Group's bank loans and other borrowings as at 31 December 2018 and 2017 (note 28(a)).

15. INTANGIBLE ASSETS

	Dealership agreements RMB'000	Customer relationships RMB'000	Software RMB'000	Others RMB'000	Total RMB'000
Cost:					
At 1 January 2018	**90,500**	**8,500**	**17,594**	**500**	**117,094**
Additions	**–**	**–**	**1,256**	**–**	**1,256**
At 31 December 2018	**90,500**	**8,500**	**18,850**	**500**	**118,350**
Amortisation:					
At 1 January 2018	**(1,112)**	**(328)**	**(7,080)**	**(195)**	**(8,715)**
Charge for the year	**(2,434)**	**(567)**	**(1,593)**	**(50)**	**(4,644)**
At 31 December 2018	**(3,546)**	**(895)**	**(8,673)**	**(245)**	**(13,359)**
Net book value:					
At 31 December 2018	**86,954**	**7,605**	**10,177**	**255**	**104,991**
Cost:					
At 1 January 2017	27,300	2,800	11,087	500	41,687
Additions	–	–	7,685	–	7,685
Acquisition of a subsidiary	63,200	5,700	34	–	68,934
Deemed disposal of subsidiaries	–	–	(1,212)	–	(1,212)
At 31 December 2017	90,500	8,500	17,594	500	117,094
Amortisation:					
At 1 January 2017	(284)	(78)	(5,762)	(145)	(6,269)
Charge for the year	(828)	(250)	(1,870)	(50)	(2,998)
Deemed disposal of subsidiaries	–	–	552	–	552
At 31 December 2017	(1,112)	(328)	(7,080)	(195)	(8,715)
Net book value:					
At 31 December 2017	89,388	8,172	10,514	305	108,379

16. GOODWILL

	RMB'000
At 1 January 2018:	
Cost	**57,911**
Accumulated impairment	**–**
Net carrying amount	**57,911**
Cost at 1 January 2018, net of accumulated impairment	**57,911**
Cost and net carrying amount at 31 December 2018	**57,911**
At 31 December 2018:	
Cost	**57,911**
Accumulated impairment	**–**
Net carrying amount	**57,911**

Impairment testing of goodwill

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

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 ten-year period approved by senior management. A growth rate of 3% has been projected beyond the ten years. The discount rate applied to the cash flow projections beyond the one-year period is 14% (2017: 14%).

16. GOODWILL (CONTINUED)

Assumptions used in the value in use calculation

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

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

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

In the opinion of the Company's directors, during 2018, all reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

17. PREPAYMENTS AND OTHER ASSETS

	2018 *RMB'000*	2017 *RMB'000*
Prepayments for purchase of items of property, plant and equipment	**269,829**	389,474
Prepayments for leasing buildings and land	**51,688**	30,709
Loan to a third party(i)	**260,000**	–
Due from an associate(ii)	**1,021,716**	–
	1,603,233	420,183

(i) The loan granted to a third party with an amount of RMB260,000,000 as of 31 December 2018 is guaranteed by a third party and the loan bears fixed interest rate of 9.5% per annum with a maturity period of two years.

(ii) As of 31 December 2018, the Group had advances due from its associated company, Independent Aftersales Company, with an amount of RMB1,201,274,000 (31 December 2017: 1,021,716,000), RMB179,558,000 (2017: RMB1,021,716,000) was included in current assets (note 23).

18. FINANCE LEASE RECEIVABLES

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

	2018	2017
	RMB'000	*RMB'000*
Analysed as:		
Current	**50,532**	6,724
Non-current	**81,528**	14,512
	132,060	21,236

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

	Minimum lease receivables 31 December 2018	**Present value of minimum lease receivables 31 December 2018**
	RMB'000	***RMB'000***
Finance lease receivables:		
Within one year	**61,551**	**50,532**
Later than one year and not later than five years	**89,935**	**81,528**
	151,486	**132,060**
Less: Unearned finance income	**19,426**	
Present value of minimum lease payment receivables	**132,060**	

18. FINANCE LEASE RECEIVABLES (CONTINUED)

	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	8,781	6,724
Later than one year and not later than five years	16,112	14,512
	24,893	21,236
Less: Unearned finance income	3,657	
Present value of minimum lease payment receivables	21,236	

19. INVESTMENTS IN JOINT VENTURES

	2018 ***RMB'000***	2017 *RMB'000*
Share of net assets	**5,606**	5,589

河南和諧富騰互聯網加智能電動汽車企業管理有限公司(Henan Harmony Futeng Internet and Intelligent Electric Vehicle Corporate Management Company Limited) ("Futeng Corporate Management Company"), and 河南和諧富騰互聯網加智能電動汽車新能源合夥企業(有限合夥)(Henan Harmony Futeng Internet and Intelligent Electric Vehicle Corporate New Energy Partnership (Limited Partnership)) ("Henan Harmony Futeng LP") are joint ventures of the Group and are considered to be related parties of the Group.

19. INVESTMENTS IN JOINT VENTURES (CONTINUED)

(a) Particulars of the joint ventures are as follows:

Name	Place of establishment/ registration	Paid-in/ issued capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Futeng Corporate Management Company	Zhengzhou, the PRC	RMB20,000,000	40	40	40	Technological development and sale of electric vehicles; corporate management consulting
Henan Harmony Futeng LP	Zhengzhou, the PRC	RMB302,500,000	39.2	39.2	39.2	Technological development and sale of electric vehicles; corporate management consulting

The above investments are indirectly held by the Company.

The Group has discontinued the recognition of its share of losses of a joint venture, Henan Harmony Futeng LP, because the share of losses of the joint venture exceeded the Group's interest in the joint venture and the Group has no obligation to take up further losses. The amount of the Group's unrecognised share of losses of this joint venture for the current year was RMB2,344,000 (2017: RMB38,153,000).

