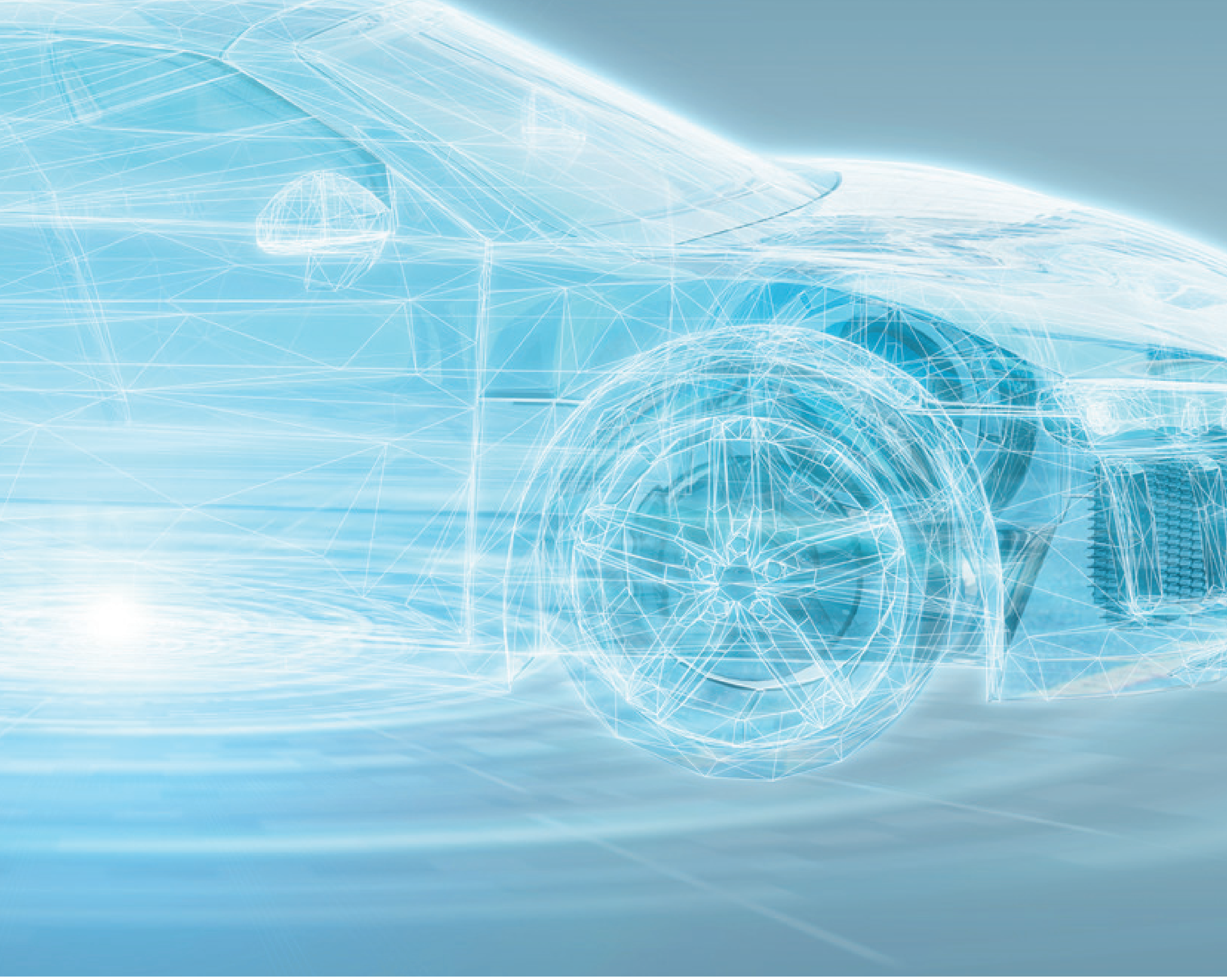
中升集團控股有限公司
ZHONGSHENG GROUP HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 881

2019
Annual Report

Zhongsheng Group

Lifetime Partner

中升集團 終生夥伴



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CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Mr. Cheah Kim Teck (resigned on 20 March 2020)
Mr. Pang Yiu Kai (resigned on 1 October 2019)
Mr. David Alexander Newbigging
(appointed on 1 October 2019)
Mr. Hsu David (appointed on 20 March 2020)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Shen Jinjun
Mr. Ying Wei
Mr. Chin Siu Wa Alfred
Mr. Lin Yong (resigned on 16 October 2019)
Mr. Li Yanwei (appointed on 9 December 2019)

CORPORATE HEADQUARTERS

No. 20 Hequ Street
Shahekou District
Dalian
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

REGISTERED OFFICE

Second Floor
Century Yard
Cricket Square
P.O. Box 902
Grand Cayman
KY1-1103
Cayman Islands (changed on 1 April 2020)

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Services (Cayman Islands) Limited
Second Floor
Century Yard
Cricket Square
P.O. Box 902
Grand Cayman
KY1-1103
Cayman Islands (changed on 1 April 2020)

LEGAL ADVISERS AS TO HONG KONG LAW

Allen & Overy
9th Floor, Three Exchange Square
Central
Hong Kong

JOINT COMPANY SECRETARIES

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

AUTHORIZED REPRESENTATIVES

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

AUDIT COMMITTEE

Mr. Ying Wei *(Chairman)*
Mr. Shen Jinjun
Mr. Lin Yong (resigned on 16 October 2019)
Mr. Chin Siu Wa Alfred (appointed on 9 December 2019)

REMUNERATION COMMITTEE

Mr. Chin Siu Wa Alfred *(Chairman)*
(appointed on 9 December 2019)
Mr. Li Guoqiang
Mr. Shen Jinjun
Mr. Lin Yong *(Chairman)* (resigned on 16 October 2019)

NOMINATION COMMITTEE

Mr. Shen Jinjun *(Chairman)*
Mr. Huang Yi
Mr. Lin Yong (resigned on 16 October 2019)
Mr. Chin Siu Wa Alfred (appointed on 9 December 2019)

COMPLIANCE COMMITTEE

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

RISK COMMITTEE

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

BRANCH SHARE REGISTRAR IN HONG KONG

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

STOCK CODE

881

AUDITORS

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

Huang Yi
Chairman

CHAIRMAN'S STATEMENT

Dear Honourable Shareholders,

On behalf of the board of directors (the "**Board**") of Zhongsheng Group Holdings Limited ("**Zhongsheng Group**" or the "**Company**"), I am very pleased to present the annual results report of the Company and its subsidiaries (the "**Group**") for twelve months ended 31 December 2019 (the "**Reporting Period**").

In 2019, as affected by escalating global trade protectionism, slow economic growth as well as significant domestic economy structural difficulties, China had strengthened its macroeconomic anti-cyclical policy and persisted the supply-side structural reform as its main direction to enhance development quality under such complicated situations both domestically and abroad, and hence, the growth of macro-economy showed a stable rising development trend in general. The key economic indicators were kept within reasonable ranges and economic structure were adjusted and optimized accordingly. According to the initial verified information published by the National Bureau of Statistics, the gross domestic product (GDP) reached RMB99.0865 trillion in 2019 in terms of comparable pricing, representing a year-on-year increase of 6.1%. The added value of tertiary industry increased by 0.6 percentage point last year, accounted for 53.9% of GDP and contributed 59.4% to economic growth.

According to the statistics released by the China Association of Automobile Manufacturers, key economic benefit indicators still showed negative growth in 2019, albeit the monthly production and sales volumes turned good. China's 2019 automobile production and sales volume were 25.721 million units and 25.769 million units respectively, down by 7.5% and 8.2% respectively as compared to the previous year, and had a widening decrease of 4.2 percentage points and 5.4 percentage points in production and sales volumes respectively. Among them, the production and sales volume of passenger vehicles were 21.36 million units and 21.444 million units respectively, down by 9.2% and 9.6% respectively as compared to the previous year.

China's automobile industry faced further pressure in 2019 due to the impact of domestic and foreign trade frictions and policy adjustments. In the context of the descending trend in production and sales, the Group achieved significant development in overall performance by leveraged our good brand portfolio, reasonable regional layout, and forward-looking strategic deployment. For the twelve months ended 31 December 2019, the Group achieved new automobile sales volume of 455,705 units, representing a year-on-year increase of 10.6%. During the Reporting Period, the Group recorded a revenue of RMB124,042.5 million, representing an increase of 15.1% as compared to RMB107,735.7 million for the corresponding period in 2018. In particular, the revenue generated from the new automobile sales business amounted to RMB106,199.1 million, representing an increase of 13.9% as compared to RMB93,221.6 million for the corresponding period in 2018. Furthermore, the revenue generated from after-sales and accessories business increased from RMB14,514.0 million in 2018 to RMB17,843.4 million, representing an increase of 22.9%. During the Reporting Period, profit attributable to owners of the Group's parent company was RMB4,501.7 million, representing an increase of 23.8% as compared to RMB3,636.6 million for the corresponding period in 2018. Basic and diluted earnings per share were RMB1.98 and RMB1.92 (the corresponding period in 2018: RMB1.60 and RMB1.56) respectively.

After experiencing many years of rapid development, the domestic automobile market has basically completed its rapid expansion and is entering a process of transformation and upgrading. At the same time, as affected by urban mobility restrictions and infrastructure scale, the proportion of first purchases went down year by year, and the demand for replacement and additional purchases had increased rapidly. In the context of the continuous decline of the overall automobile market in 2019, the decline in sales in first and second-tier cities were the lowest, and regional development, brand differentiation and model-grading differentiation had become the trend in automobile consumption. The mainstream regional market for the PRC automobile consumption is still the high-end cities and high-end consumption remained stable. In 2019, the sales volume of some Japanese and German brands went positive against the trend, and the differentiation of consumption patterns will continue in the future. In response to the new market competition, Zhongsheng Group actively participated in market integration, continued to upgrade its development strategy, constantly optimized its brand portfolio, regional resources deployment and operation management, and improved service quality. All our businesses had achieved stable growth. As of 31 December 2019, the Group had 360 4S dealerships, covering 24 provincial regions and over 90 cities across China, of which 208 are luxury brand dealerships.

The Group's operation and development continued to receive wide recognition both domestically and abroad. In June 2019, the Group's 2018 revenue of RMB107.736 billion achieved the second place in 2019's Top 100 Automobile Dealers in the Automobile Dealers Industry of China. At the same time, it once again topped the list in respect of its comprehensive abilities for four consecutive years. In July 2019, the Group was once again selected as one of the Fortune China 500, an internationally renowned ranking, and ranked 82nd (2018 ranking: 90th). In August 2019, we received the 2019 Operational Excellence Group Award from CADA. In December 2019, with a total profit before tax of RMB5.201 billion in 2018, for the first time the Group was selected as one of the Top 100 Listed Companies in China. These honors will become the driving force for us to continue to strive and move forward.

In 2019, as affected by various factors such as the decline in macro-economy and lack of consumer confidence, the demand for automobile market in China continued its downturn. Thus, the PRC government put forward a series of policies to stimulate the recovery of pillar industries in national economy. On 1 April 2019, the value-added tax rate for the automotive industry was lowered significantly from 16% to 13%. The "Notice on Issuing the Implementation Plan for Promoting the Upgrade of Key Consumer Goods and Resource Recycling (2019–2020)" (《推動重點消費品更新升級暢通資源迴圈利用實施方案(2019–2020年)》) issued on 6 June 2019 and the "Opinions on Accelerating the Development of Circulation Industry and Promoting Consumer Spending" (《關於加快發展流通促進商業消費的意見》) issued on 27 August 2019 proposed gradual loosening up or removing the restrictions on car purchase, as well as the restriction policy on second-hand automobile transfers and encouraged the purchase of new energy vehicles. We believe all these policies will boost the domestic automobile market, in particular the high-end and luxury brands.

Looking into the future, we will seize the opportunities of the transformation and upgrading of automobiles, deepen innovation, and continue to consolidate our competitive strengths. We will also continue to adhere to the Group's corporate motto and take "Zhongsheng Group — Lifetime Partner" as our object, continue to optimize service quality, improve operational management efficiency and per capita efficiency, and further promote precision management, improve distribution network, and enable the enterprise to maintain its sustainable and stable development.

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

Huang Yi
Chairman
Hong Kong, 20 March 2020

Li Guoqiang
President and Chief Executive Officer

CHIEF EXECUTIVE OFFICER'S STATEMENT

MARKET REVIEW

In 2019, against the backdrop of uncertainties such as the ongoing Sino-US trade dispute and Brexit, the global economy slowed down with mounting pressure. Despite its significant economic structural difficulties domestically, China had strengthened its macroeconomic anti-cyclical policy and persisted with supply-side structural reform as its main direction in enhancing the development quality, and as a result, the macro-economy showed its strong resilience. According to information published by the National Bureau of Statistics of China, China's gross domestic production (GDP) reached RMB99.0865 trillion, representing a year-on-year increase of 6.1%, and GDP per capita had exceeded US$10,000 for the first time. In 2019, consumer spending contributed to 57.8% of the economic growth, representing an increase of 3.5%, and this had been the main driver of economic growth for the sixth consecutive year. The proportion of tertiary industry increased by 0.6% with the economic structure continued to be optimised. New urban employment for the year reached 13.52 million, with urban employment accounting for 57.1% of the national employment, representing an increase of 1.1% over last year. At the same time, the employment structure between the urban and rural regions continued to be optimised.

China's car production and sales volume continued to lead the world and its domestic car market has already begun a period of transformation and enhancements after experiencing over two decades of continuous high-speed growth. In 2019, due to the impact of multiple complicated factors such as the Sino-US trade dispute, the overall slowdown in the domestic economy, the switch from the China Auto Emission National Standard V to VI and the reduction in new energy subsidies, according to the statistics published by the China Association of Automobile Manufacturing, car production and sales volumes in China dropped by 7.5% and 8.2%, respectively as compared to 2018. However, despite the overall decrease in the national car market, luxury brands still achieved a solid growth with new car sales volumes exceeding 12% year-on-year, an accelerated growth in its market share. The market share for passenger vehicles of brands from both Japan and Germany increased by more than 2% year-on-year, respectively. The sales volume for Mercedes-Benz (including Smart) reached 702,088 units in 2019, representing a year-on-year increase of 4%. The annual sales volume for BMW (including Mini) and Audi amounted to 723,680 units and 688,888 units in 2019, respectively, representing a year-on-year increase of 13.1% and 4.2%, respectively. The sales volume for the Japanese luxury brand Lexus, our fully-imported automobile brand, had surpassed 200,000 units in China for the first time with 200,521 units sold in total, representing a significant increase of 24.9% over last year. At present, the high-end cars market in China still remains firm and stable. Sales volume for luxury brands accounted for approximately 11% of the overall sales volume of passenger vehicles, which is relatively low as compared to matured markets, providing a tremendous potential for continued growth for luxury brands. We believe that the trend in consumption upgrades in the future will remain stable and the growth momentum for luxury brands will remain positive.

In 2019, the PRC government put forward a series of favourable policies to boost the automobile market. On 1 April 2019, the value-added tax rate for the automotive industry was lowered from 16% to 13% as a result of the comprehensive policy implementation of reducing value-added tax rate. The "Notice on Continuing the Implementation of Preferential Policies of Tax on Vehicle Purchases" (《關於繼續執行的車輛購置稅優惠政策的公告》) released by the Ministry of Finance and the State Taxation Administration on 28 June 2019 had reduced and exempted vehicle purchases tax for the purchase of new energy vehicles. The "Notice on Issuing the Implementation Plan for Promoting the Upgrade of Key Consumer Goods and Resource Recycling (2019–2020)" (《推動重點消費品更新升級暢通資源迴圈利用實施方案(2019–2020年)》) issued on 6 June 2019 and the "Opinions on Accelerating the Development of Circulation Industry and Promoting Consumer Spending" (《關於加快發展流通促進商業消費的意見》) issued on 27 August 2019 proposed removing the restriction on traffic and restriction on purchasing, pushing forward the vehicle upgrades in rural areas, replacing public transportation in urban cities, promoting the use of new energy vehicles and gradually loosening up or removing the restriction on purchasing, and the restriction policy on second-hand automobile transfers and providing support to newly purchased new energy vehicles.

According to the statistics released by the Ministry of Public Security of China, national motor vehicle ownership reached 348 million units in 2019, of which automobile ownership amounted to 260 million units, representing an increase of 8.83% over 2018. The newly registered motor vehicles nationwide amounted to 32.14 million units, of which 25.78 million units were first-time registrations. Private cars (private small-to-mini-sized passenger vehicles) continued to grow rapidly and achieved a breakthrough of 200 million units for the first time. The number of automobile ownership in 66 cities across China had exceeded one million units, among which 11 cities had automobile ownership of over 3 million units.

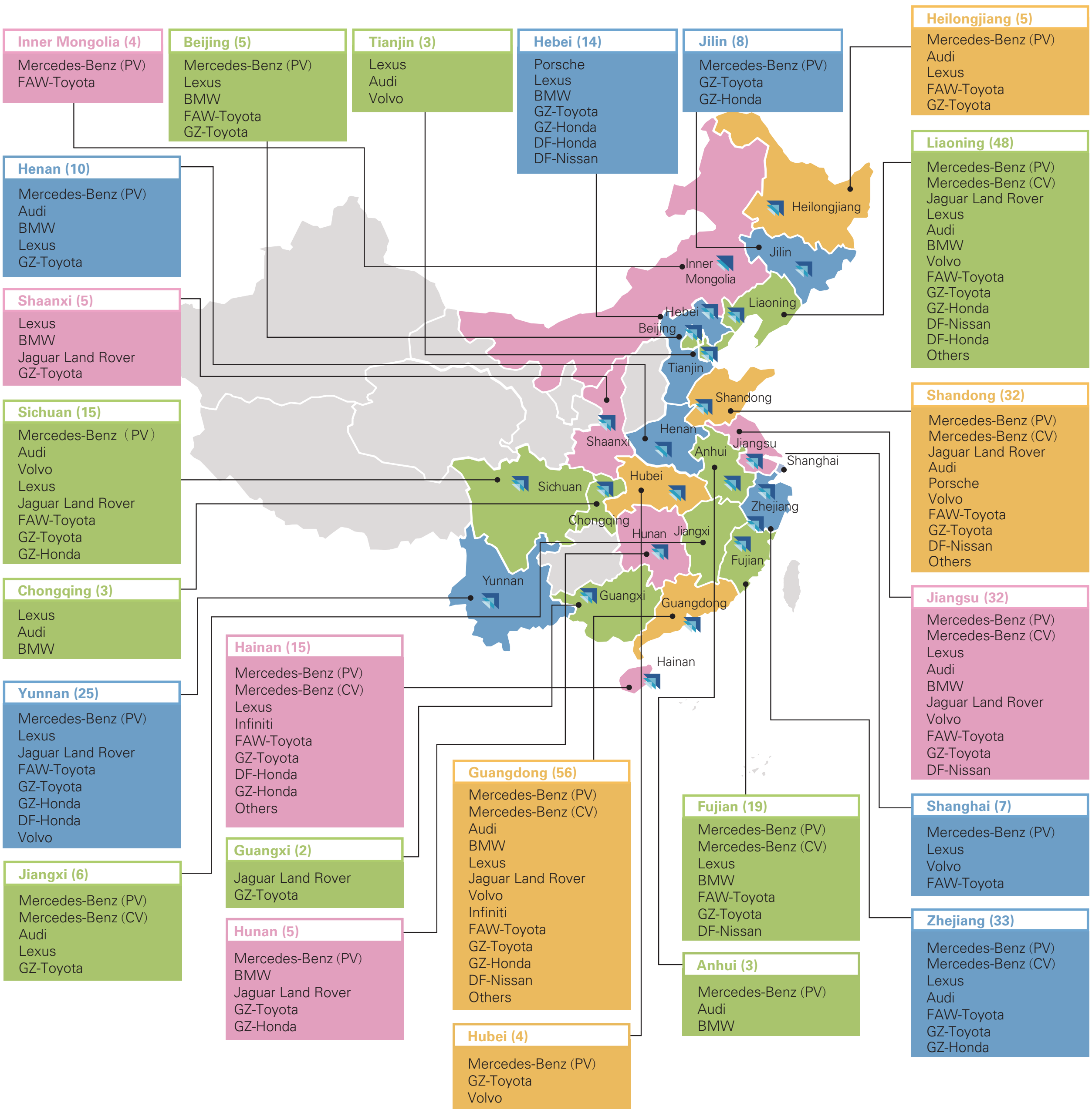
As far as the second-hand automobile market is concerned, its transactional growth slowed down due to the switch from the China Auto Emission National Standard V to VI in 2019. The statistics released by the China Automobile Dealers Association showed that the total transaction volume nationwide reached approximately 14.923 million units in 2019, representing a year-on-year increase of 7.96%. The Company expects that the second-hand automobile market will resume its high-quality development momentum with the relaxation of the restrictive policy, gradual removal of its circulation barriers and the continuous improvement in trading-related regulatory policies.