19. INVESTMENTS IN JOINT VENTURES (CONTINUED)

(b) Henan Harmony Futeng LP, which is considered a material joint venture of the Group, is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of Henan Harmony Futeng LP reconciled to the carrying amount in the consolidated financial statements:

	2018 **RMB'000**	2017 RMB'000
Current assets	**259,537**	205,498
Non-current assets, excluding goodwill	**332,044**	339,167
Current liabilities	**(355,808)**	(366,171)
Non-current liabilities	**(423,400)**	(356,090)
Non-controlling interests	**84,319**	80,267
Net liabilities	**(103,308)**	(97,329)
Reconciliation to the Group's interest in the joint venture		
Proportion of the Group's ownership	**39.2%**	39.2%
Carrying amount of the investment	**–**	–
Expense	**(5,979)**	(139,288)
Loss and total comprehensive loss for the year	**(5,979)**	(139,288)

During 2017, the registered capital of Henan Harmony Futeng LP was reduced from RMB1,000,000,000 to RMB302,500,000. Accordingly, the Group's capital contribution also reduced from RMB392,000,000 to RMB273,420,000.

(c) The financial information of Futeng Corporate Management Company is not individually material to the Group and the carrying amount of the Group's investment in Futeng Corporate Management Company is RMB5,606,000 (2017: RMB5,589,000) and the profit for the current year attributable to the Group is RMB17,000 (2017: loss RMB2,139,000).

20. INVESTMENTS IN ASSOCIATES

	2018	2017
	RMB'000	*RMB'000*
Share of net assets	**296,222**	399,041
Loan to an associate*	**390,000**	390,000
	686,222	789,041

鄭州永達和諧汽車銷售服務有限公司(Zhengzhou Yongda Hexie Automobile Sales & Services Co., Ltd.)("Yongda Hexie"), 浙江愛車互聯網智能電動車有限公司(Zhejiang Aiche Internet Intelligent Electric Vehicle Company Limited) ("Aiche Company"), and 河南和諧汽車維修服務有限公司(Henan Hexie Automobile Aftersales Services Co., Ltd. (the "Independent Aftersales Company") are associates of the Group and are considered to be related parties of the Group.

(a) Particulars of the associates are as follows:

			Percentage of			
Name	**Place of establishment/ registration**	**Paid-in/ issued capital**	**Ownership interest**	**Voting power**	**Profit sharing**	**Principal activities**
Yongda Hexie	Zhengzhou, the PRC	RMB20,000,000	30	30	30	Sale and service of motor vehicles
Aiche Company	Shangyu, the PRC	RMB456,500,000	33.7	33.7	33.7	Technological development and sale of electric vehicles
Independent Aftersales Company	Zhengzhou, the PRC	RMB278,666,700	48.80	48.80	48.80	Provision of after-sales services

The Group has discontinued the recognition of its share of losses of an associate, Aiche Company, because the share of losses of the associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. The amount of the Group's unrecognised share of losses of this associate for the current year was RMB3,050,000 (2017: RMB52,702,000).

20. INVESTMENTS IN ASSOCIATES (CONTINUED)

(b) The following table illustrates the summarised financial information in respect of Yongda Hexie reconciled to the carrying amount in the consolidated financial statements:

	2018 *RMB'000*	2017 *RMB'000*
Non-current assets	**55,827**	59,357
Current assets	**100,119**	198,401
Current liabilities	**(129,809)**	(208,548)
Net assets	**26,137**	49,210
Reconciliation to the Group's interest in the associate		
Proportion of the Group's ownership	**30%**	30%
Carrying amount of the investment	**7,841**	14,763
Revenue	**426,738**	520,025
Expenses	**(433,205)**	(513,086)
Tax	**–**	(2,048)
(Loss)/profit and total comprehensive (loss)/income for the year	**(6,467)**	4,891
Dividend paid	**16,606**	–

20. INVESTMENTS IN ASSOCIATES (CONTINUED)

(c) The following table illustrates the summarised financial information in respect of Aiche Company reconciled to the carrying amount in the consolidated financial statements:

	2018 *RMB'000*	2017 *RMB'000*
Current assets	**253,189**	199,168
Non-current assets, excluding goodwill	**332,044**	339,167
Non-current liabilities	**(355,808)**	(356,090)
Current liabilities	**(423,400)**	(366,171)
Non-controlling interests	**28,541**	27,541
Net liabilities	**(165,434)**	(156,385)
Reconciliation to the Group's interest in the associate		
Proportion of the Group's ownership	**33.7%**	33.7%
Carrying amount of the investment	**–**	–
Expenses	**(9,049)**	(219,468)
Loss and total comprehensive loss for the year	**(9,049)**	(219,468)

20. INVESTMENTS IN ASSOCIATES (CONTINUED)

(d) Independent Aftersales Company, which is considered a material associate of the Group, is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of the Independent Aftersales Company reconciled to the carrying amount in the consolidated financial statements:

	2018 *RMB'000*	2017 *RMB'000*
Current assets *(note 1)*	**1,593,170**	1,519,824
Non-current assets *(note 2)*	**840,192**	855,460
Goodwill on acquisition of the associate	**194,442**	194,442
Current liabilities *(note 3)*	**(2,037,713)**	(1,789,464)
Non-controlling interests	**854**	(477)
Net assets	**590,945**	779,785
Reconciliation to the Group's interest in the associate		
Proportion of the Group's ownership	**48.80%**	49.28%
Carrying amount of the investment	**288,381**	384,278
Revenue *(note 4)*	**232,893**	
Expense *(note 4)*	**(459,137)**	
Tax *(note 4)*	**8,060**	
Loss and total comprehensive loss for the year	**(218,184)**	

* On 28 December 2017, Henan Hexie Automobile Trading Co., Ltd. ("Hexie Automobile Trading", an indirectly wholly-owned subsidiary of the Company), Henan Hexie Automobile Aftersales Services Co., Ltd. (the "Independent Aftersales Company", an indirectly wholly-owned subsidiary of the Company), the management and employee stock ownership platforms and certain external investors entered into a capital injection agreement (the "Agreement") to make further investments in the Independent Aftersales Company. As at 31 December 2017, the equity interest held by Hexie Automobile Trading in the Independent Aftersales Company is 49.28% and the Independent Aftersales Company has become an associate of the Group, which is also considered a related party of the Group.

On 18 December 2018, certain external investors entered into an exchange of shares agreement (the "Agreement") to make further investments in the Independent Aftersales Company. As at 31 December 2018, the equity interest held by Hexie Automobile Trading in the Independent Aftersales Company was diluted to 48.80%.

20. INVESTMENTS IN ASSOCIATES (CONTINUED)

(d) Independent Aftersales Company, which is considered a material associate of the Group, is accounted for using the equity method. (Continued)

As at 31 December 2018 and 31 December 2017, the loan due from the Independent Aftersales Company to the Group is RMB390,000,000. The amount is unsecured and bears interest in accordance with the benchmark loan interest rate stipulated by the People's Bank of China for the corresponding period and has a fixed repayment term of five years.

Note 1:

The current assets as at 31 December 2018 and 31 December 2017 mainly consist of:

	2018	2017
	RMB'000	*RMB'000*
Inventories	**20,513**	44,083
Trade receivables	**13,937**	8,542
Cash and bank balances	**65,746**	94,752
Prepayments, other receivables and other assets	**1,492,974**	1,372,447
	1,593,170	1,519,824

Included in prepayments, deposits and other receivables, advances of RMB1,021 million were made to 河南和諧實業集團有限公司(Henan Hexie Industrial Group Co., Ltd. ("Hexie Industrial Group", which is under control of Mr. Feng Changge)) by Independent Aftersales Company.

Note 2:

The non-current assets at 31 December 2018 mainly consist of property, plant and equipment of RMB798,598,000 (31 December 2017: RMB821,898,000), deferred tax assets of RMB38,025,000 (31 December 2017: RMB33,562,000) and long-term investment of RMB3,569,000.

Note 3:

The current liabilities at 31 December 2018 mainly consist of trade and bills payables of RMB58,881,000 (31 December 2017: RMB47,936,000), others payables and accruals of RMB1,920,538,000 (31 December 2017: RMB1,684,950,000) and tax payable of RMB58,294,000 (31 December 2017: RMB56,578,000).

During 2018, the Group made advances to Independent Aftersales Company with an amount of RMB107,671,000 (2017: RMB1,021,716,000) to support its business expansion in aftersales operation. The advances bear interest in accordance with the benchmark loan interest rate stipulated by the People's Bank of China for the corresponding period and have no fixed repayment terms. The advances balance of RMB1,021,716,000 is guaranteed by a shareholder of the Company. The advances balance of RMB107,671,000 together with the interest receivable of RMB71,887,000 are secured by the non-current assets of the Independent Aftersales Company. The advances from the Group was included in current liabilities of Independent Aftersales Company. During 2018, the interest income from advances and loan to Independent Aftersales Company was RMB71,887,000 (2017: Nil).

20. INVESTMENTS IN ASSOCIATES (CONTINUED)

(d) Independent Aftersales Company, which is considered a material associate of the Group, is accounted for using the equity method. (Continued)

Note 4:

Given the Independent Aftersales Company became an associate company of the Company on 28 December 2017 which is close to 31 December 2017, the directors of the Company are of the opinion that the operating results of the Independent Aftersales Company from 28 December 2017 to 31 December 2017 were not material to the Group. The profit or loss attributed to the Independent Aftersales Company was included in the consolidated statement of profit or loss of the Group for the year ended 31 December 2017 as a subsidiary up to 27 December 2017.

As of 31 December 2018, the Group had advances balance and loan due from its associated company, Independent Aftersales Company, with an amount of RMB1,591,274,000 (31 December 2017: RMB1,411,716,000).

(e) Future Mobility Corporation Limited Cayman ("FMC"), which was considered a material associate of the Group until it was transferred to available-for-sale investment on 30 June 2017. As a result, the Group recognised the share of loss amounted to RMB79,345,000 in the consolidated statement of profit or loss contributed by FMC during 2017.

During 2017, due to the further capital injection of RMB171,875,000 in FMC from other investors, the Group recognised a gain on deemed partial disposal of an associate of RMB29,765,000. In addition, the Group sold 1,250,000 shares in FMC to a shareholder of the Company for a consideration of RMB58,876,000 and recognised a gain of RMB29,304,000. The Group assigned its voting rights in the board of directors in FMC to a shareholder and FMC ceased to be an associate of the Group. A gain on transferring the investment in the associate to available-for-sale investment of RMB815,700,000 was recognised.

21. INVENTORIES

	2018 RMB'000	2017 RMB'000
Automobiles	**992,947**	1,146,651
Spare parts and accessories	**131,472**	124,725
	1,124,419	1,271,376

At 31 December 2018, certain of the Group's inventories with an aggregate carrying amount of approximately RMB596,072,000 (2017: RMB718,430,000) were pledged as security for the Group's bank loans and other borrowings (note 28(a)).

At 31 December 2018, certain of the Group's inventories with an aggregate carrying amount of approximately RMB17,997,000 (2017: RMB78,852,000) were pledged as security for the Group's bills payable (note 29).

22. TRADE RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**123,352**	106,190

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over the trade receivable balances. Trade receivables are non-interest-bearing.

22. TRADE RECEIVABLES (CONTINUED)

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

	2018 *RMB'000*	2017 *RMB'000*
Within 3 months	**108,282**	90,432
More than 3 months but less than 1 year	**15,070**	15,758
	123,352	106,190

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 days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The information about the credit risk exposure on the Group's trade receivables using a provision matrix was disclosed in note 45 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 individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 *RMB'000*
Neither past due nor impaired	106,190

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.

22. TRADE RECEIVABLES (CONTINUED)

Impairment under HKAS 39 for the year ended 31 December 2017 (Continued)

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 HKAS39 was necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 **RMB'000**	2017 RMB'000
Prepayments to suppliers	**533,680**	536,980
Rebate receivables	**822,539**	553,665
Loan to a third party[i]	**–**	200,000
Insurance commission receivable	**25,978**	22,650
Dividend receivable	**4,982**	–
Due from related parties[ii]	**180,468**	1,022,626
Others	**229,519**	217,147
	1,797,166	2,553,068

Notes:

(i) As of 31 December 2017, the Group granted entrusted loans to a third party with an amount of RMB200,000,000. The entrusted loans bore interest at 4.35% per annum and was subsequently repaid in March 2018.