BUSINESS REVIEW

DEEPENING THE "BRAND + REGION" PORTFOLIO STRATEGY TO FURTHER EXPAND AND IMPROVE NATIONAL SALES NETWORK

According to the statistics released by the Ministry of Public Security of China, there are 14 provinces in China with over 10 million motor vehicles ownership, and the number of ownership in Guangdong Province is approximately 31.51 million units, which also became the first province in China to achieve a breakthrough of 30 million units. Besides, three provinces, namely Shandong, Henan and Jiangsu, have over 20 million motor vehicles ownership and 66 cities in China have more than one million units, among which 30 cities have more than two million units and 11 cities, including Zhengzhou, Shenzhen, Xi'an, Wuhan and Dongguan, have more than three million units, and five cities, namely Beijing, Chengdu, Chongqing, Suzhou and Shanghai, have over four million units. Beijing has the largest automobile ownership of 5.934 million units in total. The Group will further deepen its sales network development in the key regions.

The Group always upholds the "Brand + Region" strategy to deepen the optimisation of its existing brand portfolio. At the same time, we will continue to develop new regions on the basis of expanding our existing regional advantages. As of 31 December 2019, the total number of the Group's dealerships increased to 360, of which 208 are luxury brand dealerships and 152 mid-to-high-end brand dealerships covering 24 provinces, municipalities or autonomous regions and nearly 90 cities in China. As of 31 December 2019, the geographical distribution of the Group's dealership is as follows:



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

EACH BUSINESS SEGMENT GREW STEADILY WITH DIVERSIFICATION, OPERATIONAL EFFICIENCY AND PROFITABILITY IMPROVED CONTINUOUSLY

In 2019, the Group achieved a new automobile sales volume of 455,705 units, representing a year-on-year increase of 10.6%. Sales volume for luxury brands reached 228,020 units, accounting for 50.04% of the Group's total sales volume and representing a further increase over 2018 with the continuous optimisation of the Group's product structure. The revenue from new automobile sales for 2019 amounted to RM106,199.1 million, representing a year-on-year increase of 13.9%.

In recent years, driven by the rapid growth in the number of automobile ownership, the automobile after-sales market in China has also been developing rapidly and has maintained a high double-digit growth rate for the past five years with its market size achieving a breakthrough of over RMB1 trillion in 2017. The automobile after-sales market will become the main growth driver in the automobile industry going forward. With the continuous integration of the automotive after-sales market industry and business model sophistication, small-scale companies with weak competitiveness and poor brand effects will be eliminated, resulting in a more monopolistic and scalable automobile after-sales market. In 2019, the revenue generated from the after-sales and accessories business of the Group reached RMB17,843.4 million, representing a year-on-year increase of 22.9%, and accounted for 14.4% of the Group's total revenue, which showed a steady growth in its contribution to the total revenue of the Group.

As one of the Group's main growth drivers and key development sectors in the future, the value-added service segment, which includes car insurance, car finance and second-hand automobiles, continued to show innovativeness and rapid growth momentum in 2019, and the Group achieved a revenue from value-added services of RMB2,885.2 million for the year, representing a year-on-year increase of 20.0%. The trade volume for second-hand automobiles reached 71,395 units during the year, representing a year-on-year increase of 30.0%. In 2019, our financial penetration of new automobile sales had exceeded 50% and maintained its stable growth, which demonstrated an enormous potential for future development.

FUTURE STRATEGIES AND OUTLOOK

Following many consecutive years of rapid growth, the downward trend in China's automobile market continued in 2019 after the first downturn in 2018, and the automobile industry has entered into a period of transformation and adjustment. While the number of domestic automobile ownership per thousand people is still much lower than that of the developed countries at present, showing that total automobile consumption and market size in China still have tremendous growth potentials. With the implementation of favourable government macroeconomic policies and the gradual virtuous competition cycle in the automobile market, the automobile market in China is expected to continue to develop steadily in the next few years.

The Group will adhere to its people-oriented and customer-first principles, and actively participate in the supply-side structural reform of the national automobile industry with a view to further strengthening its market leader position, enhancing in-depth cooperation with industry chain participants to continuously improve operation efficiency, service standard and customer satisfaction, and effectively expanding the distribution networks in the key regions in China. Moreover, we will be market-oriented to take an innovative and systematic approach to capture the tremendous development potential of the after-sales market, and take full advantage of the Group's platform and economy of scale in order to sustain the long-term development potential and competitive edge of the Group.

Li Guoqiang
President and Chief Executive Officer
Hong Kong, 20 March 2020


S-Class

全新BMW X5

LC500h

TOYOTA

Audi Q7 e-tron

S90

FINANCIAL REVIEW

REVENUE

Revenue for the year ended 31 December 2019 was approximately RMB124,042.5 million, representing an increase of approximately RMB16,306.9 million or 15.1% as compared to the year ended 31 December 2018, among which, revenue from new automobile sales amounted to approximately RMB106,199.1 million, representing an increase of approximately RMB12,977.5 million or 13.9% as compared to the year ended 31 December 2018. Revenue from after-sales and accessories business amounted to approximately RMB17,843.4 million, representing an increase of approximately RMB3,329.4 million or 22.9% as compared to the year ended 31 December 2018. The revenue from new automobile sales business accounted for approximately 85.6% of our total revenue (2018: 86.5%) in 2019, and the portion of revenue from after-sales and accessories business increased from approximately 13.5% in the year ended 31 December 2018 to approximately 14.4% in the year ended 31 December 2019.

In terms of new automobile sales revenue in 2019, Mercedes-Benz was our top-selling brand, representing approximately 29.3% of our total new automobile sales revenue (2018: 29.7%).

COST OF SALES AND SERVICES

Cost of sales and services for the year ended 31 December 2019 amounted to approximately RMB112,554.9 million, representing an increase of approximately RMB14,742.4 million or 15.1% as compared to the year ended 31 December 2018. Cost attributable to our new automobile sales business amounted to approximately RMB103,311.6 million for the year ended 31 December 2019, representing an increase of approximately RMB12,951.8 million or 14.3% as compared to the year ended 31 December 2018. Cost attributable to our after-sales and accessories business amounted to approximately RMB9,243.2 million for the year ended 31 December 2019, representing an increase of approximately RMB1,790.5 million or 24.0% as compared to the year ended 31 December 2018.

GROSS PROFIT

Gross profit for the year ended 31 December 2019 amounted to approximately RMB11,487.6 million, representing an increase of approximately RMB1,564.5 million or 15.8% as compared to the year ended 31 December 2018, of which the gross profit attributable to new automobile sales business amounted to approximately RMB2,887.5 million, representing an increase of approximately RMB25.7 million or 0.9% as compared to the year ended 31 December 2018. Gross profit attributable to after-sales and accessories business was approximately RMB8,600.2 million, representing an increase of approximately RMB1,538.8 million or 21.8% as compared to the year ended 31 December 2018. For the year ended 31 December 2019, the gross profit attributable to after-sales and accessories business accounted for approximately 74.9% of the total gross profit (2018: 71.2%).

Our gross profit margin for the year ended 31 December 2019 was approximately 9.3% (2018: 9.2%).

OTHER INCOME AND GAINS, NET

The other income and gains, net, for the year ended 31 December 2019 amounted to approximately RMB3,109.5 million, representing an increase of approximately RMB548.3 million or 21.4% as compared to the year ended 31 December 2018. The other income and gains mainly consisted of service income from automobile insurance and automobile financing services, gains from second-hand automobile trading business, rental income and interest income, etc.

PROFIT FROM OPERATIONS

Profit from operations for the year ended 31 December 2019 amounted to approximately RMB7,718.3 million, representing an increase of approximately RMB1,289.9 million or 20.1% as compared to the year ended 31 December 2018. Our operating profit margin for the year ended 31 December 2019 was approximately 6.2% (2018: 6.0%).

PROFIT FOR THE YEAR

Our profit for the year ended 31 December 2019 amounted to approximately RMB4,519.5 million, representing an increase of approximately RMB824.2 million or 22.3% as compared to the year ended 31 December 2018. Our net profit margin for the year ended 31 December 2019 was approximately 3.6% (2018: 3.4%).

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

Our profit attributable to owners of the parent for the year ended 31 December 2019 was approximately RMB4,501.7 million, representing an increase of approximately RMB865.1 million or 23.8% as compared to the year ended 31 December 2018.

LIQUIDITY AND FINANCIAL RESOURCES

CASH FLOW

We primarily use cash to pay for new automobiles, spare parts and automobile accessories, to repay our indebtedness, to fund our working capital and normal operating expenses and to establish new dealerships and acquire additional dealerships. We finance our liquidity requirements mainly through a combination of cash flows generated from our operating activities and bank loans and other borrowings.

We believe that our future liquidity demand will continue to be satisfied by using a combination of bank loans and other borrowings, cash flow generated from our operating activities and other funds raised from the capital markets from time to time in the future.

We have adopted a prudent financial management approach towards our treasury policies and thus maintained a health liquidity position throughout the year ended 31 December 2019.

CASH FLOW GENERATED FROM OPERATING ACTIVITIES

For the year ended 31 December 2019, our net cash generated from operating activities was approximately RMB7,799.5 million, arising from operating profit of RMB9,403.6 million before working capital movement, adding a decrease in working capital of RMB204.1 million and deducting payment of tax of RMB1,808.3 million.

CASH FLOW USED IN INVESTING ACTIVITIES

For the year ended 31 December 2019, our net cash used in investing activities was approximately RMB3,139.1 million, consisting primarily of purchases of property, plant and equipment of RMB2,667.5 million, purchases of land use rights of RMB91.0 million, purchases of financial assets at fair value through profit or loss, net of RMB838.6 million, partially offset by proceeds from disposal of items of property, plant and equipment of RMB875.2 million.

CASH FLOW USED IN FINANCING ACTIVITIES

For the year ended 31 December 2019, our net cash used in financing activities was approximately RMB4,711.5 million, consisting primarily of repayment of bank loans and other borrowings of RMB92,572.2 million and interest paid for bank loans and other borrowings of RMB1,077.7 million, partially offset by proceeds from bank loans and other borrowings of RMB90,790.3 million.

NET CURRENT ASSETS

As at 31 December 2019, we had net current assets of approximately RMB4,494.9 million, representing an increase of approximately RMB633.9 million from our net current assets as at 31 December 2018.

CAPITAL EXPENDITURES AND INVESTMENT

Our capital expenditures comprised expenditures on property, plant and equipment, land use rights and business acquisition. For the year ended 31 December 2019, our total capital expenditures were approximately RMB1,742.7 million. Save as disclosed above, the Group did not make any significant investments during the year ended 31 December 2019. The Group did not have other plans for material investments and capital assets as at 31 December 2019.

INVENTORY ANALYSIS

Our inventories primarily consisted of new automobiles, spare parts and automobile accessories. Generally, each of our dealerships individually manages the quotas and orders for new automobiles, after-sales and accessories products. We also coordinate and aggregate orders for automobile accessories and other automobile-related products across our dealership network. We manage our quotas and inventory levels through our information technology systems, including our Enterprise Resource Planning (ERP) system.

Our inventories decreased by 10.5% from approximately RMB10,980.5 million as at 31 December 2018 to approximately RMB9,828.5 million as at 31 December 2019. The decrease of our inventory balance was primarily due to our effective inventory management.

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

	For the year ended 31 December	
	2019	2018
Average inventory turnover days	**30.4**	31.2

Our average inventory turnover days in 2019 decreased to 30.4 days from 31.2 days in 2018, primarily due to our effective inventory management.

ORDER BOOK AND PROSPECT FOR NEW BUSINESS

Due to its business nature, the Group does not maintain an order book as at 31 December 2019. The Group has no new services to be introduced to the market.

BANK LOANS AND OTHER BORROWINGS

As at 31 December 2019, our bank loans and other borrowings amounted to approximately RMB21,014.1 million, and our convertible bonds liability portion amounted to approximately RMB4,293.9 million. The decrease in our bank loans and other borrowings during the year ended 31 December 2019 was primarily because we paid back some of the debts with the cash flow generated from our operating activities. The annual interest rates of the bank loans and other borrowings ranged from 1.0% to 5.9%.

INTEREST RATE RISK AND FOREIGN EXCHANGE RATE RISK

The Group currently has not used any derivatives to hedge interest rate risk. The operations of the Group are mainly carried out in the PRC with most transactions settled in RMB. Certain cash and bank deposits of the Group are denominated in RMB. The Group has not used any long-term contracts, currency borrowings or other means to hedge its foreign currency exposure. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2019, the Group had 29,293 employees (31 December 2018: 26,969 employees). The Group strives to offer a good working environment, a diversified range of training programmes as well as an attractive remuneration package to its employees. The Group endeavours to motivate its staff with performance-based remuneration. On top of basic salary, the Group will reward staff who had outstanding performances with cash bonuses, share options, honorary awards or a combination of all the above to attract talented individuals, and to create long-term incentive for its staff to further align the interests of the employees, the Company and the shareholders of the Company.

PLEDGE OF THE GROUP'S ASSETS

The Group pledged its group assets as securities for bank and other loan and banking facilities which were used to finance our daily business operation. As at 31 December 2019, the pledged assets of the Group amounted to approximately RMB6.0 billion (31 December 2018: RMB7.3 billion).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Save as disclosed above, during the year ended 31 December 2019, the Group did not have any material acquisitions nor disposals of subsidiaries and affiliated companies.

FUTURE PLANS AND EXPECTED FUNDING

Going forward, the Company will continue to expand its business in the luxury and mid-to-high end passenger vehicle market by capitalising on the opportunities arising from the market and exploring developing potential. We aim to expand our distribution network through establishing new stores and undertaking appropriate mergers and acquisitions in the future. We plan to fund our future capital expenditure through the cash flow generated from our operating activities and debt facilities and we currently have sufficient credit facilities granted by banks.

CONTINGENT LIABILITIES

As at 31 December 2019, neither the Company nor the Group had any significant contingent liabilities.

GEARING RATIO

As at 31 December 2019, the gearing ratio of our Group was approximately 57.3% (31 December 2018: 58.5%), which was calculated from net debt divided by the sum of net debt and total equity.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We are pleased to present this environmental, social and governance ("**ESG**") report in the annual report of the Group for the year ended 31 December 2019. This report is compiled and prepared in accordance with the requirements of the ESG Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") and has complied with the "comply or explain" provisions set out therein.

ENVIRONMENTAL

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

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

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

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

During the year ended 31 December 2019, our Group has been fully in compliance with all applicable environmental and related laws and regulations which have a significant impact on the operation of our Group, including Environmental Protection Law of the People's Republic of China (《中華人民共和國環保法》), Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》) and Standards for Pollution Control on Hazardous Waste Storage (《危險廢物貯存污染控制標準》).

EMISSIONS OF GREENHOUSE GAS AND EXHAUST GAS

I. EMISSIONS

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

During the year ended 31 December 2019, the Group adopted the following measures to mitigate the emissions from daily operations, including:

— undertaking an environmental impact assessment, inspection and rectification of the paint spray booth and improving emission monitoring equipment so as to reduce exhaust emission;

— undertaking standardized construction of environmental protection facilities and conducting sewage treatment improvement works within the Group;

— arranging a scientific test drive and test ride so as to reduce exhaust emission;

— equipping a dry grinder for dust produced in the paint spraying and polishing process, and a vacuum cleaner for poisonous gas produced in the welding process;

— reducing pollutant emissions for environmental protection and energy conservation while safeguarding employee health at the same time;

— encouraging employees to replace business travel and long-distance face-to-face meetings with telephone or video conferences where practicable, in order to reduce carbon emissions from transportation; and

— encouraging employees to use public transportation to reduce exhaust gas and greenhouse gas emissions from private cars.

During the year ended 31 December 2019, the Group did not generate significant air and greenhouse gas emissions and thus does not maintain records of such data.

WASTE MANAGEMENT

The Group is committed to minimizing the adverse impact that its operations may have on the environment. During the year ended 31 December 2019, the Group has continued to improve its environmental management practices to reduce energy and other resources, minimize waste and increase recycling. We undertook waste treatment in accordance with the relevant government requirements and fully implemented the Hazardous Waste Management Requirements of Motor Vehicle Maintenance Industry. We collected and stored major hazardous wastes and general solid waste by category during the operation process of our dealerships workshops, used machine oil was regularly handled by units holding environment protection qualifications for disposal purposes.

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

Waste Category	Unit	Emissions in total	Emissions per Unit
Hazardous waste	tonnes	2,738	6.6
Non-hazardous Waste	tonnes	4,003	9.7

Table 1 — Total Waste Produced in the Reporting Period

During the year ended 31 December 2019, the Group implemented the following measures to handle hazardous and non-hazardous waste:

- cooperating with qualified waste recycling companies to handle hazardous waste treatment and recycling;
- carrying out prioritised treatment and recycling of non-hazardous waste;
- establishing and improving accountability system on pollution prevention and control;
- adopting measures to prevent industrial solid waste from polluting the environment; and
- clearly identifying management responsibilities at different levels to handle hazardous and non-hazardous waste.

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

II. USE OF RESOURCES

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

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

Resources	Unit	Consumption Quantity	Intensity (Consumption/ employee)
Electricity	kWh	101,568,679	3,280
Fuel oil	L	6,235,018	200
Water	m^3	3,461,434	109

Table 2 — Total Resources Consumption in the Reporting Period

The Group has sourced water that is fit for purpose. The water efficiency initiatives the Group adopted include encouraging water-saving; stopping water supply if cash wash services are suspended; installing motion-sensor water tap and recycling water resources under suitable conditions. As a result, water efficiency has improved by 4% as compared to the corresponding period in 2018.

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

The Group is continuously improving its environmental management practices to reduce energy and other resources, minimize waste and increase recycling. During the year ended 31 December 2019, the Group has implemented energy use efficiency initiatives to reduce our energy consumption for our day-to-day operations, including:

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

As a result of these measures, the amount of energy saved amounted to 380,848 KWH.

III. THE ENVIRONMENT AND NATURAL RESOURCES

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

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

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

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

SOCIAL

EMPLOYMENT AND LABOUR PRACTICES

I. *EMPLOYMENT*

As at 31 December 2019, our Group had a total of 29,293 employees, all of which are full-time employees. We are committed to ensure that the employees are treated fairly and equally, and that their rights and interests are protected.

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

	Number of employees	Percentage of total (%)
By gender		
Male	18,249	62.3%
Female	11,044	37.7%
Total	29,293	100%
By age group		
Below 25	5,773	19.7%
25–34	18,022	61.5%
35–44	4,680	16.0%
45–54	712	2.4%
55–64	106	0.4%
Total	29,293	100%
By employee type		
Senior management	6	0.0%
Middle management	27	0.1%
Supervisor	411	1.4%
General employee	28,849	98.5%
Total	29,293	100%
By geographical region		
Northeastern and Northern China regions	6,854	23.4%
Eastern and Central China regions	12,119	41.4%
Southern China region	6,058	20.7%
Southwestern and Northwestern mainland regions	4,262	14.5%
Total	29,293	100%

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

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

	Number of employees	Percentage of total (%)
By gender		
Male	7,169	62.3%
Female	4,253	37.7%
Total	11,422	100%
By age group		
Below 25	3,063	26.8%
25–34	6,783	59.4%
35–44	1,260	11.0%
45–54	218	1.9%
55–64	98	0.9%
Total	11,422	100%
By geographical region		
Northeastern and Northern China regions	2,249	19.7%
Eastern and Central China regions	4,605	40.3%
Southern China region	2,807	24.6%
Southwestern and Northwestern mainland regions	1,761	15.4%
Total	11,422	100%

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

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

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

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

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

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

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

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

II. HEALTH AND SAFETY

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

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

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

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

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

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

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

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

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

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

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

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

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

In 2019, the Group has fully complied with all applicable labour relevant laws and related regulations of the PRC, including Production Safety Law of the People's Republic of China (《中華人民共和國安全生產法》), Fire Control Law (《消防法》), Law on the Prevention and Control of Occupational Diseases (《職業病防治法》), etc.

III. DEVELOPMENT AND TRAINING

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

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

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

The Group is committed to facilitating the professional and personal development and growth of all employees and considers training and development a critical continuous process. In 2019, training was closely centered around the work priorities of the Group, mainly focusing on continuing to conduct different levels and kinds of special trainings in different professional segments. For on-line training, we have Zhongsheng Network Institute. For off-line training, we organize trainings for different teams and positions under the Group and also to the stores. For specific teams, we conduct specific training, competition for management job positions and excellent internal trainers selection. Through training, the professional and managerial competencies of our employees are improved, and the talent echelon construction is achieved.

During the Reporting Period, a total of 29,293 employees of the Group completed various trainings, representing 720 training hours.