(ii) As of 31 December 2018, the Group had a balance with its associate, Yongda Hexie with an amount of RMB910,000 (31 December 2017: RMB910,000). The balance is unsecured and non-interest-bearing and has no fixed repayment terms.

As of 31 December 2018, the Group had current portion of advances balance due from its associated company, Independent Aftersales Company, with an amount of RMB179,558,000 (31 December 2017: RMB1,021,716,000) (note 20 (d)).

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 was disclosed in note 45 to the financial statements.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/ AVAILABLE-FOR-SALE INVESTMENTS

	2018	2017
	RMB'000	*RMB'000*
Non-current		
Available-for-sale investments		
Unlisted equity investment, at cost (i)	**–**	887,023
Financial assets at fair value through profit or loss		
Unlisted equity investment, at fair value (i)	**1,377,410**	–

	2018	2017
	RMB'000	*RMB'000*
Current		
Available-for-sale investments		
Unlisted private fund in the PRC	**–**	83,577
Available-for-sale investments	**–**	37,000
	–	120,577
Financial assets at fair value through profit or loss		
Unlisted private fund in the PRC (ii)	**83,577**	–
Wealth management products (iii)	**84,000**	–
	167,577	–

(i) The above unlisted equity investment as at 31 December 2018 was investments in FMC and was mandatorily classified as financial assets at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interest.

As of 31 December 2018, the Group held 22,250,000 shares in FMC.

(ii) The above unlisted private fund at 31 December was a fund managed by a private fund manager registered and approved by the Asset Management Association of China. It was mandatorily classified as financial assets at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interest.

(iii) The above wealth management products at 31 December 2018 were wealth management products issued by banks in the PRC and was mandatorily classified as financial assets at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interest.

25. PLEDGED AND RESTRICTED BANK DEPOSITS

	2018 ***RMB'000***	2017 *RMB'000*
Deposits pledged	**54,270**	81,043
Restricted bank deposits	**20,677**	–
	74,947	81,043

The pledged bank deposits were denominated in RMB.

26. CASH IN TRANSIT

	2018 ***RMB'000***	2017 *RMB'000*
Cash in transit	**35,964**	37,085

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

27. CASH AND BANK BALANCES

	2018 ***RMB'000***	2017 *RMB'000*
Cash at banks and on hand	**948,300**	1,475,378
Time deposits	**200,000**	105,000
Cash and bank balances	**1,148,300**	1,580,378

27. CASH AND BANK BALANCES (CONTINUED)

The Group's cash and bank balances at each reporting date are denominated in the following currencies:

	2018 **RMB'000**	2017 RMB'000
RMB	**752,492**	1,242,495
US$	**287,333**	4,268
HK$	**108,475**	333,615
	1,148,300	1,580,378

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. Time deposits are made for the period of one year, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

28. BANK LOANS AND OTHER BORROWINGS

	2018 Effective interest rate (%)	2018 RMB'000	2017 Effective interest rate (%)	2017 RMB'000
CURRENT:				
Bank loans	**4.6–7.5**	**1,281,883**	4.4–8.7	732,800
Other borrowings	**4.0–8.5**	**855,721**	4.0–8.7	1,067,556
		2,137,604		1,800,356
NON-CURRENT:				
Bank loans	**–**	**–**	7.5	15,980
		2,137,604		1,816,336

		2018 RMB'000	2017 RMB'000
Bank loans and other borrowings representing:			
– unsecured		**137,496**	–
– secured	(a)	**388,539**	353,762
– guaranteed	(b)	**697,639**	609,347
– secured and guaranteed	(a)(b)	**913,930**	853,227
		2,137,604	1,816,336
Analysed into:			
Bank loans repayable:			
Within one year		**1,281,883**	732,800
In the second year		**–**	15,980
		1,281,883	748,780
Other borrowings repayable:			
Within one year		**855,721**	1,067,556
		2,137,604	1,816,336

28. BANK LOANS AND OTHER BORROWINGS (CONTINUED)

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

(i) mortgages over the Group's prepaid land lease payments situated in Mainland China, which had an aggregate carrying value of approximately RMB11,097,000 as at 31 December 2018 (2017: RMB11,497,000);

(ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB23,165,000 as at 31 December 2018 (2017: RMB25,664,000); and

(iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB596,072,000 as at 31 December 2018 (2017: RMB718,430,000).

(b) Certain of the Group's bank loans and other borrowings are guaranteed by:

(i) certain of the Group's bank loans and other borrowings amounting to RMB785,205,000 were guaranteed by the Chairman of the Company as at 31 December 2017;

(ii) certain of the Group's bank loans and other borrowings amounting to RMB387,639,000 were guaranteed by the Group's subsidiaries as at 31 December 2018 (2017: RMB377,369,000);

(iii) certain of the Group's bank loans amounting to RMB300,000,000 were guaranteed by the Chairman of the Company, and secured by certain land of 河南和諧置業有限公司(Henan Hexie Property Co., Ltd., of which the Chairman of the Company is an equity holder) as at 31 December 2018 (2017: RMB300,000,000);

(iv) In addition to the mortgages mentioned in note 28(a) above, certain of the Group's bank loans amounting to RMB923,930,000 were guaranteed by the legal representative of certain subsidiaries of the Company as at 31 December 2018 (2017: nil).

(c) Except for the unsecured bank loan which is denominated in the United States dollars, all borrowings are in RMB.

29. TRADE AND BILLS PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	**99,089**	82,750
Bills payable	**37,228**	123,457
Trade and bills payables	**136,317**	206,207

An aging analysis of the trade and bills payables as at each reporting date, based on the invoice date, is as follows:

	2018 RMB'000	2017 RMB'000
Within 3 months	**131,304**	200,725
3 to 6 months	**2,097**	2,248
6 to 12 months	**1,308**	1,057
Over 12 months	**1,608**	2,177
	136,317	206,207

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

Certain of the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB17,997,000 as at 31 December 2018 (2017: RMB78,852,000).