The breakdown is as follows:

	Number of employees	Percentage of employees trained (%)	Average training hours completed per employee
By gender			
Male	18,249	100%	360
Female	11,044	100%	360
Total	29,293	100%	720
By employee category			
Senior management	6	100%	120
Middle management	27	100%	216
Supervisor	411	100%	192
General employee	28,849	100%	192
Total	29,293	100%	720

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

IV. LABOUR STANDARDS

PROHIBITION OF THE USE OF CHILD LABOUR AND FORCED LABOUR

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

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

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

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

OPERATING PRACTICES

I. *SUPPLY CHAIN MANAGEMENT*

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

In 2019, the Group had a total of 57 key suppliers. During the year, the Group was not aware that any key suppliers had any significant actual and potential negative impact on the business ethics, environmental protection, human rights and labour practices, nor did any of them have any non-compliance incident in respect of human rights issues.

The number of suppliers broken down by region are:

	Number of Suppliers
By geographical region	
Northeastern and Northern China regions	15
Eastern and Central China regions	19
Southern China region	18
Southwestern and Northwestern mainland regions	5
Total	57

Table 6 — Number of Suppliers by Region

II. *PRODUCT RESPONSIBILITY*

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

In 2019, the Group has fully complied with all laws and regulations related to product responsibility, including the Regulation concerning Management of Compulsive Product Certification (《強制性產品認證管理規定》), the Regulations of the People's Republic of China on Certification and Accreditation (《中華人民共和國認證認可條例》), the Announcement on the Issuing of the Catalogue of Descriptions and Table of Definitions for Compulsory Product Certification by the Certification Accreditation Administration of the People's Republic of China (No. 45, 2014) (《國家認監委關於印發強制性產品認證目錄描述與界定表的公告(2014年第45號)》) and the Catalogue of Descriptions and Table of Definitions for Compulsory Product Certification and the Reference Table for HS Code 2014 (《與2014年HS編碼參考表》).

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

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

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

(A) INTELLECTUAL PROPERTY RIGHTS

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

(B) CUSTOMER INFORMATION PROTECTION AND PRIVACY POLICY

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

(C) CUSTOMER COMPLAINTS

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

ANTI-CORRUPTION

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

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

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

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

COMMUNITY

I. COMMUNITY INVESTMENT

We are dedicated to serving the community and creating positive impacts. In our daily operations, our dealerships across the nation are connected to local communities and provide employment opportunities to the handicapped and underprivileged who meet the requirements. The Group has offered 106 number of positions within the Group to the handicapped. Moreover, during the Reporting Period, the Group made donations which amount to RMB1,600,000 to support families in difficulties and students in poor mountainous regions and donated materials to mountainous regions, such as clothes, books, etc., arranged our employees to take their spare time to care for the elderlies and organised activities for the elderlies at nursing home and the disabled.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

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

STAKEHOLDERS' FEEDBACK

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

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CORPORATE GOVERNANCE REPORT

The board of directors of the Company (the "**Board**") is pleased to present this Corporate Governance Report in the annual report of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group has committed to achieving high corporate governance standards.

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

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**").

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

The Board is of the view that throughout the year ended 31 December 2019, the Company has complied with the code provisions as set out in the CG Code.

A. THE BOARD

1. RESPONSIBILITIES

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

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

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

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

2. DELEGATION OF MANAGEMENT FUNCTION

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

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

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

3. BOARD COMPOSITION

The Board comprises the following directors during the year ended 31 December 2019:

Executive Directors:	Mr. HUANG Yi *(Chairman)* Mr. LI Guoqiang *(President and Chief Executive Officer)* Mr. DU Qingshan Mr. YU Guangming Mr. SI Wei Mr. ZHANG Zhicheng
Non-executive Directors:	Mr. PANG Yiu Kai (resigned on 1 October 2019) Mr. CHEAH Kim Teck Mr. David Alexander Newbigging (appointed on 1 October 2019)
Independent Non-executive Directors:	Mr. SHEN Jinjun Mr. LIN Yong (resigned on 16 October 2019) Mr. YING Wei Mr. CHIN Siu Wa Alfred Mr. Li Yanwei (appointed on 9 December 2019)

The biographical information of the Directors is set out in the section headed "Directors and Senior Management" on pages 50 to 55 of the Annual Report for the year ended 31 December 2019.

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

4. INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2019, the Board endeavored to meet the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise, and the audit committee must be chaired by an independent non-executive director, save for one exception: independent non-executive directors representing one-third of the Board.

Pursuant to Rules 3.10 and 3.10A of the Listing Rules, the board of a listed issuer must include at least three independent non-executive directors and the member of the independent non-executive directors must represent at least one-third of the board of the listed issuer. Pursuant to Rule 3.21 of the Listing Rules, the audit committee of a listed issuer must comprise a minimum of three members.

After the resignation of Mr. Lin Yong as an independent non-executive Director has become effective on 16 October 2019, the number of independent non-executive director and the composition of the Board and the Company's audit committee fail to meet the requirements under the Listing Rules. In order to comply with the requirements, the Company appointed Mr. Li Yanwei as an independent non-executive Director and Mr. Chin Siu Wa Alfred as the member of audit committee on 9 December 2019.

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

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

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

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

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

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

According to article 84 of the Articles of Association, Mr. Li Guoqiang, Mr. Du Qingshan, Mr. Zhang Zhicheng and Mr. Lin Yong retired at the annual general meeting on 10 June 2019 whereas in accordance with Article 83(3) of the Articles of Association, Mr. Chin Siu Wah Alfred (who was appointed by the Board on 10 August 2018) held office only until the annual general meeting. Mr. Li Guoqiang, Mr. Du Qingshan, Mr. Zhang Zhicheng, Mr. Lin Yong and Mr. Chin Siu Wa Alfred had offered themselves for re-election at the same annual general meeting. Meanwhile, the Directors to be retired from office by rotation at the forthcoming annual general meeting to be held on 10 June 2020 pursuant to the above article shall be eligible for re-election as directors at the same meeting.

6. CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

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

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

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

During the year ended 31 December 2019, the following Directors attended in-house briefing(s), seminar(s) and training session(s) arranged by the Company or the following professional institution(s)/professional firm(s):

			Directors' Attendance													
Topic	Date	Name of Organizer	Huang Yi	Li Guoqiang	Du Qingshan	Yu Guangming	Si Wei	Zhang Zhicheng	Pang Yiu Kai[1]	Cheah Kim Teck	David Alexander Newbigging[2]	Shen Jinjun	Lin Yong[3]	Ying Wei	Chin Siu Wa Alfred	Li Yan Wei[4]
Singapore & Regional Outlook Forum 2019	9 January 2019	ISEAS Yusof Ishak Institute								✓						
Asian Outlook 2019	17 January 2019	HSBC							✓							
Singapore Perspectives 2019	28 January 2019	Institute of Policy Studies								✓						
Round-table on 2019 Economic Outlook	13 February 2019	Hong Kong Monetary Authority							✓							
HKEx Three-year Strategic Plan Conference	28 February 2019	The Stock Exchange of Hong Kong Limited											✓			
Joint Biz Luncheon with Finance Secretary	19 March 2019	The Hong Kong General Chamber of Commerce							✓							
Director Compliance Training	22 March 2019	The Company	✓	✓	✓	✓	✓	✓				✓			✓	
Greater Bay Area Theme Financial Forum	2 May 2019	Chinese Securities Association of Hong Kong											✓			
HKMA and SFC Financial Lectures	29 May 2019	The Chinese Banking Association of Hong Kong											✓			

In addition, Mr. Pang Yiu Kai, Mr. Cheah Kim Teck, Mr. David Alexander Newbigging, Mr. Lin Yong, Mr. Ying Wei and Mr. Li Yanwei have studied various relevant materials including business journals and financial magazines during the year.

1 Resigned on 1 October 2019
2 Appointed on 1 October 2019
3 Resigned on 16 October 2019
4 Appointed on 9 December 2019

7. ATTENDANCE RECORD OF DIRECTORS AND BOARD COMMITTEE MEMBERS

The attendance records of each Director at the Board and Board committee meetings and the general meeting of the Company held during the year ended 31 December 2019 are set out in the table below:

	Attendance/Number of Meetings						
Name of Director	Board	Nomination Committee	Remuneration Committee	Audit Committee	Compliance Committee	Risk Committee	Annual General Meeting
Huang Yi	6/6	3/3			1/1		1/1
Li Guoqiang	6/6		2/2		1/1		1/1
Du Qingshan	6/6				1/1		1/1
Yu Guangming	6/6					1/1	1/1
Si Wei	6/6					1/1	1/1
Zhang Zhicheng	6/6						1/1
Pang Yiu Kai (Resigned on 1 October 2019)	4/4					1/1	
Cheah Kim Teck	6/6						1/1
David Alexander Newbigging (Appointed on 1 October 2019)	2/2						N/A
Shen Jinjun	6/6	3/3	2/2	2/2			1/1
Lin Yong (Resigned on 16 October 2019)	5/5	2/2	1/1	2/2			1/1
Ying Wei	6/6	2/2			1/1		
Chin Siu Wa Alfred	6/6	1/1	1/1	N/A			1/1
Li Yanwei (Appointed on 9 December 2019)	N/A						N/A

Apart from regular Board meetings, the chairman also held one meeting with the independent non-executive Directors without the presence of other directors on 22 March 2019. All the relevant Directors attended this meeting.

B. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

C. BOARD COMMITTEES

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

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

1. AUDIT COMMITTEE

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

During the year ended 31 December 2019, the Audit Committee held two meetings to review the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of internal control and risk management systems and internal audit function, appointment of external auditors and relevant scope of works and arrangements for employees to raise concerns about possible improprieties. The attendance records of the Audit Committee meetings are set out under "Attendance Record of Directors and Board Committee Members" on page 41.

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

2. REMUNERATION COMMITTEE

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

Details of the amount of Directors' and chief executive officer's remuneration are set out in note 9 to the financial statements.

For the year ended 31 December 2019, the aggregate emoluments payable to members of senior management fell within the following band:

Band	Number of Individual
HK$29,000,001 to HK$29,500,000	1
HK$23,000,001 to HK$23,500,000	1
HK$6,500,001 to HK$7,000,000	2
HK$4,000,001 to HK$4,500,000	1
HK$1 to HK$500,000	1

The Remuneration Committee met twice during the year ended 31 December 2019 to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management and other related matters. The attendance records of the Remuneration Committee meeting are set out under "Attendance Record of Directors and Board Committee Members" on page 41.

3. NOMINATION COMMITTEE

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

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy.

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

The Nomination Committee met three times during the year ended 31 December 2019 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors, to consider the qualifications of the retiring Directors standing for election at the annual general meeting, and to consider and recommend to the Board on the appointment of Directors. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained. The attendance records of the Nomination Committee meeting are set out under "Attendance Record of Directors and Board Committee Members" on page 41.

BOARD DIVERSITY POLICY

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

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

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

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objectives. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

DIRECTOR NOMINATION POLICY

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

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

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

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

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

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

4. COMPLIANCE COMMITTEE

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

The Compliance Committee met once during the year ended 31 December 2019 to review the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report. The attendance records of the Compliance Committee meeting are set out under "Attendance Record of Directors and Board Committee Members" on page 41.

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

5. RISK COMMITTEE

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

The Risk Committee met once during the year ended 31 December 2019 to review the adequacy and effectiveness of the Group's risk management and internal control systems. The Company considers that it has effective and adequate risk management and internal control systems. The attendance records of the Risk Committee meeting are set out under "Attendance Record of Directors and Board Committee Members" on page 41.

D. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2019.

The Company's employees, who are likely to be in possession of unpublished inside information of the Group, are also subject to the Model Code for securities transactions. No incident of non-compliance of the Model Code by the employees was noted by the Company throughout the year ended 31 December 2019.

E. DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019.

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

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

F. EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 68 to 72.

The external auditors of the Company attended the annual general meeting held on 10 June 2019 to answer questions about the conduct of the audit, the preparation and content of the auditors' report and auditor independence.

During the year, the remuneration paid or payable to the Company's external auditors in respect of audit services and non-audit services for the year ended 31 December 2019 amounted to RMB5,800,000 and HK$228,500 respectively. The main non-audit services provided by the external auditors include tax services.

The Audit Committee recommended to the Board that, subject to our shareholders' approval at the forthcoming annual general meeting (to be held on 10 June 2020), Ernst & Young be re-appointed as the external auditor of the Company.

G. RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

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

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

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

The management has confirmed to the Board and the Audit Committee and Risk Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2019.

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

The Board, as supported by the Audit Committee and Risk Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2019, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

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

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

H. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

The last shareholders' meeting was held on 10 June 2019 in Hong Kong, and the topics discussed included: the consideration of the financial statements and reports of the directors and of the auditors for the year ended 31 December 2018; approving the re-election of certain directors of the Company; approving the re-appointment of Ernst & Young as auditors and the declaration of dividend.

The forthcoming annual general meeting will be held on 10 June 2020.

During the year of 2019, the Company has not made any changes to the Articles of Association. A latest version of the Articles of Association is also available on the Company's website and the Stock Exchange's website.

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

I. SHAREHOLDERS' RIGHTS

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

(I) CONVENING AN EXTRAORDINARY GENERAL MEETING BY SHAREHOLDERS

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

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

(II) PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS

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

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

(III) PUTTING FORWARD ENQUIRIES TO THE BOARD

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

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

PRIMARY CONTACT PERSONS

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

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

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

J. JOINT COMPANY SECRETARIES

Ms. Kam Mei Ha Wendy (resigned on 1 April 2019) and Ms. Mak Sze Man of Tricor Services Limited, external service provider, have been engaged by the Company as its joint company secretaries and Ms. Yao Zhenchao, the chief legal officer of the Company, was appointed as a joint company secretary of the Company with effect from 1 April 2019. All of them have satisfied the training requirement for the year of 2019 under Rule 3.29 of the Listing Rules.

The primary contact person of Ms. Mak Sze Man at the Company is Ms. Yao Zhenchao, the chief legal officer and joint company secretary of the Company.

K. GOING CONCERN

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

L. SUBSEQUENT EVENT

In response to the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been implemented across China. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

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

Name	Age	Position
HUANG Yi	57	Chairman and executive Director
LI Guoqiang	56	President, executive Director and chief executive officer
DU Qingshan	57	Executive Director
YU Guangming	62	Executive Director
SI Wei	57	Executive Director
ZHANG Zhicheng	47	Executive Director
David Alexander NEWBIGGING	47	Non-executive Director
HSU David	61	Non-executive director
SHEN Jinjun	62	Independent non-executive Director
CHIN Siu Wa Alfred	63	Independent non-executive Director
YING Wei	53	Independent non-executive Director
LI Yanwei	45	Independent non-executive Director

EXECUTIVE DIRECTORS

HUANG Yi (黃毅), aged 57, is our Chairman and executive Director. Mr. Huang is one of the two founders, and has been the Chairman of the Group since its inception in 1998. Mr. Huang has been serving as an executive Director since 23 June 2008 and he is also a director of the various companies in the Group. Mr. Huang is responsible for the strategic management of the Group and for formulating our overall corporate direction and focus. Prior to founding the Group, Mr. Huang was a director and deputy general manager at China Resources Machinery Co., Ltd. ("**China Resources Machinery**"), a state-owned enterprise engaged in importing and exporting automobiles and other machinery. Mr. Huang held numerous management positions in business administration, product procurement and sales operations in China Resources Machinery during his tenure between 1984 and 1994. In 1994, Mr. Huang joined China Automobile Company Limited ("**China Automobile**") as a director, and was responsible for China Automobile's procurement and sales divisions. In 1996, Mr. Huang invested in, and became a shareholder of, China Automobile. China Automobile, currently known as Hokuryo Holdings Company Limited, is presently an indirect wholly-owned subsidiary of the Group. Mr. Huang has served as the president of the second session of Mercedes-Benz Dealer Council since November 2014, the president of the third and fourth session of Lexus China Dealer Council since 2013, as well as the president of the Advisory Council of GZ Toyota since 2012. Mr. Huang has substantial senior management experience and more than 32 years' of experience and in-depth knowledge of the PRC automobile industry. He received a Bachelor's degree in Economics from Xiamen University in 1983 and was awarded the title of "Economist" by the Ministry of Commerce of the PRC in 1990, a work-related qualification title usually awarded to the government officials or managerial staff in state-owned enterprises by the government in recognition of their relevant working experiences. Mr. Huang also served on a pro bono basis as a director of Pok Oi Hospital, a charitable organisation providing medical and educational services in the New Territories in Hong Kong, between 1997 and 1999.

LI Guoqiang (李國強), aged 56, is the other founder of the Group, and has been serving as the Group's chief executive officer and president since 1998 and as an executive Director since 23 June 2008. He is also a director of the various companies in the Group. Mr. Li is responsible for the overall management and operations of the Group. Mr. Li has served as deputy chairman for the China Automobile Dealers Association ("**CADA**") since December 2009. In 1995, Mr. Li founded Dalian Aotong Automobile Repair & Assembly Factory ("**Aotong Repair & Assembly**"), a company engaged in automobile repair and maintenance services. Mr. Li served as the factory director and legal representative of Aotong Repair & Assembly, and he was responsible for its overall management and operations. From 1996 to 1998, Mr. Li served as the vice chairman of Dalian Toyota Maintenance & Service Co., Ltd. and general manager of Dalian Bonded Zone Toyota Automobile Sales Co., Ltd., and was responsible for the decisions of procurement and sales of automobiles as well as the management of the national distribution networks during his tenure. In 1998, Mr. Li founded Dalian Aotong Industry Co., Ltd. ("**Aotong Industry**"), a company engaged in distribution of automobiles. Aotong Industry is the predecessor of Zhongsheng (Dalian) Group Co., Ltd., which is presently a wholly-owned subsidiary of the Group. Mr. Li has substantial senior management experience and more than 31 years' experience and in-depth knowledge of the PRC automobile industry. Mr. Li also received a Distinguished Lexus Dealer award in 2007 from Toyota Motor (China) Investment Co., Ltd., as part of the Lexus Certification Program.

DU Qingshan (杜青山), aged 57, has been serving as deputy general manager of the Group since 2007. Mr. Du has been an executive Director since 23 June 2008. He is responsible for the financial planning, strategy and management of the Group, and oversees all the financial matters of the Group. Prior to joining the Group in 2007, Mr. Du was appointed by the State-owned Assets Supervision and Administration Commission of Dalian Municipal Government to serve as the chief financial officer of a large-scale state-owned enterprise, Dalian DHI.DCW Group Co., Ltd. ("**Dalian DHI.DCW**") and was in charge of the general financial and accounting affairs of Dalian DHI.DCW. Mr. Du was primarily responsible for the financial operations of Dalian DHI.DCW, which contributed to his over 30 years' experience in the areas of accountancy and finance. Mr. Du received a Bachelor's degree in Economics from the Shanghai University of Finance and Economics in 1986 and a master's degree in Business Administration from Dongbei University of Finance and Economics in 2002.

YU Guangming (俞光明), aged 62, has been serving as deputy general manager of the Group since 2004. Mr. Yu has been an executive Director since 23 June 2008. He is responsible for the strategic business development of the Group as well as selecting and training middle-to-senior level managers of 4S dealerships of the Group. Since joining the Group in 2000, Mr. Yu has held numerous management positions in several of the Group's principal subsidiaries, including Zhongsheng (Dalian) Group Co., Ltd., Dalian Aotong Dongfeng Honda Automobile Sales & Services Co., Ltd., Shanghai Guoxin Automobile Sales Co., Ltd. and Shanghai Zhongsheng Toyota Automobile Sales & Services Co., Ltd., primarily in charge of setting up, overseeing and improving the management teams of the Group's subsidiaries, implementing the strategic decisions of the Group and liaising with the automakers and customers regarding business relationship building. Prior to joining the Group, Mr. Yu served as a manager of Shanghai Material Office of the PRC Ministry of Railways from 1975 to 1994, and he was primarily responsible for the management of its business operations. From 1994 to 2000, Mr. Yu served as a deputy managing director of Hong Kong Union Park Company Limited, a Hong Kong subsidiary of China Railway Materials Commercial Corporation, a large-scale PRC state-owned enterprise, where he was in charge of its overall management and operations during his tenure. Mr. Yu has more than 20 years' relevant experience in the PRC automobile industry. Mr. Yu received a graduation certificate in respect of an associate degree in English from Shanghai International Studies University in 1985.

SI Wei (司衛), aged 57, has been an executive Director since 20 August 2012. Mr. Si joined the Group in June 2012 and since then has been responsible for the strategic development of the Group. Mr. Si has approximately 28 years' experience in the automobile industry. Mr. Si commenced his industry experience by working for automobile dealers from 1992 to 1999, during which period he was exposed to an array of automobile brands including Mitsubishi and Saab. In 1999, he joined the Audi Motor Department of Volkswagen (China) Investment Company Limited, where he was a sales manager responsible for sales of imported Audi automobiles and management and development of dealership network of imported Audi automobiles. From 2004 to 2006, Mr. Si was a sales director of Volkswagen (Finance) China Company Limited, responsible for sales and dealership relationship. From 2006 to 2007, Mr. Si acted as the director of the Iveco Business Department for Fiat's representative office in the PRC and took responsibilities for business development matters. Subsequently Mr. Si commenced his employment with Beijing Benz Automobile Co., Ltd. in 2007 where he was initially the general manager of dealership network development department, responsible for dealership network management and development. In 2008, Mr. Si assumed the office of vice executive president of Beijing Benz Automobile Co., Ltd. in charge of sales and marketing activities. Mr. Si received a Bachelor's degree in English and American literature from Beijing Normal College in 1987.

ZHANG Zhicheng (張志誠), aged 47, has been serving as vice-president of the Group since July 2008 and executive Director since 31 March 2014. Mr. Zhang joined the Group in 2003, and has held numerous management positions in several of the Group's key operating subsidiaries, including Fuzhou Zhongsheng Toyota Automobile Sales Co., Ltd., Dalian Zhongsheng Lexus Automobile Sales & Services Co., Ltd. and Dalian Zhongsheng Toyota Automobile Sales & Services Co., Ltd., primarily responsible for implementing the strategic decisions of the Group and liaising with the automakers regarding developing the brand automobile sales business of the Group. Mr. Zhang currently oversees the sales and management of the Group's brand automobile sales business. Mr. Zhang has over 17 years' relevant experience and in-depth expertise in the China's automobile industry. Mr. Zhang received a master's degree in Business Administration from Dongbei University of Finance and Economics in 2003. Mr. Zhang also received Peak Performance General Manager awards in both 2006 and 2007 from Toyota Motor (China) Investment Co., Ltd., as part of the Lexus Certification Program.

NON-EXECUTIVE DIRECTORS

David Alexander NEWBIGGING (紐璧堅), aged 47, was appointed as a non-executive Director on 1 October 2019. Mr. Newbigging is a director of Jardine Matheson Holdings Limited (a company which has a standard listing on the London Stock Exchange (the "**LSE**"), with secondary listings on the Bermuda Stock Exchange (the "**BSX**") and the Singapore Exchange (the "**SGX**") with stock codes JAR, JMHBD.BH and J36 respectively) since October 2017. Mr. Newbigging is a commissioner of PT Astra International Tbk (a company listed on the Indonesia Stock Exchange (the "**IDX**") with stock code ASII) since April 2012. Mr. Newbigging is a vice chairman of Refrigeration Electrical Engineering Corporation (a company listed on the Ho Chi Minh City Stock Exchange with stock code REE) since March 2013. Mr. Newbigging is the chief executive officer of Jardine International Motors Limited since September 2019. Mr. Newbigging was group managing director of Jardine Cycle & Carriage Limited (a company listed on SGX with stock code C07) from April 2012 to September 2019. He was also a director of Siam City Cement Public Company Limited (a company listed on The Stock Exchange of Thailand with stock code SCCC) from May 2015 to September 2019 and vice president commissioner of PT United Tractors Tbk (a company listed on IDX with stock code UNTR) from April 2013 to April 2017. Mr. Newbigging graduated from the University of Edinburgh with a Master of Arts Degree in Mental Philosophy. He has also completed the General Management Programme at Harvard Business School and the Stanford Executive Programme at Stanford Graduate School of Business, as well as INSEAD's AVIRA programme.

Mr. HSU David (許立慶), aged 61, was appointed as a non-executive Director on 20 March 2019. Mr. Hsu joined the board of directors of Jardine Matheson Holdings Limited in 2016, having first joined the Jardine Matheson Group in 2011. He is chairman of Jardine Matheson (China) Limited, with responsibility for supporting the Jardine Matheson Group's business developments in Chinese mainland, Taiwan and Macau. Mr. Hsu is also a director of Jardine Matheson Limited and Jardine Strategic Holdings Limited (a company which has a standard listing on the LSE, with secondary listings on the BSX and the SGX with stock codes JDS, JSHBD.BH and J37 respectively) and has been serving as a non-executive director and a member of the audit committee of Greatview Aseptic Packaging Company Limited (a listed company on the Stock Exchange, stock code: 00468) since August 2017. He was previously chief executive of J.P. Morgan Asset Management in the Asia Pacific Region supervising the asset management operation in Greater China (Hong Kong, China and Taiwan), Japan, Korea, Singapore, Australia and India. Mr. Hsu is a vice chairman of the China Committee of the Hong Kong General Chamber of Commerce, and chairman of FTSE TWSE Taiwan Index Series Advisory Committee. Mr. Hsu is a past chairman of the Taiwan Securities Investment Trust and Consulting Association, and a former vice chairman of the Taiwan Pension Association. Mr. Hsu graduated from the National Chiao Tung University with a bachelor's degree (first class honours) in management in 1980 and obtained an MBA degree from the National Cheng Chih University in Taiwan.

INDEPENDENT NON-EXECUTIVE DIRECTORS

SHEN Jinjun (沈進軍), aged 62, has been serving as an independent non-executive Director since 16 November 2009. Mr. Shen served as an independent non-executive Director of Wuchan Zhongda Group Co., Ltd. (Stock code: 600704), a company listed on the Shanghai Stock Exchange, from August 2011 to April 2017, has become an independent non-executive Director of China Grand Automotive Services Co., Ltd. (Stock code: 600297), a company listed on the Shanghai Stock Exchange, since July 2015 and an independent non-executive Director of Beijing Changjiu Logistics Corp. (Stock code: 603569), a company listed on the Shanghai Stock Exchange, since August 2016. Mr. Shen has served as deputy chairman and secretary chief for CADA since 2005 and has served as the chairman for CADA since 5 November 2014. Mr. Shen has also worked as the deputy chief of the Transport and Mechanical Section of Mechanical and Electrical Equipment Division of the State Administration of Supplies, chief of Automobile Section of Mechanical and Electrical Equipment Circulation Division of Ministry of Internal Trade and the chief of the Electrical, Mechanical and Metallic section of Production Circulation Division of the State Administration of Domestic Commerce. During that time, Mr. Shen was mainly responsible for administering the automobile dealing industry and participated in the formulation of related regulations. Mr. Shen completed all the related courses of an associate degree majoring in electronics at the Beijing Open University in 1982 and obtained a graduation certificate.

CHIN Siu Wa Alfred (錢少華) (Former name: Qian Shaohua), aged 63, was appointed as an independent non-executive Director on 10 August 2018. Mr. Chin has been serving as group vice president at Shangri-La Asia Limited ("**SA**", a company listed on the Stock Exchange with stock code 69) since February 2017 and served as vice president of development at SA from February 2004 to September 2007. Mr. Chin served as the non-executive director of the Kerry Logistics Network Limited (a company listed on the Stock Exchange with stock code 636) from November 2013 to May 2019. Mr. Chin served as a director of Kerry Properties Limited ("**KPL**", a company listed on the Stock Exchange with stock code 683) from September 2007 to January 2017 and was re-designated as an executive director of KPL from July 2009 to January 2017. He also served as a co-managing director of KPL from August 2013 to September 2015. Mr. Chin served as chairman and general manager of Zhongshan City Tourism Group Company, a state-owned enterprise primarily engaged in the business of tourism development, from January 1996 to May 2002, where he was responsible for the day-to-day general management, asset management, and business development primarily for the PRC market. Mr. Chin graduated from South China Normal University in 1986 and completed an advanced management programme at Harvard Business School in 2002.

YING Wei (應偉), aged 53, was appointed as an independent non-executive Director on 19 December 2016. Mr. Ying served as an executive director and vice-president of China Resources Textiles (Holdings) Company Limited from 1989 to 2007. Mr. Ying served as a vice-president of China Water Affairs Group Limited (a company listed on the Stock Exchange, stock code: 855) from 2007 to 2009, an executive director and president of China Botanic Development Holdings Limited (renamed as China City Infrastructure Group Limited) (a company listed on the Stock Exchange, stock code: 2349) from 21 July 2008 to 30 July 2009 and an independent non-executive director of China Public Procurement Limited (a company listed on the Stock Exchange, stock code: 1094) from 28 December 2012 to 24 March 2014. Mr. Ying served as a non-executive director of New Focus Auto Tech Holdings Limited (a company listed on the Stock Exchange, stock code：360) from 28 August 2013 to 29 March 2018 and a non-executive director of China Health Group Limited (a company listed on the Stock Exchange, stock code：673) from 18 June 2016 to 7 May 2018. Currently, Mr. Ying is a director of Giant Network Group Co., Ltd (formerly Chongqing New Century Cruise Co., Ltd.) (a company listed on the Shenzhen Stock Exchange, stock code: 2558), an independent non-executive director of CHTC Fong's Industries Company Limited (a company listed on the Stock Exchange, stock code: 641) and Fountain Set (Holdings) Limited (a company listed on the Stock Exchange, stock code: 420). Mr. Ying is also a managing partner of CDH Shanghai Dinghui Bai Fu Wealth Management Co., Ltd. Mr. Ying is a non-practising member of The Chinese Institute of Certified Public Accountants and holds a master's degree in Business Administration from the University of San Francisco and a bachelor's degree in Economics from Zhejiang Gongshang University (formerly Hangzhou College of Commerce).

LI Yanwei (李顏偉), aged 45, was appointed as an independent non-executive Director on 9 December 2019. Mr Li joined Sina.com Technology (China) Co., Ltd. in 2003 and was engaged in the work relating to media in respect of the automobile industry. Mr. Li has been the founder of 秒車信息技術有限公司 Miaoche Information Technology Co., Ltd.* since 2014. Mr. Li has also been a member of the expert committee of CADA since 2015. For each year from 2016 to 2019, Mr. Li was honoured with the title of Outstanding Expert of CADA. Mr. Li obtained a bachelor's degree in law from Yanbian University.

* *for identification purposes only*

OTHER SENIOR MANAGEMENT

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

Name	Age	Position
LI Guohui	48	Joint chief financial officer
TANG Xianfeng	50	Vice-president
SHAO Wencheng	51	Vice-president
HAO Qing	44	Vice-president and brand general manager
Li Yuanhua	39	Vice-president and director of audit and supervision department
SONG Lanlan	38	Vice-president and Mercedes-Benz brand general manager

LI Guohui (李國輝), aged 48, joined the Group in July 2019 and currently serves as joint chief financial officer of the Group. Mr. Li has been serving as senior manager in investment, merger and acquisition/financial analysis of International Maritime Carriers Group in Singapore and Hong Kong and accounting director of finance department of China Resources (Group) Co., Ltd. Mr. Li has served as an executive director, the chief financial officer and the vice president of China Resources Pharmaceutical Group Limited (a company listed on the Stock Exchange, stock code: 3320), a non-executive director of Dong-E E-Jiao Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000423) and China Resources Double Crane Pharmaceutical Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600062) and a supervisor of Sanjiu Medical & Pharmaceutical Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000999). Mr. Li received a Master's degree in Financial Management from Nanyang Technological University in Singapore and a Master's degree in Business Administration from Wuhan University and obtained professional qualifications as a Chartered Financial Analyst qualified by the Institute of Chartered Financial Analyst and a Certified Public Accountant (Singapore) qualified by the Singapore Institute of Chartered Accountants.

TANG Xianfeng (唐憲峰), aged 50, joined the Group in January 2014 and currently serves as vice-president of the Group, primary responsible for construction and development. Prior to joining the Group, Mr. Tang served as the vice-president of Dalian Huarui Heavy Industry Group Co., Ltd. from January 2012 to December 2013. In addition, Mr. Tang also served as a designer in the research institute, office vice-director, assistant to the head of reducer factory, vice-director of labour and personnel department and head of port machinery factory of Dalian Daqi Group from 1999 to 2003. Mr. Tang joined Dalian DHI.DCW in June 2003 and served as the executive vice head and head of Second Business Division, assistant to the general manager and vice general manager of the Group. Mr. Tang obtained a Bachelor's degree in lifting transportation and mechanical engineering from Taiyuan Heavy Machinery Institute in 1991 and obtained a master's degree in mechanical engineering from Wuhan University of Technology in 2006. Mr. Tang obtained the senior professional manager qualification and was qualified as professor and researcher level senior engineer.

SHAO Wencheng (邵文成), aged 51, first joined the Group in June 1998 and currently serves as vice-president of the Group, primarily responsible for after-sales and accessories business. Mr. Shao worked as general manager of Dalian Zhongsheng Group Auto Accessories Co., Ltd. from December 2014 to February 2018. Mr. Shao worked as the general manager in Zhongsheng Group's East China Regional Office from June 2014 to December 2014 and was also general manager for Zhongsheng Group's East China District Office from January 2014 to June 2014. Mr. Shao has also worked in various capacities for Zhongsheng Motor Sales & Service Co., Ltd. in Kunming, Dalian and Nanjing. Mr. Shao obtained a bachelor degree in engineering in cars and tractors from Liaoning Institute of Technology in 1995.

HAO Qing (郝青), aged 44, joined the Group in July 1998 and currently serves as vice-president and brand general manager of the Group. Ms. Hao served as a sales manager in Dalian Free Trade Zone Nissan Automobile Sales and Service Co., Ltd. from July 1998 to August 2005. Ms. Hao joined Dalian Zhongsheng Lexus Automotive Sales & Service Co., Ltd. ("**Dalian Zhongsheng Lexus**") from August 2005 to January 2012 and served as a sales manager, the vice-president and general manager. In addition, Ms. Hao served as the brand operation director and store manager at the Lexus Brand Office and Dalian Zhongsheng Lexus from January 2012 to December 2013; the regional general manager in the Dalian Regional Office and the general manager and store manager in the Lexus Brand Office from December 2013 to July 2015; and the brand general manager and store manager in the Lexus Brand Office from July 2015 to April 2019. Ms. Hao received the honour of National Outstanding General Manager of Lexus China Distributor from 2010 to 2013. Ms. Hao obtained a Bachelor's degree in English from Liaoning Normal University.

LI Yuanhua (李遠華), aged 39, joined the Group in October 2014 and currently serves as vice-president and director of audit and supervision department, primary responsible for duties in financial, human resources, audit and supervision. Prior to joining the Group, Ms. Li served in the finance and accounting department, securities department and branch office at Dalian Huarui Heavy Industry Group Co., Ltd. from July 2002 to November 2007 and served as the chief accountant at Dalian Huarui Heavy Industry Crane Company from December 2007 to January 2012, responsible for financing, salary management, bidding and operation management. In addition, Ms. Li served as the chief accountant at Dalian Huarui Heavy Industry Group Complete Company from January 2012 to September 2014, responsible for financing, procurement, engineering cost, risk control. Ms. Li served as a director of the audit and supervision department of the Group from October 2014 to July 2017, responsible for internal audit and served as a director of the financial management department and a director of the supervision department of the Group from August 2017 to November 2019. Ms. Li has been honoured the title of Model Worker several times from 2007 to 2013. In 2003, Ms. Li has been honoured the title of Dalian Model Worker. Ms. Li obtained a bachelor's degree in accounting from Harbin University of Science and Technology in 2002 and qualified as an associate member (AAIA) of The Association of International Accountants in 2012.

SONG Lanlan (宋蘭蘭), aged 38, joined the Group in 2007 and currently serves as vice-president and Mercedes-Benz brand general manager. Ms. Song served as the sales consultant at Dalian Zhongsheng Lexus Automobile Sales & Service Co., Ltd. from May 2007 to August 2008; served as the sales director in Dalian Xinshengrong Automobile Sales Service Co., Ltd. from August 2008 to September 2009; served as the general manager at Dalian Zhongshengzhixing Automobile Sales Service Co., Ltd. from September 2009 to January 2012 and served as the Mercedes-Benz brand general manager of the Group from January 2012 to April 2019. Ms. Song obtained a diploma in international economics and trade from the Harbin Institute of Technology in 2002, a bachelor's degree in international economics and trade from Dongbei University of Finance and Economics in 2007 and a Master's degree in Business Administration from Peking University.

COMPANY SECRETARIES

MAK Sze Man (麥詩敏), aged 45, was appointed as joint company secretary of the Company on 1 July 2010. She is a senior manager of Corporate Services Division of Tricor Services Limited and an associate member of both The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. Ms. Mak has over 23 years of experience in corporate secretarial area.

YAO Zhenchao (姚振超), aged 39, was appointed as joint company secretary of the Company on 1 April 2019. She joined the Group in July 2011 and currently serves as the chief legal officer of the Company. She is admitted as a registered attorney in the PRC and the State of New York, the United States of America.

REPORT OF THE DIRECTORS

The directors are pleased to present this annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019 (the "**Financial Statements**").

PRINCIPAL ACTIVITIES

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

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

RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the financial statements on pages 73 to 173 of this annual report.

BUSINESS REVIEW

A review of the business of the Company and a discussion and analysis of the Company's performance during the year, and the material factors underlying its results and financial position are provided in the Management Discussion and Analysis on pages 12 to 18. Main risks and uncertain factors faced by the Group and corresponding mitigation methods are set out in note 48 to the Consolidated Financial Statements. An analysis of the Group's performance during the year using financial Key Performance Indicators is provided in the section headed "Management Discussion and Analysis-Financial Review" on pages 12 to 18 of this annual report. The future development of the Company's business is discussed throughout this annual report including in the Chief Executive Officer's Statement on pages 6 to 11 and Management Discussion and Analysis on pages 12 to 18. The Board recognises the importance of environmental protection and has adopted stringent measures for environmental protection in order to ensure the Group's compliance to the prevailing environmental protection laws and regulations. Additional details regarding the Company's performance on environmental and social-related key performance indicators and policies are provided in the "environmental policies and performance" of this Report of Directors on page 65.

Compliance with relevant laws and regulations which have a significant impact on the Company are provided in the "compliance with laws and regulations" of this Report of Directors; and an account of the Company's relationships with its employees, customers, suppliers, shareholders, etc. are disclosed, in "relationship with stakeholders" of this Report of Directors on page 66.

CAPITAL

Details of the capital of the Group during the Reporting Period are set out in note 36 to the Financial Statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the Reporting Period are set out in the consolidated statement of changes in equity and note 50 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company has distributable reserves of RMB4,072.0 million in total available for distribution, of which RMB900.3 million has been proposed as final dividend for the year.

DIVIDEND POLICY

The Board has adopted a dividend policy. The Company do not have any pre-determined dividend payout ratio. The Board shall also take into account the following factors of the Group when considering the declaration and payment of dividends: financial results; cash flow situation; business conditions and strategies; future operations and earnings; capital requirements and expenditure plans; interests of shareholders; any restrictions on payment of dividends; and any other factors that the Board may consider relevant.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 174 of this annual report.

DONATIONS

The Company made a donation of RMB1,600,000 to various PRC charity projects or organisations for the year of 2019.

PROPERTY, PLANT AND EQUIPMENT

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

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group as at 31 December 2019 are set out in note 28 to the Financial Statements.

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Mr. Cheah Kim Teck (resigned on 20 March 2020)
Mr. Pang Yiu Kai (resigned on 1 October 2019)
Mr. David Alexander Newbigging (appointed on 1 October 2019)
Mr. Hsu David (appointed on 20 March 2020)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Shen Jinjun
Mr. Ying Wei
Mr. Chin Siu Wa Alfred
Mr. Lin Yong (resigned on 16 October 2019)
Mr. Li Yanwei (appointed on 9 December 2019)

Pursuant to the Articles of Association, Mr. Huang Yi, Mr. Yu Guangming, Mr. Si Wei and Mr. Ying Wei shall retire from their office by rotation at the forthcoming annual general meeting whereas Mr. David Alexander Newbigging (who was appointed on 1 October 2019), Mr. Li Yanwei (who was appointed on 9 December 2019) and Mr. Hsu David (who was appointed on 20 March 2020), shall hold office only until the forthcoming annual general meeting. Mr. Huang Yi, Mr. Ying Wei, Mr. David Alexander Newbigging, Mr. Li Yanwei and Mr. Hsu David, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. Mr. Yu Guangming and Mr. Si Wei will not offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Company are set out on pages 50 to 55 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

We have received from each of the independent non-executive Directors, namely Mr. Shen Jinjun, Mr. Ying Wei, Mr. Chin Siu Wa Alfred and Mr. Li Yanwei, the confirmation of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company has duly reviewed the confirmation of independence of each of these Directors. We consider that our independent non-executive Directors have been independent from the date of their appointment to 31 December 2019 and remain so as at the date of this annual report.