30. OTHER PAYABLES AND ACCRUALS

	2018 **RMB'000**	2017 RMB'000
Payables for purchase of items of property, plant and equipment	**49,108**	47,942
Advances and deposits from distributors	**3,034**	3,433
Advances from customers	**–**	252,763
Contract liabilities *(a)*	**285,141**	–
Taxes payable (exclude corporate income tax)	**475,422**	463,892
Lease payables	**22,544**	17,550
Staff payroll and welfare payables	**57,272**	45,232
Payable for acquisition of a subsidiary	**350**	350
Other payables *(b)*	**94,549**	87,209
	987,420	918,371

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

	31 December 2018 RMB'000	**1 January 2018 RMB'000**
Short-term advances received from customers		
Sales of automobiles and others	**242,830**	**224,719**
Provision of after-sales services	**42,311**	**28,044**
	285,141	**252,763**

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

(b) Other payables are unsecured, non-interest-bearing and repayable on demand.

31. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the People's Republic of China (the "PRC") state regulations, the subsidiaries in Mainland China participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 14% 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% of the salaries and wages of the employees which is administered by the Public Accumulation Funds Administration Centre. There is no further obligation on the part of the Group except for these contributions to the accommodation fund.

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

32. DEFERRED TAX

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	Accruals	Deferred rental expenses	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	42,350	11,986	2,883	25,311	82,530
Deferred tax credited/(charged) to the statement of profit or loss during the year	(3,952)	(378)	947	4,781	1,398
Deemed disposal of subsidiaries	(15,956)	(1,311)	(1,685)	(14,610)	(33,562)
At 31 December 2017 and 1 January 2018	22,442	10,297	2,145	15,482	50,366
Deferred tax credited/(charged) to the statement of profit or loss during the year	(10,461)	2,562	(330)	6,686	(1,543)
At 31 December 2018	11,981	12,859	1,815	22,168	48,823

32. DEFERRED TAX (CONTINUED)

Deferred tax liabilities

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

	Fair value adjustments arising from acquisition of a subsidiary *RMB'000*	**Capitalised interest expense** *RMB'000*	**Total** *RMB'000*
At 1 January 2017	7,789	24,891	32,680
Acquisition of a subsidiary	17,606	–	17,606
Deferred tax (credited)/charged to the statement of profit or loss during the year	(283)	504	221
At 31 December 2017 and 1 January 2018	25,112	25,395	50,507
Deferred tax (credited)/charged to the statement of profit or loss during the year	(799)	3,629	2,830
At 31 December 2018	24,313	29,024	53,337

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

	2018 ***RMB'000***	2017 *RMB'000*
Tax losses	**135,883**	108,375
Deductible temporary differences	**–**	2,402
	135,883	110,777

As at 31 December 2018, deferred tax assets have not been recognised in respect of tax losses arising in Mainland China of RMB135,883,000 (2017: RMB108,375,000) that will expire in one to five years for offsetting against future taxable profits as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

32. DEFERRED TAX (CONTINUED)

Deferred tax liabilities (continued)

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

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 established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB2,546,489,000 at 31 December 2018 (2017: RMB2,229,105,000).

33. SHARE CAPITAL

	2018		2017	
	Number of shares at HK$0.01 each	**Equivalent to RMB'000**	Number of shares at HK$0.01 each	Equivalent to RMB'000
Ordinary shares	**1,527,115,677**	**12,085**	1,538,627,177	12,176

	Number of issued and fully paid shares	**Nominal value of shares** *HK$'000*	**Share premium** *HK$'000*	**Equivalent nominal value of shares** *RMB'000*	**Equivalent share premium** *RMB'000*
At 1 January 2017	1,575,700,677	15,757	4,386,887	12,498	3,484,857
Restricted shares exercised (note (a))	–	–	28,195	–	22,275
Shares repurchased *(note (b))*	(37,663,500)	(377)	(140,393)	(327)	(124,317)
Share options exercised *(note (c))*	590,000	6	2,049	5	1,726
At 31 December 2017 and 1 January 2018	**1,538,627,177**	**15,386**	**4,276,738**	**12,176**	**3,384,541**
Final 2017 dividend declared	**–**	**–**	**(200,074)**	**–**	**(160,973)**
Shares repurchased *(note (b))*	**(12,270,500)**	**(123)**	**(47,010)**	**(97)**	**(39,425)**
Share options exercised *(note (c))*	**759,000**	**8**	**2,683**	**6**	**2,194**
At 31 December 2018	**1,527,115,677**	**15,271**	**4,032,337**	**12,085**	**3,186,337**

Notes:

(a) Pursuant to the resolution of the Board of the Company on 28 May 2013, 19,110,898 restricted shares of HK$0.01 each were allotted and issued and to be converted as fully paid at par on 13 June 2013, by way of capitalisation of the sum of HK$191,000 (equivalent to approximately RMB151,000) standing to the credit of the share premium account. These restricted shares were issued for the purpose of the Company's restricted share unit scheme ("RSU Scheme") and managed by a professional trustee. As at 31 December 2017, 14,355,683 (2016: 9,199,412) restricted shares were exercised and converted to ordinary shares. Further details of the RSU Scheme are set out in note 34 below.

33. SHARE CAPITAL (CONTINUED)

Notes: (Continued)

(b) During 2018, the Company repurchased 12,270,500 of its ordinary shares on the Hong Kong Stock Exchange at a total consideration of HK$46,937,000 before expenses. The repurchased shares were cancelled during the year. The nominal value of the cancelled shares of the HK$123,000 (RMB97,000) was reduced from share capital and the premium on repurchased and the related costs incurred for share repurchase of HK$47,010,000 (RMB39,425,000) in total, were debited to the share premium account of the Company.

During 2017, the Company repurchased 37,663,500 of its ordinary shares on the Hong Kong Stock Exchange at a total consideration of HK$140,128,000 before expenses. The repurchased shares were cancelled during the year. The nominal value of the cancelled shares of the HK$377,000 (RMB327,000) was reduced from share capital and the premium on repurchased and the related costs incurred for share repurchase of HK$140,393,000 (RMB124,317,000) in total, were debited to the share premium account of the Company.

(c) During the year 2018, 759,000 (2017: 590,000) share options under the Company's share option scheme were exercised. Accordingly, 759,000 (2017: 590,000) ordinary shares of HK$0.01 each were issued as a result of the exercise of share options. Details of the Company's share option scheme are included in note 35 to the financial statements.