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

As at 31 December 2019, the interests and short positions of our directors and chief executives in the shares, underlying shares or debentures of the Company or any of our associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code as contained in Appendix 10 to the Listing Rules, were as follows:

LONG POSITIONS IN THE COMPANY'S SHARES

Name of Director	Capacity/Nature of Interest	Total Number of Ordinary Shares	Approximate Percentage of Shareholding (%)
Mr. Huang Yi	Interest of controlled corporation	338,720,504 (Long position)	14.91%
	Founder of a discretionary trust	486,657,686 (Long position)	21.42%
	Agreement to acquire interests	486,657,686 (Long position)	21.42%
Mr. Li Guoqiang	Interest of controlled corporation	186,042,000 (Long position)	8.19%
	Founder of a discretionary trust	486,657,686 (Long position)	21.42%
	Agreement to acquire interests	639,336,190 (Long position)	28.14%
Mr. Du Qingshan	Beneficial owner	5,500,000 (Long position) (Note 1)	0.24%
Mr. Zhang Zhicheng	Beneficial owner	5,500,000 (Long position) (Note 1)	0.24%

Note:

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

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

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

As at 31 December 2019, the following are the persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

LONG POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

Name of Shareholder	Capacity/Nature of Interest	Total Number of Ordinary Shares	Approximate Percentage of Shareholding (%)
Blue Natural Development Ltd. (Note 1)	Beneficial owner and agreement to acquire interests	1,312,035,876 (long position)	57.76%
Light Yield Ltd. (Note 2)	Beneficial owner, interest of controlled company and agreement to acquire interests	1,312,035,876 (long position)	57.76%
Vest Sun Ltd. (Note 3)	Interest of controlled corporation and agreement to acquire interests	1,312,035,876 (long position)	57.76%
Mountain Bright Limited (Note 4)	Beneficial owner and agreement to acquire interests	1,312,035,876 (long position)	57.76%
UBS TC (Jersey) Ltd.	Trustee, interest of controlled corporation and agreement to acquire interests	1,312,035,876 (long position)	57.76%
Vintage Star Limited (Note 5)	Beneficial owner and agreement to acquire interests	1,312,035,876 (long position)	57.76%
Jardine Strategic Holdings Limited	Interest of controlled corporation	453,412,844 (long position)	19.96%
Jardine Matheson Holdings Limited	Interest of controlled corporation	453,412,844 (long position)	19.96%
JSH Investment Holdings Limited	Beneficial owner	453,412,844 (long position)	19.96%
JPMorgan Chase & Co. (Note 6)	Interest of controlled corporation, investment manager, person having a security interest in shares and approved lending agent	213,227,257 (long position)	9.38%
		131,087,968 (short position)	5.77%
		47,875,331 (lending pool)	2.10%

Notes:

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

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

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

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

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

6. JPMorgan Chase & Co. held 213,227,257 shares (long position), 131,087,968 shares (short position) and 47,875,331 shares (lending pool) of the Company through its controlled entities, and was deemed to have interests in the shares of the Company held by such entities.

Save as disclosed above, as at 31 December 2019, the Directors and chief executives of the Company are not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

For the year ended 31 December 2019, the Company did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

CONVERTIBLE BONDS

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

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

As at the date of this annual report, there was no conversion of the Convertible Bonds and the outstanding principal amount of all the Convertible Bonds was HK$4,700 million. Upon full conversion of the outstanding Convertible Bonds at the initial conversion price, the Company would issue 156,597,763 shares, with an aggregate nominal value of HK$15,659.78, increasing the total issued shares of the Company to 2,428,295,718 shares, which represent approximately 6.89% of the then existing share capital of the Company (calculated as at 31 December 2019), and approximately 6.45% of the issued share capital of the Company as enlarged by the issue of the shares upon full conversion of all the outstanding Convertible Bonds. Upon full exercise of the conversion rights attaching to the outstanding Convertible Bonds, the shareholdings of Mr. Huang Yi, Mr. Li Guoqiang and UBS TC (Jersey) Ltd., the substantial shareholders of the Company, will be diluted from 57.76%, 57.76% and 57.76% respectively to 54.03%, 54.03% and 54.03% respectively of the issued share capital of the Company as enlarged by the issue of the Shares upon the conversion of all the outstanding Convertible Bonds. Based on the profit for the period attributable to ordinary equity holders of the parent amounted to approximately RMB4,501.7 million, the basic and diluted earnings per share attributable to the owners of the Company were RMB1.98 and RMB1.92 respectively.

During the reporting period, the Group has a net profit of approximately RMB4,519.5 million. As at 31 December 2019, the Group had a consolidated reserve of RMB21,758.4 million and net current assets of RMB4,494.9 million. The Company will redeem each New Convertible Bond on the maturity date at its principal amount together with accrued and unpaid interest thereon. Based on the financial position of the Group, to the best knowledge of the Company, the Company expects that it will be able to meet its redemption obligations under the outstanding Convertible Bonds issued by the Company. As the Convertible Bonds bear no interest on the principal amount, it would be equally financially advantageous for the bondholders to convert or redeem the Convertible Bonds (and therefore the bondholders would be indifferent as to whether the Convertible Bonds are converted or redeemed) in the event that the price of each share of the Company traded on the Stock Exchange equals the then adjusted conversion price of the Convertible Bonds. Conversion price of all the Convertible Bonds will be subject to adjustment for consolidation or subdivision, capitalisation of profits or reserves, capital distribution, right issues, debt equity swap and other dilutive events, as the case may be, which may have impacts on the rights of the holders of the Convertible Bonds.

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

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

Details of the Convertible Bonds are set out in note 29 to the financial statements.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the year ended 31 December 2019 was the Company or any of its subsidiaries or holding company or any subsidiary of the Company's holding company, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

DIRECTORS AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

For the year ended 31 December 2019 and up to the date of this annual report, none of the Directors and controlling shareholders (i.e. Mr. Huang Yi, Mr. Li Guoqiang, Light Yield Ltd., Vest Sun Ltd., Blue Natural Development Ltd., Mountain Bright Limited, UBS TC (Jersey) Ltd. and Vintage Star Limited) of the Company was interested in any business which competes or is likely to compete with the businesses of our Group.

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

Our independent non-executive Directors have reviewed the compliance with the Non-competition Deed during the year ended 31 December 2019 and up to the date of this annual report based on information and confirmation provided by or obtained from our controlling shareholders, and were satisfied that our controlling shareholders, including Mr. Huang Yi and Mr. Li Guoqiang, have duly complied with the Non-competition Deed.

CONNECTED TRANSACTIONS

The Board confirmed that none of the related party transactions set out in note 46 to the financial statements constituted non-exempt connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT OR CONTRACTS

No director or any entity connected with any Director had a material interest, either directly or indirectly, in any transactions, arrangement or contract of significance to the business of our Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2019 and up to the date of this annual report.

DIRECTORS' REMUNERATION

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

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

RETIREMENT SCHEMES

Details of the retirement benefits plans of our Group are set out in note 33 to the financial statements.

MANAGEMENT CONTRACTS

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

CONTRACT OF SIGNIFICANCE

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

SHARE OPTION SCHEME

The Share Option Scheme (as defined in the Company's prospectus dated 16 March 2010) was conditionally approved by a resolution of the shareholders on 9 February 2010 and adopted by a resolution of the Board on the same day. The Share Option Scheme expired on 25 March 2020. No further options can be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to exercise any subsisting options granted prior to the expiry of the Share Option Scheme or otherwise as handled in accordance with the provisions of the Share Option Scheme.

Details of the options to subscribe ordinary shares of the Company, pursuant to the Share Option Scheme and the movement during the reporting period are set out below:

			Number of Share Options				
Name of Grantees	Date granted	Exercise price per share	Outstanding as at 31 December 2018	Granted during the Period	Exercised during the period	Lapsed/ Cancelled during the period	Outstanding as at 31 December 2019
Mr. Du Qingshan							
– Executive Director of the Board	26 April 2018	HK$22.60	5,500,000 (Note1)	–	–	–	5,500,000
Mr. Zhang Zhicheng							
– Executive Director of the Board	26 April 2018	HK$22.60	5,500,000 (Note1)	–	–	–	5,500,000
Total							11,000,000

Note:

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

Further details of the Share Options are set out in note 38 to the financial statements. The Binomial Option Pricing Model is one of the commonly used models to estimate the fair value of an option which can be exercised before the expiry of the option period. The value of an option varies with different variables of certain subjective assumptions.

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

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

Save as disclosed above, during the reporting period and up to the date of this annual report, no other options have been granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme. As at 31 December 2019, the total number of shares available for issue under the Share Option Scheme was 11,000,000, representing approximately 0.48% of the issued share capital of the Company.

CHANGES IN DIRECTORS' INFORMATION

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

DEBENTURES IN ISSUE

Save as disclosed in this annual report, the Company did not have any debentures in issue during the year ended 31 December 2019.

EQUITY-LINKED AGREEMENT

Save for the Convertible Bonds and the Share Option Scheme, the Company did not enter into any equity-linked agreement during the year ended 31 December 2019.

PERMITTED INDEMNITY PROVISION

The Company has purchased appropriate liability insurance for its Directors and senior management. The permitted indemnity provisions are set out in such liability insurance. Save as disclosed above, no permitted indemnity provision was made by the Company for the year ended 31 December 2019 and no permitted indemnity provision was in force as at the date of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the percentage of the aggregate sales attributable to the Group's five largest customers was less than 30% of the Group's total sales. The respective percentage of purchases attributable to the Group's largest supplier and five largest suppliers in aggregate was 26.4% and 68.9%. These suppliers are relatively large and reputable corporations with long-standing relationships with the Group.

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

TAX RELIEF

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

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

Save as disclosed in this annual report, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the Reporting Period of our Group are set out in note 49 to the Financial Statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

RELATIONSHIP WITH STAKEHOLDERS

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

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

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

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

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2019 have been audited by Ernst & Young, certified public accountants. Ernst & Young retired and a resolution to re-appoint Ernst & Young as the auditors of the Company in the following year will be proposed at the Company's forthcoming annual general meeting. The Company did not change its auditor during the preceding three years.

PROPOSED DISTRIBUTION OF FINAL DIVIDEND

The Board resolved to propose to the shareholders of the Company (the "**Shareholders**") at the forthcoming annual general meeting on 10 June 2020 (the "**AGM**") for the distribution of a final dividend of HK$0.45 per share for the year ended 31 December 2019 payable to the Shareholders whose names are listed in the register of the Company on 19 June 2020, in an aggregate amount of HK$1,022.3 million (equivalent to approximately RMB900.3 million). It is expected that the final dividend will be paid on 10 July 2020. The proposal for the distribution of the final dividend above is subject to the consideration and approval of the Shareholders at the AGM.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining who is entitled to attend the AGM, the register of members of the Company will be closed from Friday, 5 June 2020 to Wednesday, 10 June 2020 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, unregistered holders of shares of the Company shall lodge share transfer documents, together with relevant share certificates, with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration before 4:30 p.m. on Thursday, 4 June 2020.

In addition, the Company's register of members will be closed from Tuesday, 16 June 2020 to Friday, 19 June 2020 (both days inclusive) for the purpose of determining the Shareholder's entitlement to the proposed final dividend of the Company. In order to qualify for the proposed final dividend (subject to the approval by Shareholders at the AGM), unregistered holders of shares of the Company shall lodge share transfer documents, together with relevant share certificates, with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at the above-mentioned address for registration before 4:30 p.m. on Monday, 15 June 2020.

By order of the Board
Zhongsheng Group Holdings Limited
Huang Yi
Chairman

Hong Kong, 20 March 2020

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Zhongsheng Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 73 to 173, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (continued)

KEY AUDIT MATTER

ACQUISITIONS

During the year ended 31 December 2019, the Group completed acquisitions of certain car dealerships at a total consideration of approximately RMB258,847,000. The accounting for these acquisitions involved significant judgement of management for the purchase price allocation mainly in relation to the valuation of property, plant and equipment, land use rights, intangible assets which include dealership agreements, customer relationships and the remaining goodwill balance. The Group engaged an external independent appraiser to perform the valuation.

Information about the acquisitions was disclosed in note 2.4 *Summary of significant accounting policies — business combinations* and *goodwill* and note 39 *Business combination* to the financial statements.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

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

KEY AUDIT MATTERS (continued)

KEY AUDIT MATTER (continued)

IMPAIRMENT ASSESSMENT OF GOODWILL AND INTANGIBLE ASSETS

The carrying values of goodwill and intangible assets amounted to approximately RMB4,640,137,000 and RMB6,217,559,000 as at 31 December 2019, respectively. Under HKFRSs, the Group is required to perform an impairment test for goodwill annually and the intangible assets with definite useful lives are reviewed whether there is any indication of impairment at each reporting period end. An impairment test itself for intangible assets with definite useful lives only has to be carried out if there are such indications. The impairment test is based on the recoverable value of each of the cash-generating units ("CGU") or group of CGUs to which the goodwill and the intangible assets are assigned to.

Management's assessment process was complex and significant judgement was involved, including the degree of subjectivity of expected future cash flow forecasts, associated growth rates and the discount rate applied.

Information about the goodwill and intangible assets was disclosed in note 2.4 *Summary of significant accounting policies — Impairment of non-financial assets*, note 3 *Significant accounting judgement and estimates — Estimation uncertainty*, note 18 *Goodwill* and note 17 *Intangible assets* to the financial statements.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER (continued)

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

VENDOR REBATE RECEIVABLES

The Group recognised volume-related vendor rebates on an accrual basis based on the terms of the suppliers' contracts. As at 31 December 2019, the rebate receivables recognised in the consolidated statement of financial position amounted to approximately RMB5,568,717,000. The balance of rebate receivables was significant and the process of calculating the accrual was complex.

Information about the rebate receivables was disclosed in note 2.4 *Summary of significant accounting policies — vendor rebates* and note 23 *Prepayments, other receivables and other assets* to the financial statements.

We understood and tested management's key internal controls in relation to the recognition of vendor rebates. We checked the rebate policies adopted against the terms of the relevant supplier contracts and checked the calculation of the rebate receivables based on the rebate policies and underlying inputs, including sales and purchase volume, rebate rates and other criteria as set out in the rebate policies. We also checked subsequent settlement of the rebates against the accrued balance.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

20 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5(a)	**124,042,520**	107,735,655
Cost of sales and services provided	6(b)	**(112,554,874)**	(97,812,525)
Gross profit		**11,487,646**	9,923,130
Other income and gains, net	5(b)	**3,109,521**	2,561,221
Selling and distribution expenses		**(4,938,772)**	(4,310,827)
Administrative expenses		**(1,940,062)**	(1,745,100)
Profit from operations		**7,718,333**	6,428,424
Finance costs	7	**(1,390,554)**	(1,230,522)
Share of (losses)/profits of joint ventures	19	**(1,208)**	2,856
Profit before tax	6	**6,326,571**	5,200,758
Income tax expense	8	**(1,807,055)**	(1,505,440)
Profit for the year		**4,519,516**	3,695,318
Attributable to:			
Owners of the parent		**4,501,673**	3,636,636
Non-controlling interests		**17,843**	58,682
		4,519,516	3,695,318
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
— For profit for the year (RMB)	12	**1.98**	1.60
Diluted			
— For profit for the year (RMB)	12	**1.92**	1.56

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
Profit for the year	**4,519,516**	3,695,318
Other comprehensive loss		
Exchange differences on translation of foreign operations	**(182,061)**	(362,630)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(182,061)**	(362,630)
Other comprehensive loss for the year, net of tax	**(182,061)**	(362,630)
Total comprehensive income for the year	**4,337,455**	3,332,688
Attributable to:		
Owners of the parent	**4,319,612**	3,274,006
Non-controlling interests	**17,843**	58,682
	4,337,455	3,332,688

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**12,361,556**	11,506,929
Right-of-use assets	15	**4,195,225**	—
Land use rights	14	**2,931,884**	2,977,418
Prepayments	16	**731,332**	1,013,004
Intangible assets	17	**6,217,559**	6,330,872
Goodwill	18	**4,640,137**	4,563,686
Investments in joint ventures	19	**44,262**	45,470
Investment in an associate	20	**3,000**	—
Deferred tax assets	34(b)	**257,580**	269,297
Total non-current assets		**31,382,535**	26,706,676
CURRENT ASSETS			
Inventories	21	**9,828,486**	10,980,498
Trade receivables	22	**1,462,767**	1,341,740
Prepayments, other receivables and other assets	23	**11,645,669**	10,110,948
Amounts due from related parties	46(b)(i)	**727**	850
Financial assets at fair value through profit or loss	24	**997,908**	141,190
Pledged bank deposits	25	**1,341,025**	1,312,577
Cash in transit	26	**263,989**	431,044
Cash and cash equivalents	27	**6,101,176**	6,142,664
Total current assets		**31,641,747**	30,461,511
CURRENT LIABILITIES			
Bank loans and other borrowings	28	**17,089,711**	17,066,954
Lease liabilities (2018: finance lease payables)	15	**236,636**	5,751
Trade and bills payables	30	**4,875,067**	4,814,761
Other payables and accruals	31	**3,223,610**	2,996,549
Other liabilities	32	**245,000**	245,000
Amounts due to related parties	46(b)(ii)	**436**	1,119
Income tax payable	34(a)	**1,476,360**	1,470,353
Dividends payable		**9**	9
Total current liabilities		**27,146,829**	26,600,496
NET CURRENT ASSETS		**4,494,918**	3,861,015
TOTAL ASSETS LESS CURRENT LIABILITIES		**35,877,453**	30,567,691
NON-CURRENT LIABILITIES			
Deferred tax liabilities	34(b)	**1,917,525**	1,909,282
Bank loans and other borrowings	28	**3,924,341**	5,574,824
Lease liabilities (2018: finance lease payables)	15	**3,564,989**	640
Convertible bonds	29	**4,293,929**	4,046,722
Total non-current liabilities		**13,700,784**	11,531,468
Net assets		**22,176,669**	19,036,223

	Notes	2019 RMB'000	2018 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Share capital	36	**197**	197
Reserves	37	**21,758,356**	18,239,418
		21,758,553	18,239,615
Non-controlling interests		**418,116**	796,608
Total equity		**22,176,669**	19,036,223

Huang Yi
Director

Li Guoqiang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2019

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

	Attributable to owners of the parent												
	Share capital RMB'000	Share premium* RMB'000	Equity component of convertible bonds* RMB'000	Share option reserve* RMB'000	Discretionary reserve fund* RMB'000	Statutory reserve* RMB'000	Merger reserve* RMB'000	Other reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019	197	6,212,816	113,139	33,367	37,110	1,911,052	(1,386,176)	(1,551,247)	(554,290)	13,423,647	18,239,615	796,608	19,036,223
Profit for the year	–	–	–	–	–	–	–	–	–	4,501,673	4,501,673	17,843	4,519,516
Other comprehensive loss for the year:													
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(182,061)	–	(182,061)	–	(182,061)
Total comprehensive income for the year	–	–	–	–	–	–	–	–	(182,061)	4,501,673	4,319,612	17,843	4,337,455
Acquisition of non-controlling interests	–	–	–	–	–	–	–	(78,000)	–	–	(78,000)	(10,000)	(88,000)
Non-controlling interests arising from acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	36,872	36,872
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	20,144	20,144
Transfer from retained profits	–	–	–	–	–	463,594	–	–	–	(463,594)	–	–	–
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(443,351)	(443,351)
Equity-settled share-based transactions	–	–	–	16,024	–	–	–	–	–	–	16,024	–	16,024
Final 2018 dividend declared	–	(738,698)	–	–	–	–	–	–	–	–	(738,698)	–	(738,698)
At 31 December 2019	197	5,474,118	113,139	49,391	37,110	2,374,646	(1,386,176)	(1,629,247)	(736,351)	17,461,726	21,758,553	418,116	22,176,669

* These reserve accounts comprise the consolidated reserves of RMB21,758,356,000 (2018: RMB18,239,418,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**6,326,571**	5,200,758
Adjustments for:			
Share of losses/(profits) of joint ventures	19(b)	**1,208**	(2,856)
Depreciation and impairment of property, plant and equipment	13	**1,002,150**	855,503
Depreciation of right-of-use assets	15	**394,173**	—
Amortisation of land use rights	14	**83,734**	74,173
Amortisation of intangible assets	17	**258,297**	245,225
Impairment of goodwill	18	**4,742**	—
Impairment of trade receivables	22	**6,401**	5,279
Write-down of inventories to net realisable value	6(c)	**2,352**	2,099
Interest income	5(b)	**(59,975)**	(57,048)
Net loss on disposal of items of property, plant and equipment	5(b)	**30,879**	27,579
Finance costs	7	**1,390,554**	1,230,522
Net loss on disposal of subsidiaries		**—**	2,711
Fair value (gains)/losses, net:			
—Listed equity investments held for trading	5(b)	**(12,809)**	5,039
—Financial products	5(b)	**(1,776)**	(613)
Investment income from financial assets at fair value through profit or loss	5(b)	**(37,137)**	—
Dividend income from listed equity investment	5(b)	**(1,816)**	—
Expense on redemption of convertible bonds		**—**	6,206
Equity-settled share option expense	38	**16,024**	33,367
		9,403,572	7,627,944
Decrease/(increase) in cash in transit		**167,205**	(60,674)
Increase in trade receivables		**(123,759)**	(220,205)
Increase in prepayments, other receivables and other assets		**(1,267,018)**	(843,652)
Decrease/(increase) in inventories		**1,246,639**	(2,943,357)
Increase in trade payables		**16,534**	340,133
Increase/(decrease) in other payables and accruals		**165,092**	(141,248)
Decrease/(increase) in amounts due from related parties			
— trade related		**123**	(295)
(Decrease)/increase in amounts due to related parties			
— trade related		**(683)**	542
Cash generated from operations		**9,607,705**	3,759,188
Tax paid		**(1,808,254)**	(1,441,225)
Net cash generated from operating activities		**7,799,451**	2,317,963