34. RSU SCHEME

The Company's RSU Scheme was approved and adopted by the then shareholder on 20 May 2013 for the primary purpose of attracting skilled and experienced personnel, to incentivise them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company. The terms of the RSU Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new shares.

Under the RSU Scheme, the vesting of the granted RSUs is conditional upon the eligible participants remaining in employment with the Group during the respective vesting periods. A participant in the RSU Scheme (the "RSU Participant") does not have any contingent interest in any shares underlying an RSU award unless and until such shares are actually transferred to the RSU Participant. Further, an RSU Participant may not exercise voting rights in respect of the shares underlying their RSU awards and, unless otherwise specified by the board of directors of the Company in its entire discretion in the RSU grant letter to the RSU Participant, nor do they have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any shares underlying an RSU award.

34. RSU SCHEME (CONTINUED)

On 28 May 2013, RSU awards in respect of an aggregate of 19,110,898 shares, representing approximately 1.75% of the total shares issued on the date of the listing of the Company's shares, had been granted, at nil consideration, to 18 RSU Participants pursuant to the RSU Scheme, of which five of the RSU Participants are directors. All RSU awards granted pursuant to the RSU Scheme to the RSU Participants have a vesting period of four years as follows: 10% on 2 January 2014, 30% on 2 January 2015, 30% on 2 January 2016 and 30% on 2 January 2017. Each RSU award granted pursuant to the RSU Scheme has the same terms and conditions. The grant and vesting of the RSU awards granted pursuant to the RSU Scheme are in compliance with Rule 10.08 of the Listing Rules.

On 27 August 2013, each of the five directors of the RSU Participants agreed to, and as confirmed and approved by the board of directors, reduce the RSU awards granted to them by 62,000 units each. The aggregate amount of the RSU awards so reduced (i.e. 310,000 RSU awards) were granted to an employee of the Company. As a result of the foregoing, the total number of RSU awards granted under the RSU Scheme remained unchanged.

Pursuant to a resolution passed by the board of directors on 27 August 2013 and as confirmed by each of the RSU Participants, the vesting period in respect of the RSU awards granted is extended from four years to five years as follows: 10% on 2 January 2014, 10% on 30 June 2014, 20% on 2 January 2015, 20% on 2 January 2016, 20% on 2 January 2017 and 20% on 2 January 2018. Other than the adjustments in the number of shares underlying the RSU awards granted to certain RSU Participants as described in the previous paragraph and the duration of the vesting period, the terms of the RSU Scheme remained unchanged.

The fair value of the RSU awards granted as at the grant date was RMB82,554,000 (RMB4.32 each), of which the Group did not recognise RSU award expense during the year ended 31 December 2018 (2017: nil) and no (2017: RMB22,275,000) share award reserve was transferred to share premium account upon the conversion into ordinary shares during the year ended 31 December 2018.

The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The fair value of the shares granted is measured at the grant date at the market value of the shares, adjusted for the exclusion of expected dividends to be received in the vesting period.

As at 31 December 2018, a total of 4,755,215 RSU awards were forfeited due to the resignation of certain RSU Participants and 14,355,683 RSU awards were exercised. At the end of the year, the Company did not have RSU awards outstanding under the RSU Scheme.

35. 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 26 June 2015, 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 on 26 June 2015. 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. 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 28 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 payment of the exercise price. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period 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.

35. SHARE OPTION SCHEME (CONTINUED)

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

	2018		2017	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	HK$ per share	***'000***	*HK$ per share*	*'000*
At 1 January	**3.32**	**84,050**	10.60	39,900
Granted during the year	**–**	**–**	3.32	85,000
Exercised during the year	**3.00**	**(759)**	3.00	(590)
Replacement during the year	**–**	**–**	10.60	(15,400)
Forfeited during the year	**3.48**	**(1,500)**	10.49	(24,860)
At 31 December	**3.32**	**81,791**	3.32	84,050

On 9 May 2017, the Group granted 70,000,000 share options (the "New Share Options") to its employees, which was a replacement of share options granted on 29 June 2015 and 2 July 2015. As at 9 May 2017, 15,400,000 share options granted in 2015 were replaced by the New Share Options.

On 15 December 2017, the Group granted 15,000,000 share options to its employees.

The weighted average share price at the date of exercise for share options exercised during the year was HK$4.91 per share.

35. SHARE OPTION SCHEME (CONTINUED)

The exercise price and exercise period of the share options outstanding as at the end of the reporting period are as follows:

31 December 2018

Number of options *'000*	Exercise price* *HK$ per share*	Exercise period
67,191	**3.00**	**1-7-2017 to 28-06-2025**
14,600	**4.80**	**1-4-2018 to 28-06-2025**
81,791		

31 December 2017

Number of options *'000*	Exercise price* *HK$ per share*	Exercise period
69,050	3.00	1-7-2017 to 28-06-2025
15,000	4.80	1-4-2018 to 28-06-2025
84,050		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted on 9 May 2017 and 15 December 2017 was RMB57,250,000 (RMB0.58 each and RMB1.11 each), of which the Group recognised a share option expense of RMB25,957,000 during the year ended 31 December 2018 (2017 : RMB7,719,000)

35. SHARE OPTION SCHEME (CONTINUED)

The fair value of equity-settled share options granted during the year 2017 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:

	2017/5/9	**2017/12/15**
Dividend yield *(%)*	4.82%	1.33%
Expected volatility *(%)*	48.20%	42.48%
Historical volatility *(%)*	48.20%	42.48%
Risk-free interest rate *(%)*	2.11%	2.19%

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

The 759,000 share options exercised during the year resulted in the issue of 759,000 ordinary shares of the Company and new share capital of RMB6,000 (before issue expenses), as further detailed in note 33 to the financial statements.

At the end of the reporting period, the Company had 81,791,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 81,791,000 additional ordinary shares of the Company and additional share capital of HK$817,910 (equivalent to RMB718,288) (before issue expenses).

At the date of approval of these financial statements, the Company had 81,791,000 share options outstanding under the Scheme, which represented approximately 5.36% of the Company's shares in issue as at that date.

36. RESERVES

(i) Statutory reserve

Pursuant to the relevant PRC rules and regulations, these PRC subsidiaries which are domestic enterprises in the PRC as mentioned in note 1 to the financial statements are required to transfer no less than 10% of their profits after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

36. RESERVES (CONTINUED)

(ii) Merger reserve

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

(iii) Exchange fluctuation reserve

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

37. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

None of the non-controlling interests is considered individually significant.

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

2018

	Bank and other loans *RMB'000*	Interest paid *RMB'000*	Dividend paid *RMB'000*
At 1 January 2018	**1,816,336**	**–**	**–**
Change from financing cash flows	**321,268**	**(84,913)**	**(160,973)**
At 31 December 2018	**2,137,604**	**–**	**–**

2017

	Bank and other loans *RMB'000*	Interest paid *RMB'000*	Dividend paid *RMB'000*
At 1 January 2017	1,863,359	–	–
Change from financing cash flows	(47,023)	(69,483)	–
At 31 December 2017	1,816,336	–	–

39. CONTINGENT LIABILITIES

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

40. COMMITMENTS

(a) Capital commitments

Capital commitments of the Group in respect of property and equipment and capital contribution outstanding at each reporting date not provided for in these financial statements are as follows:

	2018 **RMB'000**	2017 RMB'000
Contracted, but not provided for:		
Land leases and buildings	**215,530**	120,730

(b) Operating lease commitments

As lessee

At each reporting date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018		2017	
	Properties **RMB'000**	**Land use right** **RMB'000**	Properties RMB'000	Land use right RMB'000
Within one year	**65,830**	**20,185**	49,252	20,392
In the second to fifth years, inclusive	**262,540**	**79,974**	159,147	87,040
After five years	**297,819**	**220,700**	159,676	230,286
	626,189	**320,859**	368,075	337,718

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

41. 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 14, note 21 and note 25, respectively to these financial statements.

42. RELATED PARTY TRANSACTIONS AND BALANCES

Mr. Feng Changge is the Chairman and a director of the Company, the Controlling Shareholder and is also considered a related party of the Group.

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

(a) Transactions with related parties

	2018	2017
	RMB'000	*RMB'000*
– Advances made to Independent Aftersales Company *(note 20 (d))*	**107,671**	1,021,716
– Interest income from Independent Aftersales Company *(note 20 (d))*	**71,887**	–
– Loan to Independent Aftersales Company *(note 20 (d))*	**–**	390,000
– Disposal of shares in a financial assets at fair value through profit or loss */*(note 20 (e))*	**39,618**	58,876
	219,176	1,470,592

* During 2018, the Group sold 9,000,000 shares in FMC to the Chairman of the Company for a consideration of RMB39,618,000 and recognised a loss of RMB235,603,000.

42. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Balances with related parties

The Group had the following significant balances with its related parties as at each reporting date:

Due from related parties:	**2018** **RMB'000**	2017 RMB'000
Non-trade related:		
– Yongda Hexie	**910**	910
– Independent Aftersales Company	**1,591,274**	1,411,716
	1,592,184	1,412,626

Balance with Yongda Hexie is unsecured and non-interest-bearing and have no fixed repayment terms.

Balances with Independent Aftersales Company are detailed in note 17, note 20 and note 23.

(c) Compensation of key management personnel of the Group

	2018 **RMB'000**	2017 RMB'000
Short term employee benefits	**8,488**	7,965
Equity-settled share option expense	**8,411**	7,520
Post-employee benefits	**467**	300
Total compensation paid to key management personnel	**17,366**	15,785

Further details of directors' and chief executive's emoluments are included in note 8 to these financial statements.

42. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(d) The Chairman of the Company has guaranteed certain bank loans made to the Group up to RMB785,205,000 at nil consideration as at 31 December 2017, as further detailed in note 28(b) to the financial statements.

The Chairman of the Company has guaranteed certain advances made to a related party up to RMB1,021,716,000 (2017: 1,021,716,000) at nil consideration as at the end of the reporting period, as further detailed in note 17 and note 20 to the financial statements.

The Chairman of the Company guaranteed and Henan Hexie Property Co., Ltd pledged certain of its land to secure certain bank loans made to the Group of up to RMB300,000,000 (2017: RMB300,000,000) at nil consideration as at 31 December 2018 as further detailed in note 28(b) to the financial statements.

43. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each reporting period are as follows:

2018

Financial assets

	Financial assets at fair value through profit or loss		
	Designated as such upon initial recognition *RMB'000*	Financial assets at amortised cost *RMB'000*	Total *RMB'000*
Financial assets at fair value through profit or loss	1,544,987	–	1,544,987
Prepayments and other assets	–	1,281,716	1,281,716
Financial lease receivables	–	132,060	132,060
Trade receivables	–	123,352	123,352
Financial assets included in prepayments, other receivables and other assets	–	1,178,227	1,178,227
Pledged and restricted bank deposits	–	74,947	74,947
Cash in transit	–	35,964	35,964
Cash and bank balances	–	1,148,300	1,148,300
	1,544,987	3,974,566	5,519,553

43. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	**136,317**
Financial liabilities included in other payables and accruals	**147,042**
Bank loans and other borrowings	**2,137,604**
	2,420,963

The carrying amounts of each of the categories of financial instruments as at the end of each reporting period are as follows:

2017

Financial assets

	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Available-for-sale investments	–	1,007,600	1,007,600
Finance lease receivables	21,236	–	21,236
Trade receivables	106,190	–	106,190
Financial assets included in prepayments, deposits and other receivables	2,321,150	–	2,321,150
Pledged and restricted bank deposits	81,043	–	81,043
Cash in transit	37,085	–	37,085
Cash and bank balances	1,580,378	–	1,580,378
	4,147,082	1,007,600	5,154,682

43. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	206,207
Financial liabilities included in other payables and accruals	138,934
Bank loans and other borrowings	1,816,336
	2,161,477

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts 2018 RMB'000	Fair values 2018 RMB'000
Financial assets		
Financial assets at fair value through profit or loss	**1,544,987**	**1,544,987**

Management has assessed that the fair values of cash and cash equivalents, pledged bank deposits, cash in transit, trade receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair values of prepayments and other assets and the non-current portion of finance lease receivables and bank loans and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for finance lease receivables and bank loans and other borrowings as at 31 December 2018 was assessed to be insignificant.