	2019 RMB'000	2018 RMB'000
INVESTING ACTIVITIES		
Purchase of items of property, plant and equipment	**(2,667,534)**	(2,275,870)
Proceeds from disposal of items of property, plant and equipment	**875,164**	584,513
Purchase of land use rights	**(91,011)**	(284,568)
Proceeds from disposal of land use rights	**34,425**	—
Purchase of intangible assets	**(8,091)**	(265)
Purchase of financial assets at fair value through profit or loss, net	**(838,550)**	(126,516)
Prepayments for the potential acquisitions of equity interests from third parties	**(300,820)**	(261,823)
Acquisitions of subsidiaries	**(55,572)**	(1,778,039)
Increase in prepayments, other receivables and other assets	**(187,008)**	(236,489)
Dividends received from listed equity investments	**1,816**	—
Investment income received from financial assets at fair value through profit or loss	**37,137**	—
Investment in an associate	**(3,000)**	—
Proceeds on disposal of subsidiaries, net of cash	**4,000**	88,954
Interest received	**59,975**	57,048
Net cash used in investing activities	**(3,139,069)**	(4,233,055)

	2019 RMB'000	2018 RMB'000
FINANCING ACTIVITIES		
Proceeds from issue of convertible bonds	**–**	3,778,812
Proceeds from bank loans and other borrowings	**90,790,338**	78,577,495
Repayments of bank loans and other borrowings	**(92,572,160)**	(75,627,570)
(Increase)/decrease in pledged bank deposits	**(26,946)**	216,927
Capital contribution from non-controlling shareholders of subsidiaries	**15,000**	32,100
Increase in notes payable	**8,925**	439,561
Acquisition of non-controlling interests	**(10,000)**	(95,424)
Lease payments/finance lease rental payments	**(640,988)**	(4,596)
Interest paid for bank loans and other borrowings	**(1,077,726)**	(1,201,409)
Redemption of convertible bonds	**–**	(2,203,966)
Increase in deposits to entities controlled by suppliers for borrowings	**(15,872)**	(164,761)
Dividends paid to non-controlling shareholders	**(443,351)**	(77,297)
Dividends paid	**(738,698)**	(667,207)
Net cash (used in)/generated from financing activities	**(4,711,478)**	3,002,665
Net (decrease)/increase in cash and cash equivalents	**(51,096)**	1,087,573
Cash and cash equivalents at beginning of year	**6,142,664**	5,027,202
Effect of foreign exchange rate changes, net	**9,608**	27,889
Cash and cash equivalents at end of year	**6,101,176**	6,142,664

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered office address of the Company is Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands (changed on 1 April 2020). The Company has established a principal place of business in Hong Kong which is located at Rooms 1803–09, 18th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 26 March 2010.

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

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

2.1 BASIS OF PRESENTATION

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

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

2.1 BASIS OF PRESENTATION (continued)

BASIS OF CONSOLIDATION (continued)

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 *Leases*, the new and revised HKFRSs has had no significant financial effect on these financial statements:

(a) 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 account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

    The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

NEW DEFINITION OF A LEASE

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

AS A LESSEE — LEASES PREVIOUSLY CLASSIFIED AS OPERATING LEASES

NATURE OF THE EFFECT OF ADOPTION OF HKFRS 16

The Group has lease contracts for various items of land and buildings and motor vehicles. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less (“short-term leases”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

IMPACT ON TRANSITION

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and presented separately in the consolidated financial statements as at 31 December 2019. The right-of-use assets were 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 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of RMB6,391,000 that were reclassified from property, plant and equipment.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics when measuring the lease liabilities at 1 January 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

AS A LESSEE — LEASES PREVIOUSLY CLASSIFIED AS FINANCE LEASES

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities (i.e., finance lease payables) measured under HKAS 17.

FINANCIAL IMPACT AT 1 JANUARY 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	3,412,538
Decrease in property, plant and equipment	(6,391)
Decrease in prepaid lease payments	(376,684)
Increase in total assets	3,029,463
Liabilities	
Decrease in bank loans and other borrowings	(6,391)
Increase in lease liabilities	3,035,854
Increase in total liabilities	3,029,463

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	4,314,004
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(25,814)
	4,288,190
Weighted average incremental borrowing rate as at 1 January 2019	5.3%
Discounted operating lease commitments as at 1 January 2019	3,029,463
Add: Finance lease payables recognised as at 31 December 2018	6,391
Lease liabilities as at 1 January 2019	3,035,854

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*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

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

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

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

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

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.

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.

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

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

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.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

RELATED PARTIES

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

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

LEASES (APPLICABLE FROM 1 JANUARY 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

GROUP AS A LESSEE

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) RIGHT-OF-USE ASSETS

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Land and buildings	2 to 30 years
Motor vehicles	2 to 3 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LEASES (APPLICABLE FROM 1 JANUARY 2019) (continued)

GROUP AS A LESSEE (continued)

(b) LEASE LIABILITIES

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) SHORT-TERM LEASES AND LEASES OF LOW-VALUE ASSETS

The Group applies the short-term lease recognition exemption to its short-term leases of land and buildings (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

GROUP AS A LESSOR

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LEASES (APPLICABLE BEFORE 1 JANUARY 2019)

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.

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

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

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

LAND USE RIGHTS

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the right to use certain land and the amount paid for such a right is recorded as land use rights, which are amortised over the lease terms of 16 to 61 years using the straight-line method.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS

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" 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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured 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 AMORTISED COST (DEBT INSTRUMENTS)

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 (continued)

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

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

DERECOGNITION OF FINANCIAL ASSETS

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF FINANCIAL ASSETS

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

GENERAL APPROACH

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

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

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

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

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

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

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

SIMPLIFIED APPROACH

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL LIABILITIES

INITIAL RECOGNITION AND MEASUREMENT

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

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

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

SUBSEQUENT MEASUREMENT

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

FINANCIAL LIABILITIES AT AMORTISED COST (LOANS AND BORROWINGS)

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

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

CONVERTIBLE BONDS

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

PUT OPTION OVER NON-CONTROLLING INTEREST

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DERECOGNITION OF FINANCIAL LIABILITIES

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

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

INVENTORIES

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

CASH AND CASH EQUIVALENTS

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

INCOME TAX

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAX (continued)

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

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

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

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

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

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

GOVERNMENT GRANTS

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION

REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

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

(a) SALE OF GOODS

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

(b) RENDERING OF SERVICES

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

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

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

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

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

REVENUE FROM OTHER RESOURCES

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION (continued)

OTHER INCOME

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

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

CONTRACT ASSETS

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

CONTRACT LIABILITIES

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

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.

SHARE-BASED PAYMENTS

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 38 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SHARE-BASED PAYMENTS (continued)

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

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

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

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

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

OTHER EMPLOYEE BENEFITS

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

BORROWING COSTS

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

Where funds have been borrowed generally and used for the purpose of obtaining qualifying assets, a capitalisation rate of 6.2% has been applied to the expenditure on the individual assets.

DIVIDENDS

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

FOREIGN CURRENCIES

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FOREIGN CURRENCIES (continued)

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

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

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

JUDGEMENT

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

DEFERRED TAX ASSETS

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets recognised was RMB257,580,000 (2018: RMB269,297,000) as at 31 December 2019. More details are given in note 34(b).

ESTIMATION UNCERTAINTY

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

IMPAIRMENT OF GOODWILL

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimation of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2019 was RMB4,640,137,000 (2018: RMB4,563,686,000). Further details are given in note 18.

IMPAIRMENT OF NON-FINANCIAL ASSETS (OTHER THAN GOODWILL)

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

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

ESTIMATION UNCERTAINTY (continued)

USEFUL LIVES OF INTANGIBLE ASSETS

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

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

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

LEASES — ESTIMATING THE INCREMENTAL BORROWING RATE

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

4. OPERATING SEGMENT INFORMATION

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

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

INFORMATION ABOUT GEOGRAPHICAL AREA

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

INFORMATION ABOUT MAJOR CUSTOMERS

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

5. REVENUE, OTHER INCOME AND GAINS, NET

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

(a) Revenue:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers		
Disaggregated revenue information		
Type of goods or service		
Revenue from sales of motor vehicles	**106,199,132**	93,221,612
Revenue from after-sales service	**17,843,388**	14,514,043
Total revenue from contracts with customers	**124,042,520**	107,735,655
Timing of revenue recognition		
At a point in time	**124,042,520**	107,735,655

(b) Other income and gains, net:

	2019 RMB'000	2018 RMB'000
Commission income	**2,885,199**	2,404,411
Rental income	**21,842**	22,016
Interest income	**59,975**	57,048
Government grants	**43,319**	37,232
Net loss on disposal of items of property, plant and equipment	**(30,879)**	(27,579)
Net loss on disposal of subsidiaries	**—**	(2,711)
Fair value gains/(losses), net:		
Financial assets at fair value through profit or loss		
— listed equity investments	**12,809**	(5,039)
— financial products	**1,776**	613
Investment income from financial assets at fair value through profit or loss	**37,137**	—
Dividend income from listed equity investments	**1,816**	—
Others	**76,527**	75,230
	3,109,521	2,561,221

6. PROFIT BEFORE TAX

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

	2019 RMB'000	2018 RMB'000
(a) Employee benefit expense (including directors' and chief executive officer's remuneration (note 9)):		
Wages and salaries	**3,366,356**	2,938,704
Pension scheme contributions	**486,423**	458,063
Other welfare	**240,075**	247,019
Equity-settled share option expense	**16,024**	33,367
	4,108,878	3,677,153
(b) Cost of sales and services provided:		
Cost of sales of motor vehicles	**103,311,643**	90,359,798
Others	**9,243,231**	7,452,727
	112,554,874	97,812,525
(c) Other items:		
Depreciation and impairment of property, plant and equipment	**1,002,150**	855,503
Depreciation of right-of-use assets	**394,173**	—
Amortisation of land use rights	**83,734**	74,173
Amortisation of intangible assets	**258,297**	245,225
Auditor's remuneration	**5,800**	5,800
Lease expenses	**53,125**	364,700
Promotion and advertisement	**943,388**	763,980
Office expenses	**316,180**	314,819
Logistics expenses	**127,237**	119,647
Impairment of trade receivables	**6,401**	5,279
Write-down of inventories to net realisable value	**2,352**	2,099
Net loss on disposal of items of property, plant and equipment	**30,879**	27,579
Fair value (gains)/losses, net:		
Financial assets at fair value through profit or los		
— listed equity investments	**(12,809)**	5,039
— financial products	**(1,776)**	(613)
Investment income from financial assets at fair value through profit or loss	**(37,137)**	—
Dividend income from listed equity investments	**(1,816)**	—
Impairment of goodwill	**4,742**	—
Net loss on disposal of subsidiaries	**—**	2,711

7. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest expense on bank borrowings	**976,679**	1,054,617
Interest expense on convertible bonds	**155,064**	129,413
Interest expense on other borrowings	**102,203**	120,896
Interest expense on lease liabilities	**229,899**	124
Interest capitalised	**(73,291)**	(74,528)
	1,390,554	1,230,522

8. INCOME TAX EXPENSE

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

	2019 RMB'000	2018 RMB'000
Current Mainland China corporate income tax	**1,812,577**	1,513,179
Deferred tax (note 34(b))	**(5,522)**	(7,739)
	1,807,055	1,505,440

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

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

No Hong Kong tax has been provided as the Group had no assessable profits arising in Hong Kong during the year (2018: Nil).

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

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

8. INCOME TAX EXPENSE (continued)

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

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

	2019 RMB'000	2018 RMB'000
Profit before tax	**6,326,571**	5,200,758
Tax at the statutory tax rate (25%)	**1,581,643**	1,300,190
Tax effect of non-deductible expenses	**124,203**	118,044
Income not subject to tax	**(3,216)**	(720)
Profits and losses attributable to jointly-controlled entities	**302**	(714)
Lower tax rates for specific provinces or enacted by local authority	**27,569**	30,672
Adjustments in respect of current tax of previous periods	**15,811**	15,190
Tax losses not recognised	**60,743**	42,778
Tax charge	**1,807,055**	1,505,440

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2019 RMB'000	2018 RMB'000
Fees	**1,195**	768
Other emoluments:		
Salaries, allowances and other benefits	**23,065**	13,673
Discretionary bonuses	**35,440**	17,122
Contributions to defined contribution retirement schemes	**347**	413
Equity-settled share option expense	**16,024**	33,367
	74,876	64,575
	76,071	65,343

During the year of 2018, 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 38 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

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

(a) INDEPENDENT NON-EXECUTIVE DIRECTORS

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

	2019 RMB'000	2018 RMB'000
— Mr. Shen Jinjun	310	214
— Mr. Lin Yong	245	214
— Mr. Shoichi Ota	—	42
— Mr. Ying Wei	310	214
— Mr. Chin Siu Wa Alfred	310	84
— Mr. Li Yanwei	20	—
	1,195	768

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

Mr. Li Yanwei has been appointed as an independent non-executive director of the Company with effect from 9 December 2019.

Mr. Lin Yong has resigned as an independent non-executive director of the Company with effect from 16 October 2019.

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

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

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

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Discretionary bonuses RMB'000	Contributions to defined contribution retirement schemes RMB'000	Equity-settled share option expense RMB'000	Total RMB'000
2019						
Executive directors:						
— Mr. Huang Yi	—	2,304	17,720	16	—	20,040
— Mr. Yu Guangming	—	4,000	—	—	—	4,000
— Mr. Du Qingshan	—	5,757	—	77	8,012	13,846
— Mr. Si Wei	—	600	—	124	—	724
— Mr. Zhang Zhicheng	—	5,757	—	77	8,012	13,846
Executive director and chief executive:						
— Mr. Li Guoqiang	—	4,647	17,720	53	—	22,420
Non-executive directors:						
— Mr. Cheah Kim Teck	—	—	—	—	—	—
— Mr. David Alexander Newbigging	—	—	—	—	—	—
— Mr. Pang Yiu Kai	—	—	—	—	—	—
	—	23,065	35,440	347	16,024	74,876

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

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

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

Mr. Pang Yiu Kai has resigned as a non-executive director of the Company and Mr. David Alexander Newbigging has been appointed as a non-executive director of the Company, in both cases with effect from 1 October 2019.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2018: Nil).

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included three directors and the chief executive (2018: three directors and the chief executive), details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2018: one) non-director, highest paid employees for the year are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, bonuses, allowances and benefits in kind	4,900	2,871
Discretionary bonuses	41,537	—
Pension scheme contributions	90	86
	46,527	2,957

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

	Number of employees	
	2019	2018
HK$29,000,001 to HK$29,500,000	1	—
HK$23,000,001 to HK$23,500,000	1	—
HK$3,000,001 to HK$3,500,000	—	1
	2	1

11. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Proposed final — HK$0.45 (approximately RMB0.40) (2018: HK$0.37) per ordinary share	900,335	727,327

The calculation of the proposed final dividend for the year ended 31 December 2019 is based on the proposed final dividend per ordinary share, and the total number of ordinary shares as at 20 March 2020.

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

During the year ended 31 December 2019, a final dividend of HK$0.37 per ordinary share in respect of the year ended 31 December 2018 was declared and paid to the ordinary equity holders of the Company. The aggregate amount of the final dividend declared and paid in the year ended 31 December 2019 was HK$840,528,000 (equivalent to RMB738,698,000).

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,271,697,955 (2018: 2,269,601,362) in issue during the year.

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

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

Earnings

	2019 **RMB'000**	2018 RMB'000
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**4,501,673**	3,636,636
Interest on convertible bonds	**155,064**	129,413
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	**4,656,737**	3,766,049

Shares

	Number of shares	
	2019	2018
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,271,697,955**	2,269,601,362
Effect of dilution — weighted average number of ordinary shares:		
Convertible bonds	**156,597,763**	140,912,183
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**2,428,295,718**	2,410,513,545

Earnings per share

	2019 **RMB**	2018 RMB
Basic	**1.98**	1.60
Diluted	**1.92**	1.56

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 31 December 2018	**10,117,494**	**654,879**	**818,377**	**699,557**	**1,811,209**	**564,762**	**14,666,278**
Effect of adoption of HKFRS 16	**—**	**—**	**—**	**—**	**(8,825)**	**—**	**(8,825)**
At 1 January 2019	**10,117,494**	**654,879**	**818,377**	**699,557**	**1,802,384**	**564,762**	**14,657,453**
Exchange realignment	**—**	**23**	**—**	**2**	**142**	**—**	**167**
Additions	**371,036**	**201,418**	**110,419**	**110,715**	**1,279,174**	**652,072**	**2,724,834**
Acquisition of subsidiaries (note 39)	**14,657**	**1,128**	**4,006**	**869**	**11,712**	**791**	**33,163**
Transfer	**483,754**	**92,655**	**7,011**	**1,737**	**—**	**(585,157)**	**—**
Disposals	**(51,701)**	**(4,271)**	**(20,131)**	**(25,882)**	**(1,195,404)**	**—**	**(1,297,389)**
At 31 December 2019	**10,935,240**	**945,832**	**919,682**	**786,998**	**1,898,008**	**632,468**	**16,118,228**
Accumulated depreciation and impairment:							
At 31 December 2018	**1,861,097**	**255,047**	**345,692**	**436,806**	**260,707**	**—**	**3,159,349**
Effect of adoption of HKFRS 16	**—**	**—**	**—**	**—**	**(2,434)**	**—**	**(2,434)**
At 1 January 2019	**1,861,097**	**255,047**	**345,692**	**436,806**	**258,273**	**—**	**3,156,915**
Exchange realignment	**—**	**13**	**—**	**1**	**74**	**—**	**88**
Depreciation and impairment provided during the year	**437,155**	**77,060**	**83,040**	**85,904**	**318,991**	**—**	**1,002,150**
Disposals	**(25,131)**	**(3,275)**	**(13,231)**	**(20,997)**	**(339,847)**	**—**	**(402,481)**
At 31 December 2019	**2,273,121**	**328,845**	**415,501**	**501,714**	**237,491**	**—**	**3,756,672**
Net book amount:							
At 31 December 2019	**8,662,119**	**616,987**	**504,181**	**285,284**	**1,660,517**	**632,468**	**12,361,556**
Cost:							
At 1 January 2018	8,909,051	436,137	718,112	599,964	1,559,779	447,821	12,670,864
Exchange realignment	—	36	—	4	249	—	289
Additions	319,954	218,069	83,218	104,928	1,004,144	667,117	2,397,430
Acquisition of subsidiaries	395,896	8,367	26,640	17,302	66,986	9,989	525,180
Transfer	536,102	5,713	12,189	2,017	—	(556,021)	—
Disposals	(43,509)	(13,443)	(21,782)	(24,658)	(819,949)	—	(923,341)
Disposal of a subsidiary	—	—	—	—	—	(4,144)	(4,144)
At 31 December 2018	10,117,494	654,879	818,377	699,557	1,811,209	564,762	14,666,278
Accumulated depreciation and impairment:							
At 1 January 2018	1,519,898	216,304	284,194	376,997	217,723	—	2,615,116
Exchange realignment	—	14	—	1	174	—	189
Depreciation and impairment provided during the year	356,480	45,682	76,304	80,410	296,627	—	855,503
Disposals	(15,281)	(6,953)	(14,806)	(20,602)	(253,817)	—	(311,459)
At 31 December 2018	1,861,097	255,047	345,692	436,806	260,707	—	3,159,349
Net book amount:							
At 31 December 2018	8,256,397	399,832	472,685	262,751	1,550,502	564,762	11,506,929

As at 31 December 2019, the application for the property ownership certificates of certain buildings with a net book amount of approximately RMB5,622,785,000 (2018: RMB5,701,693,000) was still in progress. Notwithstanding this, the Directors are of the opinion that the Group owned the beneficial titles to these buildings as at 31 December 2019 and 2018.

As at 31 December 2019, certain of the Group's buildings with an aggregate net book amount of approximately RMB224,192,000 (2018: RMB220,438,000) were pledged as security for the Group's bank loans (note 28(a)(ii)).