The Group invests in unlisted investments, which represent wealth management products issued by banks or unlisted private fund in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at fair value through profit or loss:				
Unlisted equity investment	–	–	1,377,410	1,377,410
Unlisted private fund in the PRC	–	83,577	–	83,577
Wealth management products	84,000	–	–	84,000
	84,000	83,577	1,377,410	1,544,987

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

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (Continued)

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

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and other borrowings, structured deposits and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group has no significant interest-bearing assets other than loans to third parties (note 23), pledged and restricted bank deposits (note 25) and cash and bank balances (note 27).

The Group's interest rate risk arises from its bank loans and other borrowings, details of which are set out in note 28. Borrowings at variable rates expose the Group to the risk of changes in market interest rates.

The Group's exposure to the risk of interest rate fluctuation is very limited, as the Group does not have a floating interest rate of bank loans and other borrowings.

Foreign currency risk

The Group's businesses are located in Mainland China and all transactions are conducted in RMB. Most of the Group's assets and liabilities were denominated in RMB, except for certain bank balances denominated in US$ and HK$ as disclosed in note 27.

The Group's assets and liabilities denominated in US$ and HK$ were mainly held by certain subsidiaries incorporated outside Mainland China who had US$ and HK$ as their functional currencies, and the Group did not have material foreign currency transactions in Mainland China during the year. Therefore, the Group had no significant foreign currency risk.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

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-month ECLs	**Lifetime ECLs**			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables *	–	–	–	124,288	124,288
Prepayments and other assets	1,281,716	–	–	–	1,281,716
Financial lease receivables	–	–	–	132,060	132,060
Financial assets included in prepayments, other receivables and other assets *					
– Normal**	1,178,227	–	–	–	1,178,227
Cash in transit					
– Not yet past due	35,964	–	–	–	35,964
Pledged deposits					
– Not yet past due	74,947	–	–	–	74,947
Cash and cash equivalents					
– Not yet past due	1,148,300	–	–	–	1,148,300

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Maximum exposure and year-end staging as at 31 December 2018 (Continued)

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 22 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Maximum exposure as at 31 December 2017

The Group has no significant concentrations of credit risk. The carrying amounts of pledged and restricted bank deposits, cash in transit, cash and bank balances, trade and other receivables included in the financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2017, all pledged and restricted bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 22 to the financial statements.

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.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payments, is as follows:

	As at 31 December 2018					
	On demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Bank loans and other borrowings	**–**	**530,976**	**1,681,455**	**–**	**–**	**2,212,431**
Trade and bills payables	**5,013**	**131,304**	**–**	**–**	**–**	**136,317**
Other payables and accruals	**147,042**	**–**	**–**	**–**	**–**	**147,042**
	152,055	**662,280**	**1,681,455**	**–**	**–**	**2,495,790**

	As at 31 December 2017					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans and other borrowings	–	610,746	1,225,756	38,437	–	1,874,939
Trade and bills payables	5,482	200,725	–	–	–	206,207
Other payables and accruals	138,934	–	–	–	–	138,934
	144,416	811,471	1,225,756	38,437	–	2,220,080

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity attributable to owners of the parent plus net debt. Net debt includes bank loans and other borrowings, trade and bills payables, other payables and accruals, less cash and bank balances and structured deposits. The gearing ratios as at the end of the reporting periods were as follows:

	2018	2017
	RMB'000	*RMB'000*
Bank loans and other borrowings	**2,137,604**	1,816,336
Trade and bills payables	**136,317**	206,207
Other payables and accruals	**987,420**	918,371
Less: Cash in transit	**(35,964)**	(37,085)
Less: Cash and bank balances	**(1,148,300)**	(1,580,378)
Net debt	**2,077,077**	1,323,451
Equity attributable to owners of the parent	**6,878,393**	6,287,320
Gearing ratio	**30.2%**	21.0%

46. EVENTS AFTER THE REPORTING PERIOD

As of 29 March 2019, the Company has repurchased 5,852,500 shares.

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 ***RMB'000***	2017 *RMB'000*
NON-CURRENT ASSETS		
Interests in subsidiaries	**3,253,720**	3,122,137
Total non-current assets	**3,253,720**	3,122,137
CURRENT ASSETS		
Cash and bank balances	**314,114**	400,418
Total current assets	**314,114**	400,418
CURRENT LIABILITIES		
Bank loans and other borrowings	**137,496**	–
Other payables and accruals	**2,706**	392
Total current liabilities	**140,202**	392
NET CURRENT ASSETS	**173,912**	400,026
NET ASSETS	**3,427,632**	3,522,163
EQUITY		
Share capital	**12,085**	12,176
Reserves (note)	**3,415,547**	3,509,987
Total equity	**3,427,632**	3,522,163

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium *RMB'000*	Share award reserve *RMB'000*	Share option reserve *RMB'000*	Exchange fluctuation reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2017	3,484,857	22,275	28,082	390,769	(81,626)	3,844,357
Total comprehensive loss for the year	–	–	–	(196,054)	(23,206)	(219,260)
Restricted shares exercised	22,275	(22,275)	–	–	–	–
Share options exercised	1,726	–	(238)	–	–	1,488
Shares repurchased	(124,317)	–	–	–	–	(124,317)
Equity-settled share option expense	–	–	7,719	–	–	7,719
At 31 December 2017	3,384,541	–	35,563	194,715	(104,832)	3,509,987
Final 2017 dividend declared	(160,973)	–	–	–	–	(160,973)
Total comprehensive income/(loss) for the year	–	–	–	105,207	(27,051)	78,156
Share options exercised	2,194	–	(349)	–	–	1,845
Shares repurchased	(39,425)	–	–	–	–	(39,425)
Equity-settled share option expense	–	–	25,957	–	–	25,957
At 31 December 2018	3,186,337	–	61,171	299,922	(131,883)	3,415,547

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2019.