14. LAND USE RIGHTS

	2019 RMB'000	2018 RMB'000
Cost:		
At the beginning of the year	**3,329,994**	2,774,326
Additions	**38,200**	194,470
Acquisition of subsidiaries	**–**	374,740
Disposal of a subsidiary	**–**	(13,542)
At the end of the year	**3,368,194**	3,329,994
Amortisation:		
At the beginning of the year	**352,576**	278,403
Charge for the year	**83,734**	74,173
At the end of the year	**436,310**	352,576
Net book value:		
At the end of the year	**2,931,884**	2,977,418

The lease prepayments of the Group represent the cost of the Group's land use rights in respect of land located in Mainland China. The remaining periods of the land use rights of the Group are from 15 to 60 years.

As at 31 December 2019, certain of the Group's land use rights with an aggregate net book value of approximately RMB165,047,000 (2018: RMB151,755,000) were pledged as security for the Group's bank loans (Note 28(a)(i)).

As at 31 December 2019, the Group had yet to obtain the legal title of certain land use rights in Mainland China subject to certain administrative procedures to be completed by the Group and the local government authorities. The net book value of these land use rights as at 31 December 2019 amounted to RMB293,353,000 (2018: RMB297,884,000). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial titles to these land use rights as at 31 December 2019 and 2018, respectively.

15. LEASES

THE GROUP AS A LESSEE

The Group has lease contracts for various items of land and buildings and motor vehicles used in its operations. Leases of land and buildings generally have lease terms between 2 and 30 years, while others generally have lease terms between 2 and 3 years. The rest of the leases have lease terms of 12 months or less and/or are individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) RIGHT-OF-USE ASSETS

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Land and buildings RMB'000	Land use rights RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2019	3,406,148	2,977,418	6,391	6,389,957
Additions	1,089,358	38,200	1,096	1,128,654
Additions as a result of acquisition of subsidiaries (note 39)	86,405	—	—	86,405
Depreciation charge	(389,643)	(83,734)	(4,530)	(477,907)
At 31 December 2019	**4,192,268**	**2,931,884**	**2,957**	**7,127,109**

Details of land use rights have been disclosed in note 14 to the financial statements.

(b) LEASE LIABILITIES

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 Lease liabilities RMB'000	2018 Finance lease payables RMB'000
Carrying amount at 1 January	**3,035,854**	4,849
New leases	**977,448**	5,838
Additions as a result of acquisition of subsidiaries	**86,405**	—
Accretion of interest recognised during the year	**229,899**	124
Payments	**(527,981)**	(4,420)
Carrying amount at 31 December	**3,801,625**	6,391
Analysed into:		
Current portion	**236,636**	5,751
Non-current portion	**3,564,989**	640

The maturity analysis of lease liabilities (2018: finance lease payables) is disclosed in note 48 to the financial statements.

15. LEASES (continued)

THE GROUP AS A LESSEE (continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000
Interest on lease liabilities	**229,899**
Depreciation charge of right-of-use assets	**394,173**
Expense relating to leases of short-term or low-value assets (included in administrative expenses)	**53,125**
Total amount recognised in profit or loss	**677,197**

16. PREPAYMENTS

	2019 RMB'000	2018 RMB'000
Prepaid lease for land	**–**	246,741
Prepayment for land use rights	**314,340**	286,135
Prepaid lease for buildings	**–**	129,943
Prepayments for potential acquisitions	**416,992**	350,185
	731,332	1,013,004

17. INTANGIBLE ASSETS

	Software RMB'000	Dealership agreements RMB'000	Customer relationships RMB'000	Others RMB'000	Total RMB'000
Cost:					
At 1 January 2019	**77,600**	**6,416,870**	**888,294**	**85,803**	**7,468,567**
Exchange realignment	**—**	**—**	**—**	**160**	**160**
Additions	**4,916**	**—**	**—**	**3,175**	**8,091**
Acquisition of subsidiaries (note 39)	**277**	**96,800**	**17,700**	**22,000**	**136,777**
Disposals	**(679)**	**—**	**—**	**(598)**	**(1,277)**
At 31 December 2019	**82,114**	**6,513,670**	**905,994**	**110,540**	**7,612,318**
Accumulated amortisation and impairment:					
At 1 January 2019	**50,927**	**725,998**	**320,473**	**40,297**	**1,137,695**
Exchange realignment	**—**	**—**	**—**	**44**	**44**
Amortisation provided during the year	**6,441**	**185,642**	**61,898**	**4,316**	**258,297**
Disposals	**(679)**	**—**	**—**	**(598)**	**(1,277)**
At 31 December 2019	**56,689**	**911,640**	**382,371**	**44,059**	**1,394,759**
Net book value:					
At 31 December 2019	**25,425**	**5,602,030**	**523,623**	**66,481**	**6,217,559**
Cost:					
At 1 January 2018	65,814	5,666,070	812,944	84,915	6,629,743
Exchange realignment	—	—	—	449	449
Additions	9,879	6,000	—	439	16,318
Acquisition of subsidiaries	2,131	744,800	75,350	—	822,281
Disposals	(224)	—	—	—	(224)
At 31 December 2018	77,600	6,416,870	888,294	85,803	7,468,567
Accumulated amortisation and impairment:					
At 1 January 2018	43,835	552,706	260,860	34,901	892,302
Exchange realignment	—	—	—	372	372
Amortisation provided during the year	7,296	173,292	59,613	5,024	245,225
Disposals	(204)	—	—	—	(204)
At 31 December 2018	50,927	725,998	320,473	40,297	1,137,695
Net book value:					
At 31 December 2018	26,673	5,690,872	567,821	45,506	6,330,872

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

18. GOODWILL

	RMB'000
At 1 January 2018:	
Cost	4,090,523
Accumulated impairment	(150,467)
Net carrying amount	3,940,056
Cost at 1 January 2018, net of accumulated impairment	3,940,056
Acquisition of subsidiaries (note 39)	623,630
Impairment during the year	—
At 31 December 2018	4,563,686
At 31 December 2018:	
Cost	4,714,153
Accumulated impairment	(150,467)
Net carrying amount	4,563,686
Cost at 1 January 2019, net of accumulated impairment	**4,563,686**
Acquisition of subsidiaries (note 39)	**81,193**
Impairment during the year	**(4,742)**
Cost and net carrying amount at 31 December 2019	**4,640,137**
At 31 December 2019:	
Cost	**4,795,346**
Accumulated impairment	**(155,209)**
Net carrying amount	**4,640,137**

18. GOODWILL (continued)

IMPAIRMENT TESTING OF GOODWILL

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

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

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

	2019 RMB'000	2018 RMB'000
4S dealership businesses	4,640,137	4,563,686

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management.

KEY ASSUMPTIONS USED IN THE VALUE IN USE CALCULATION

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

Revenue from the sale and service of motor vehicles — the bases used to determine the future earnings of the sale and service of motor vehicles are the historical sales and the growth rates which are reference to the industry growth forecast. The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period from the end of the reporting period is 3% (2018:3%).

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.

Discount rate — The discount rate applied to the cash flow projections beyond the one-year period is 15% (2018: 15%). The discount rate used is before tax and reflects specific risk relating to the relevant units.

19. INVESTMENTS IN JOINT VENTURES

	2019 RMB'000	2018 RMB'000
Share of net assets	44,262	45,470

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

19. INVESTMENTS IN JOINT VENTURES (continued)

(a) Particulars of the joint ventures

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

All the above investments in joint ventures are held through a wholly-owned subsidiary of the Company.

(b) None of the joint ventures are considered individually material, and the aggregate financial information of all the joint ventures is as follows:

Share of the joint ventures' assets and liabilities:

	2019 RMB'000	2018 RMB'000
Non-current assets	**2,343**	1,777
Current assets	**49,362**	51,592
Current liabilities	**(7,443)**	(7,899)
Net assets	**44,262**	45,470

Share of the joint ventures' results:

	2019 RMB'000	2018 RMB'000
Income	**173,634**	249,081
Expenses	**(175,215)**	(244,919)
Tax	**373**	(1,306)
(Losses)/profits for the year	**(1,208)**	2,856

20. INVESTMENT IN AN ASSOCIATE

	2019 RMB'000	2018 RMB'000
Share of net assets	**3,000**	—

豐田海南出行有限公司 (Toyota Mobility Services (Hainan) Corporation) is an associate of the Group and is considered to be a related party of the Group.

(a) Particulars of the associate

Associate name	Place and date of registration	Authorised registered/ paid-in/issued capital	Percentage of Ownership interest	Voting power	Profit sharing	Principal activities
Toyota Mobility Services (Hainan) Corporation	Hainan, the PRC, 2019	RMB10,000,000	30%	30%	30%	Rental of motor vehicles

During the year ended December 31, 2019, Toyota Mobility Services (Hainan) Corporation was established and the Group contributed cash of RMB3,000,000.

The Group's shareholding in the associate is held through a wholly-owned subsidiary of the Company.

(b) The associate is considered individually immaterial, and the aggregate financial information of the associate is as follows:

	2019 RMB'000	2018 RMB'000
Non-current assets	**—**	—
Current assets	**3,000**	—
Current liabilities	**—**	—
Net assets	**3,000**	—

21. INVENTORIES

Inventories in the consolidated statement of financial position represent:

	2019 RMB'000	2018 RMB'000
Motor vehicles	**9,035,201**	10,223,680
Spare parts and others	**802,867**	764,048
	9,838,068	10,987,728
Less: Provision for inventories	**9,582**	7,230
	9,828,486	10,980,498

As at 31 December 2019, certain of the Group's inventories with a carrying amount of approximately RMB3,291,010,000 (2018: RMB4,892,765,000 were pledged as security for the Group's bank loans and other borrowings (notes 28(a)(iii) and 28(b)).

As at 31 December 2019, certain of the Group's inventories with a carrying amount of approximately RMB939,814,000 (2018: RMB2,077,866,000) were pledged as security for the Group's bills payable.

22. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**1,474,447**	1,347,019
Impairment	**(11,680)**	(5,279)
	1,462,767	1,341,740

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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:

	2019 RMB'000	2018 RMB'000
Within 3 months	1,410,924	1,290,645
More than 3 months but less than 1 year	41,107	38,490
Over 1 year	10,736	12,605
	1,462,767	1,341,740

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

	2019 RMB'000	2018 RMB'000
At beginning of year	5,279	—
Impairment losses, net (note 6)	6,401	5,279
At end of year	11,680	5,279

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

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

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 RMB'000	2018 RMB'000
Prepayments and deposits to suppliers	**3,196,655**	2,756,109
Deposits paid for acquisition of land use rights	**870,619**	853,971
Advances to certain companies to be acquired	**321,784**	186,489
Rebate receivables	**5,568,717**	4,712,234
VAT recoverable (i)	**454,116**	368,908
Receivables on disposal of subsidiaries	**6,088**	10,088
Receivables on disposal of items of property, plant and equipment	**693**	36,223
Receivables from original shareholders of subsidiaries acquired	**79,925**	93,400
Receivables on disposal of land use rights	**—**	34,425
Prepaid finance costs	**39,884**	41,041
Others	**1,107,188**	1,018,060
	11,645,669	10,110,948

Note:

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

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

	2019 RMB'000	2018 RMB'000
Prepayments, other receivables and other assets	**7,084,395**	6,090,919

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	2019 RMB'000	2018 RMB'000
Listed equity investments, at fair value	(i)	**76,626**	61,455
Financial products	(ii)	**81,282**	79,735
Other investments	(iii)	**840,000**	—
		997,908	141,190

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

(ii) The financial products as at 31 December 2019 were issued by financial institutions. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

(iii) Other investments were certain investment portfolios, being managed by Ping An Trust Co., Ltd. The return of the investments is determined by reference to the performance of the underlying debt instruments and the expected return rate as stated in the contracts. The fair value change was insignificant for the current year.

25. PLEDGED BANK DEPOSITS

	2019 RMB'000	2018 RMB'000
Deposits pledged with banks as collateral against credit facilities granted by the banks	**1,341,025**	1,312,577

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

26. CASH IN TRANSIT

	2019 RMB'000	2018 RMB'000
Cash in transit	**263,989**	431,044

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

27. CASH AND CASH EQUIVALENTS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	**6,080,774**	6,136,514
Short term deposits	**20,402**	6,150
Cash and cash equivalents	**6,101,176**	6,142,664

As at 31 December 2019, the cash and bank balances and short term deposits of the Group denominated in a currency other than RMB amounted to RMB206,637,000 (2018: RMB754,862,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term time deposit rates. The bank balances and short-term deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

28. BANK LOANS AND OTHER BORROWINGS

		2019			2018		
	Notes	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current							
Bank loans							
— secured	(a)	3–5	2020	2,761,245	3–5	2019	2,447,323
— unsecured		1–6	2020	7,275,091	1–6	2019	9,323,213
Other borrowings							
— secured	(b)	2–6	2020	2,194,604	2–8	2019	4,335,448
— unsecured		2–6	2020	2,254,029	2–8	2019	34,247
Current portion of long term bank loans							
— secured	(a)	5	2020	482,720	4–5	2019	571,435
— unsecured		4–5	2020	843,702	3–5	2019	235,288
Syndicated term loans							
— secured	(c)	4	2020	258,320	—	—	—
— unsecured		5	2020	1,020,000	5	2019	120,000
				17,089,711			17,066,954
Non-current							
Bank loans							
— secured	(a)	4–5	2021–2022	594,870	4–5	2020–2021	671,735
— unsecured		4–5	2021–2022	1,004,584	3–5	2020–2021	1,349,270
Syndicated term loans							
— secured	(c)	4	2021	2,324,887	4	2021	2,533,819
— unsecured		—	—	—	5	2020	1,020,000
				3,924,341			5,574,824
				21,014,052			22,641,778

28. BANK LOANS AND OTHER BORROWINGS (continued)

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**11,362,757**	12,577,259
In the second year	**988,274**	1,493,945
In the third year	**611,181**	527,060
	12,962,212	14,598,264
Other borrowings repayable:		
Within one year	**4,448,633**	4,369,695
Syndicated term loans:		
Within one year	**1,278,320**	120,000
In the second year	**2,324,887**	1,273,382
In the third year	**–**	2,280,437
	3,603,207	3,673,819
	21,014,052	22,641,778

Notes:

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

(i) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying amount of approximately RMB165,047,000 (2018: RMB151,755,000) as at 31 December 2019;

(ii) mortgages over the Group's buildings, which had an aggregate carrying amount of approximately RMB224,192,000 (2018: RMB220,438,000) as at 31 December 2019;

(iii) mortgages over the Group's inventories, which had an aggregate carrying amount of approximately RMB1,105,916,000 (2018: RMB619,417,000) as at 31 December 2019; and

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

(b) Certain of the Group's other borrowings were secured by mortgages over the Group's inventories, which had an aggregate carrying amount of approximately RMB2,185,094,000 (2018: RMB4,273,348,000) as at 31 December 2019.

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

(d) All bank loans and other borrowings were denominated in RMB, except for certain bank loans which were denominated in Hong Kong dollars, United States dollars and Japanese Yen amounting to RMB2,815,437,000, RMB2,146,826,000 and RMB68,066,000, respectively. (2018: Hong Kong dollars amounting to RMB3,227,045,000, United States dollars amounting to RMB1,781,449,000, and Japanese Yen amounting to RMB66,974,000).

29. CONVERTIBLE BONDS

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

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

The convertible bonds issued during 2018 have been split into the liability and equity components as follows:

	2019 **RMB'000**	2018 RMB'000
Nominal value of New convertible bonds	**3,818,374**	3,818,374
Equity component	**(114,324)**	(114,324)
Direct transaction costs attributable to the liability component	**(38,377)**	(38,377)
Liability component at the issuance date	**3,665,673**	3,665,673
Interest expense	**246,190**	91,126
Exchange realignment	**382,066**	289,923
Liability component at the end of the year	**4,293,929**	4,046,722
Less: Portion classified as current liabilities	**—**	—
Long-term portion	**4,293,929**	4,046,722

30. TRADE AND BILLS PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	**1,659,356**	1,607,975
Bills payable	**3,215,711**	3,206,786
Trade and bills payables	**4,875,067**	4,814,761

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

	2019 RMB'000	2018 RMB'000
Within 3 months	**4,568,395**	4,100,991
3 to 6 months	**285,097**	694,485
6 to 12 months	**15,452**	12,350
Over 12 months	**6,123**	6,935
	4,875,067	4,814,761

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

31. OTHER PAYABLES AND ACCRUALS

	Notes	2019 RMB'000	2018 RMB'000
Payables for purchase of items of property, plant and equipment and land use rights		**144,775**	126,652
Advances and deposits from distributors		**44,658**	49,621
Contract liabilities	(a)	**2,368,984**	2,128,257
Payables for purchase of equity interests from third parties		**128,335**	154,304
Staff payroll and welfare payables		**14,009**	10,538
Others		**522,849**	527,177
		3,223,610	2,996,549

(a) Details of contract liabilities are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000	1 January 2018 RMB'000
Short-term advances received from customers			
Sale of goods	**2,368,984**	2,128,257	1,721,995
	2,368,984	2,128,257	1,721,995

Contract liabilities include short-term advances received to deliver new automobiles. The increase in contract liabilities in 2019 and 2018 was mainly due to the increase in short-term advances received from customers in relation to the sales of new automobiles at the end of the year.

32. OTHER LIABILITIES

Included in other liabilities are a put option over non-controlling interests of RMB245,000,000 (2018: RMB245,000,000) arising from the acquisition of Hainan Jiahua Weiye Investment Co., Ltd. and its subsidiaries in 2016.

33. EMPLOYEE RETIREMENT BENEFITS

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

As stipulated by the People's Republic of China (the "PRC") state regulations, the subsidiaries in Mainland China participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 10% to 22% (2018: 10% to 22%) of the previous year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries.

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

According to the relevant rules and regulations of the PRC, the Mainland China subsidiaries and their employees are each required to make contributions to an accommodation fund at 7% to 18% (2018: 7% to 18%) of the salaries and wages of the employees which is administered by the Public Accumulation Funds Administration Centre. There is no further obligation on the part of the Group, except for these contributions to the accommodation fund.

As at 31 December 2019, the Group had no significant obligations apart from the contributions as stated above.

34. INCOME TAX PAYABLE AND DEFERRED TAX

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

	2019 RMB'000	2018 RMB'000
At the beginning of the year	**1,470,353**	1,373,395
Provision for current tax for the year	**1,812,577**	1,513,179
Income tax payable arising from acquisition of subsidiaries	**1,684**	25,004
Current tax paid	**(1,808,254)**	(1,441,225)
At the end of the year	**1,476,360**	1,470,353

(b) DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED

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

DEFERRED TAX ASSETS:

	Losses available for offsetting against future taxable profits RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019	**249,272**	**20,025**	**269,297**
Deferred tax arising from acquisition of subsidiaries (note 39)	**3,861**	**—**	**3,861**
Deferred tax recognised in the consolidated statement of profit or loss during the year (note 8(a))	**(27,889)**	**12,311**	**(15,578)**
At 31 December 2019	**225,244**	**32,336**	**257,580**
At 1 January 2018	278,923	—	278,923
Deferred tax recognised in the consolidated statement of profit or loss during the year	(29,651)	20,025	(9,626)
At 31 December 2018	249,272	20,025	269,297

The Group has tax losses arising in Hong Kong of RMB349,579,000 (2018: RMB291,058,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Group also has tax losses arising in Mainland China of RMB393,087,000 (2018: RMB183,503,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

34. INCOME TAX PAYABLE AND DEFERRED TAX (continued)

(b) DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED (continued)

DEFERRED TAX LIABILITIES:

	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Capitalisation of interest expenses and others RMB'000	Withholding tax RMB'000	Total RMB'000
At 1 January 2019	**1,613,118**	**262,493**	**33,671**	**1,909,282**
Deferred tax arising from acquisition of subsidiaries (note 39)	**29,343**	**—**	**—**	**29,343**
Deferred tax recognised in the consolidated statement of profit or loss during the year (note 8(a))	**(62,882)**	**41,782**	**—**	**(21,100)**
At 31 December 2019	**1,579,579**	**304,275**	**33,671**	**1,917,525**
At 1 January 2018	1,426,443	219,476	33,671	1,679,590
Deferred tax arising from acquisition of subsidiaries	248,084	—	—	248,084
Decrease in deferred tax due to disposal of a subsidiary	—	(1,027)	—	(1,027)
Deferred tax recognised in the consolidated statement of profit or loss during the year (note 8(a))	(61,409)	44,044	—	(17,365)
At 31 December 2018	1,613,118	262,493	33,671	1,909,282

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

In the opinion of the directors, it is not probable that the Group's subsidiaries established in Mainland China will, in the foreseeable future, distribute earnings with temporary differences aggregating approximately RMB21,028,595,000 (2018: RMB15,653,672,000) associated with investments in these subsidiaries for which deferred tax liabilities have not been recognised as at 31 December 2019.

35. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles for its business. These leases were classified as finance leases prior to HKFRS 16 becoming effective on 1 January 2019 and had remaining lease terms ranging from one to two years.

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

	Minimum lease payments RMB'000	**Present value of minimum lease payments** RMB'000
Amounts payable:		
Within one year	6,166	5,751
In the second year	749	640
In the third to fifth years	—	—
Total minimum finance lease payments	6,915	6,391
Future finance charges	(524)	
Total net finance lease payables	6,391	
Portion classified as current liabilities	5,751	
Non-current portion	640	

36. SHARE CAPITAL

Shares	2019 HK$'000	2018 HK$'000
Issued and fully paid:		
2,271,697,955 (2018: 2,271,697,955) ordinary shares	**227**	227
Equivalent to RMB'000	**197**	197

During the years ended 31 December 2019 and 2018, the movements in the Company's share capital were as follows:

	Number of shares in issue	Share capital RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2018	2,267,064,220	197	6,802,125	6,802,322
Conversion of convertible bonds	4,633,735	—	77,898	77,898
Final 2017 dividend declared	—	—	(667,207)	(667,207)
At 31 December 2018 and 1 January 2019	2,271,697,955	197	6,212,816	6,213,013
Final 2018 dividend declared	—	—	(738,698)	(738,698)
At 31 December 2019	2,271,697,955	197	5,474,118	5,474,315

37. RESERVES

(I) DISCRETIONARY RESERVE FUND

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

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

(II) STATUTORY RESERVE

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

(III) EXCHANGE FLUCTUATION RESERVE

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

(IV) MERGER RESERVE

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

(V) OTHER RESERVE

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

38. SHARE OPTION SCHEME

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

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

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

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

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

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

38. SHARE OPTION SCHEME (continued)

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

	2019		2018	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**22.60**	**11,000**	—	—
Granted during the year	**—**	**—**	22.60	11,000
At 31 December	**22.60**	**11,000**	22.60	11,000

The exercise prices and exercise periods of the share options outstanding as at the end of 2019 and 2018 are as follows:

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

The fair value of the share options granted during 2018 was HK$58,135,000 (HK$5.29 each), of which the Group recognised a share option expense of RMB16,024,000 (2018: RMB33,367,000) during the year ended 31 December 2019.

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

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

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

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

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

39. BUSINESS COMBINATION

(a) As part of the Group's plan to expand its motor vehicle sales and service business in Jiangsu province, the Group acquired 100% of the equity interests in Nantong Baotielong Automobile Sales and Services Co., Ltd. (南通寶鐵龍汽車銷售服務有限公司), which is engaged in the motor vehicle sales and service business in Mainland China, from certain third parties on 1 January 2019 at a total consideration of RMB27,590,000. The purchase consideration for the acquisition was in the form of cash, with RMB27,590,000 paid by the end of the year of 2019.

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

	Notes	Recognised fair values on acquisition date RMB'000
Property, plant and equipment	13	13,047
Intangible assets	17	20,377
Deferred tax assets	34(b)	2,925
Right-of-use assets	15(a)	21,017
Inventories		8,365
Trade receivables		70
Prepayments, other receivables and other assets		4,735
Pledged bank deposits		12
Cash in transit		118
Cash and cash equivalents		3,442
Trade and bills payables		(4,259)
Other payables and accruals		(26,319)
Deferred tax liabilities	34(b)	(5,687)
Lease liabilities	15(b)	(21,017)
Total identifiable net assets at fair value		16,826
Goodwill on acquisition		10,764
Total purchase consideration		27,590

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

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB70,000 and RMB4,735,000, respectively, which are equal to the gross contractual amounts.

39. BUSINESS COMBINATION (continued)

(a) (continued)

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

	RMB'000
Cash consideration paid	(27,590)
Cash and cash equivalents	3,442
Net cash outflow	(24,148)

Since the acquisition, the acquired business contributed RMB53,613,000 to the Group's revenue and RMB5,328,000 of loss to the consolidated profit for the year ended 31 December 2019.

(b) As part of the Group's plan to expand its motor vehicle sales and service business in Zhejiang province, the Group acquired 80% of the equity interests of the following companies, which are engaged in the motor vehicle sales and service business in Mainland China, from a third party on 1 January 2019 at a total consideration of RMB208,000,000. The purchase consideration for the acquisition was in the form of cash, with RMB208,000,000 paid by the end of the year of 2019.

Company name	Acquired equity interests %
浙江九華汽車有限公司 (Zhejiang Jiuhua Automobile Co., Ltd.)	80%
杭州九華汽車有限公司 (Hangzhou Jiuhua Automobile Co., Ltd.)	80%
寧波九華汽車有限公司 (Ningbo Jiuhua Automobile Co., Ltd.)	80%
嘉興九華汽車有限公司 (Jiaxing Jiuhua Automobile Co., Ltd.)	80%
金華九華汽車有限公司 (Jinhua Jiuhua Automobile Co., Ltd.)	80%
湖州九和汽車有限公司 (Huzhou Jiuhe Automobile Co., Ltd.)	80%
紹興九華汽車有限公司 (Shaoxing Jiuhua Automobile Co., Ltd.)	80%

39. BUSINESS COMBINATION (continued)

(b) (continued)

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

	Notes	Recognised fair values on acquisition date RMB'000
Property, plant and equipment	13	14,073
Intangible assets	17	87,900
Deferred tax assets	34(b)	936
Right-of-use assets	15(a)	60,294
Inventories		78,063
Trade receivables		3,021
Prepayments, other receivables and other assets		80,985
Pledged bank deposits		760
Cash in transit		32
Cash and cash equivalents		68,937
Trade and bills payables		(29,866)
Other payables and accruals		(58,772)
Bank loans and other borrowings		(43,496)
Income tax payable		(1,684)
Deferred tax liabilities	34(b)	(16,531)
Lease liabilities	15(b)	(60,294)
Total identifiable net assets at fair value		184,358
Non-controlling interests arising from a business combination		36,872
Goodwill on acquisition		60,514
Total purchase consideration		208,000

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

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB3,021,000 and RMB80,985,000, respectively, which are equal to the gross contractual amounts.

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

	RMB'000
Cash consideration paid	(208,000)
Cash and cash equivalents acquired	68,937
Net cash outflow	(139,063)

Since the acquisition, the acquired business contributed RMB765,657,000 to the Group's revenue and RMB15,003,000 to the consolidated profit for the year ended 31 December 2019.

39. BUSINESS COMBINATION (continued)

(c) As part of the Group's plan to expand its motor vehicle sales and service business in Guangdong province, the Group acquired 100% of the equity interests in Foshan Sanshui Toyota Automobile Sales and Services Co., Ltd. (佛山市三水豐田汽車銷售服務有限公司), which is engaged in the motor vehicle sales and service business in Mainland China, from certain third parties on 1 October 2019 at a total consideration of RMB23,257,000. The purchase consideration for the acquisition was in the form of cash, with RMB19,769,000 paid by the end of the year of 2019.

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

	Notes	Recognised fair values on acquisition date RMB'000
Property, plant and equipment	13	6,043
Intangible assets	17	28,500
Right-of-use assets	15(a)	5,094
Inventories		10,551
Trade receivables		578
Prepayments, other receivables and other assets		15,409
Pledged bank deposits		712
Cash and cash equivalents		3,064
Trade and bills payables		(722)
Other payables and accruals		(34,213)
Bank loans and other borrowings		(9,455)
Deferred tax liabilities	34(b)	(7,125)
Lease liabilities	15(b)	(5,094)
Total identifiable net assets at fair value		13,342
Goodwill on acquisition		9,915
Total purchase consideration		23,257

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

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB578,000 and RMB15,409,000, respectively, which are equal to the gross contractual amounts.

39. BUSINESS COMBINATION (continued)

(c) (continued)

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

	RMB'000
Cash consideration paid	(19,769)
Cash and cash equivalents	3,064
Net cash outflow	(16,705)

Since the acquisition, the acquired business contributed RMB51,310,000 to the Group's revenue and RMB6,768,000 to the consolidated profit for the year ended 31 December 2019.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB124,182,520,000 and RMB4,518,516,000, respectively.

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) MAJOR NON-CASH TRANSACTIONS

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB977,448,000 and RMB977,448,000, respectively, in respect of lease arrangements for land and buildings (2018: Nil).

(b) CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

2019

	Bank loans and other borrowings RMB'000	Bills payable RMB'000	Financial lease payables/ Lease liabilities RMB'000	Convertible bonds RMB'000	Dividends Payable RMB'000
At 1 January 2019	22,641,778	3,206,786	6,391	4,046,722	9
Effect of adoption of HKFRS 16	—	—	3,029,463	—	—
At 1 January 2019 (restated)	22,641,778	3,206,786	3,035,854	4,046,722	9
Changes from financing cash flows	(1,781,822)	8,925	(527,981)	—	(1,182,049)
Exchange realignment	101,145	—	—	92,143	—
New leases	—	—	977,448	—	—
Increase arising from acquisition of subsidiaries	52,951	—	86,405	—	—
Interest expense	—	—	229,899	155,064	—
Dividends paid to the non-controlling shareholders	—	—	—	—	443,351
Final 2018 dividend declared	—	—	—	—	738,698
At 31 December 2019	21,014,052	3,215,711	3,801,625	4,293,929	9

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES (continued)

2018

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

(c) TOTAL CASH OUTFLOW FOR LEASES

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000
Within operating activities	**53,125**
Within financing activities	**640,988**
	694,113

41. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2019
FINANCIAL ASSETS

	Financial assets at fair value through profit or loss		
	Mandatorily designated as such RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	997,908	–	997,908
Trade receivables	–	1,462,767	1,462,767
Financial assets included in prepayments, other receivables and other assets	–	7,084,395	7,084,395
Amounts due from related parties	–	727	727
Pledged bank deposits	–	1,341,025	1,341,025
Cash in transit	–	263,989	263,989
Cash and cash equivalents	–	6,101,176	6,101,176
	997,908	16,254,079	17,251,987

FINANCIAL LIABILITIES

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	4,875,067
Financial liabilities included in other payables and accruals	809,968
Amounts due to related parties	436
Bank loans and other borrowings	21,014,052
Lease liabilities	3,801,625
Convertible bonds	4,293,929
Other liabilities	245,000
	35,040,077

41. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2018

FINANCIAL ASSETS

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

FINANCIAL LIABILITIES

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	4,814,761
Financial liabilities included in other payables and accruals	818,671
Amounts due to related parties	1,119
Bank loans and other borrowings	22,641,778
Finance lease payables	6,391
Convertible bonds	4,046,722
Other liabilities	245,000
	32,574,442

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Group

	Carrying amounts		Fair values	
	2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
Financial assets at fair value through profit or loss	**997,908**	141,190	**997,908**	141,190

FAIR VALUE HIERARCHY

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

ASSETS MEASURED AT FAIR VALUE:

As at 31 December 2019

		Fair value measurement using			
	Notes	**Quoted prices in active markets (Level 1) RMB'000**	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Financial assets at fair value through profit or loss:					
Listed equity investments, at fair value	(i)	**76,626**	**–**	**–**	**76,626**
Financial products	(i)	**81,282**	**–**	**–**	**81,282**
Other investments	(ii)	**–**	**–**	**840,000**	**840,000**
		157,908	**–**	**840,000**	**997,908**

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss:				
Listed equity investments, at fair value	61,455	–	–	61,455
Financial products	79,735	–	–	79,735
	141,190	–	–	141,190

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

FAIR VALUE HIERARCHY (continued)

LIABILITIES MEASURED AT FAIR VALUE:

The Group did not have any financial liabilities measured at fair value as at 31 December 2019 and 2018, respectively.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2018: Nil).

Notes:

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

(ii) Valuation techniques and inputs used in Level 3 fair value measurements:

The fair value of other investments has been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows from future proceeds when the investments mature. The directors believe that the estimated fair values resulting from the valuation technique are reasonable, and that they were the most appropriate values at the end of reporting period.

Below is a summary of significant unobservable inputs to the valuation of the investment portfolio together with a quantitative sensitivity analysis at the end of reporting period:

31 December 2019

	Valuation techniques	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Other investments	Discounted cash flow method	Discount rate	6%–7.5%	0.5% increase in discount rate would result in decrease in fair value by RMB1,782,000, 0.5% decrease in discount rate would result in increase in fair value by RMB1,794,000

The movements during the period in the balance of these Level 3 fair value measurements was as follows:

	2019 RMB'000	2018 RMB'000
Other investments at 1 January	**–**	–
Purchase	**840,000**	–
At 31 December	**840,000**	–

43. CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no significant contingent liabilities.

44. COMMITMENTS

(a) CAPITAL COMMITMENTS

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

	2019 **RMB'000**	2018 RMB'000
Contracted, but not provided for:		
Buildings	**167,283**	239,960
Contracted, but not provided for potential acquisitions	**298,500**	153,246
	465,783	393,206

(b) OPERATING LEASE COMMITMENTS AS AT 31 DECEMBER 2018

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating lease payables as follows:

	2018	
	Properties RMB'000	Land RMB'000
Within one year	181,917	214,982
After one year but within five years	635,192	794,114
After five years	1,098,392	1,389,407
	1,915,501	2,398,503

45. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans and other borrowings, which are secured by the assets of the Group, are included in note 13, note 14, note 21 and note 25, to the consolidated financial statements.

46. RELATED PARTY TRANSACTIONS AND BALANCES

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

(a) TRANSACTIONS WITH RELATED PARTIES

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

	2019 RMB'000	2018 RMB'000
(i) Sales of goods to a joint venture:		
— Xiamen Zhongsheng	**8,589**	11,393
(ii) Purchase of goods or services from joint ventures:		
— Xiamen Zhongsheng	**3,327**	29,728
— TAC	**3,477**	4,272
	6,804	34,000

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

(b) BALANCES WITH RELATED PARTIES

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

	2019 RMB'000	2018 RMB'000
(i) Due from a related party:		
Trade related		
Joint venture		
— Xiamen Zhongsheng	**727**	850
	727	850
(ii) Due to related parties:		
Trade related		
Joint ventures		
— Xiamen Zhongsheng	**436**	—
— TAC	**—**	1,119
	436	1,119

46. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	2019 RMB'000	2018 RMB'000
Short term employee benefits	**58,505**	35,568
Post-employee benefits	**347**	559
Equity-settled share option expense	**16,024**	33,367
Total compensation paid to key management personnel	**74,876**	69,494

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

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

47. SUBSIDIARIES

The following is a list of the Group's principal subsidiaries, all of which are unlisted, at 31 December 2019:

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest: Held by the Company %	Proportion of ownership interest: Held by a subsidiary %	Principal activities
中升(大連)集團有限公司* (Zhongsheng (Dalian) Group Co., Ltd.)	Dalian, the PRC 1998	Registered and paid-in capital of RMB1,900,000,000	–	100%	Investment holding
大連中升匯迪汽車銷售服務有限公司** (Dalian Zhongsheng Huidi Automobile Sales & Service Co., Ltd.)	Dalian, the PRC 1999	Registered and paid-in capital of RMB16,550,000	–	100%	Sale and service of motor vehicles
昆明中升汽車銷售服務有限公司** (Kunming Zhongsheng Automobile Sales & Service Co., Ltd.)	Kunming, the PRC 2005	Registered and paid-in capital of RMB12,000,000	–	100%	Sale and service of motor vehicles
昆明中升豐田汽車銷售服務有限公司** (Kunming Zhongsheng Toyota Automobile Sales & Service Co., Ltd.)	Kunming, the PRC 2002	Registered and paid-in capital of RMB5,000,000	–	100%	Sale and service of motor vehicles
大連中升之星汽車銷售服務有限公司** (Dalian Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Dalian, the PRC 2005	Registered and paid-in capital of RMB90,000,000	–	100%	Sale and service of motor vehicles
廣州中升凌志汽車銷售服務有限公司** (Guangzhou Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Guangzhou, the PRC 2002	Registered and paid-in capital of USD10,000,000	–	100%	Sale and service of motor vehicles
大連中升凌志汽車銷售服務有限公司** (Dalian Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Dalian, the PRC 2004	Registered and paid-in capital of USD17,500,000	–	100%	Sale and service of motor vehicles

47. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
雲南中升雷克薩斯汽車銷售服務有限公司** (Yunnan Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Kunming, the PRC 2006	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
Zhongsheng Holdings Co., Ltd.	Hong Kong 1996	Registered and paid-in capital of HK$32,000,000	–	100%	Investment holding
HOKURYO (Hong Kong) Co., Ltd.	Hong Kong 1997	Registered and paid-in capital of HK$10,000	–	100%	Investment holding
東莞中升雷克薩斯汽車銷售服務有限公司* (Dongguan Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Dongguan, the PRC 2008	Registered and paid-in capital of USD10,000,000	–	100%	Sale and service of motor vehicles
Super Charm Limited	Hong Kong 2007	Registered and paid-in capital of HK$1	–	100%	Investment holding
Billion Great Co., Ltd.	Hong Kong 2007	Registered and paid-in capital of HK$1	–	100%	Investment holding
Olympia Well Ltd.	Hong Kong 2007	Registered and paid-in capital of HK$1	–	100%	Investment holding
佛山中升之星汽車銷售服務有限公司** (Foshan Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Foshan, the PRC 2009	Registered and paid-in capital of RMB100,000,000	–	100%	Sale and service of motor vehicles
南京中升之星汽車銷售服務有限公司** (Nanjing Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Nanjing, the PRC 2009	Registered and paid-in capital of RMB140,000,000	–	100%	Sale and service of motor vehicles
常熟中升之星汽車銷售服務有限公司** (Changshu Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Changshu, the PRC 2008	Registered and paid-in capital of RMB80,000,000	–	100%	Sale and service of motor vehicles
瀋陽中升豐田汽車銷售服務有限公司* (Shenyang Zhongsheng Toyota Automobile Sales & Service Co., Ltd.)	Shenyang, the PRC 2009	Registered and paid-in capital of USD6,000,000	–	100%	Sale and service of motor vehicles
遼寧中升捷通汽車銷售服務有限公司** (Liaoning Zhongsheng Jietong Automobile Sales & Service Co., Ltd.)	Shenyang, the PRC 2007	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
無錫中升之星汽車銷售服務有限公司** (Wuxi Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Wuxi, the PRC 2009	Registered and paid-in capital of RMB100,000,000	–	100%	Sale and service of motor vehicles

47. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
Noble Villa Investments Ltd.	BVI 2008	Registered and paid-in capital of USD1	100%	–	Investment holding
中升(中國)企業管理有限公司* (Zhongsheng (China) Business Management Co., Ltd.)	Beijing, the PRC 2009	Registered and paid-in capital of USD40,000,000	–	100%	Investment holding
成都中升之星汽車銷售服務有限公司** (Chengdu Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Chengdu, the PRC 2010	Registered and paid-in capital of RMB100,000,000	–	100%	Sale and service of motor vehicles
重慶中升雷克薩斯汽車銷售服務有限公司** (Chongqing Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Chongqing, the PRC 2010	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
上海中升之星汽車銷售服務有限公司** (Shanghai Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Shanghai, the PRC 2010	Registered and paid-in capital of RMB200,000,000	–	100%	Sale and service of motor vehicles
南京中升恒岳汽車銷售服務有限公司** (Nanjing Zhongsheng Hengyue Automobile Sales & Service Co., Ltd.)	Nanjing, the PRC 2010	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
無錫中升雷克薩斯汽車銷售服務有限公司** (Wuxi Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Wuxi, the PRC 2012	Registered and paid-in capital of RMB80,000,000	–	100%	Sale and service of motor vehicles
太倉中升之星汽車銷售服務有限公司** (Taicang Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Taicang, the PRC 2011	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
東莞中升之星汽車銷售服務有限公司** (Dongguan Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Dongguan, the PRC 2008	Registered and paid-in capital of RMB60,000,000	–	100%	Sale and service of motor vehicles
成都中升仕豪汽車銷售服務有限公司** (Chengdu Zhongsheng Shihao Automobile Sales & Service Co., Ltd.)	Chengdu, the PRC 2012	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
樂清中升星輝汽車銷售服務有限公司** (Yueqing Zhongsheng Xinghui Automobile Sales & Service Co., Ltd.)	Yueqing, the PRC 2011	Registered and paid-in capital of RMB80,000,000	–	100%	Sale and service of motor vehicles
深圳中升星輝汽車銷售服務有限公司** (Shenzhen Zhongsheng Xinghui Automobile Sales & Service Co., Ltd.)	Shenzhen, the PRC 2013	Registered and paid-in capital of RMB80,000,000	–	100%	Sale and service of motor vehicles

47. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
中升(天津)保險銷售有限公司** (Zhongsheng (TianJin) Insurance Sales Co., Ltd.)	Tianjin, the PRC 2013	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of automobile insurance
上海中升雷克薩斯汽車銷售服務有限公司** (Shanghai Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Shanghai, the PRC 2013	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
無錫中升星輝汽車銷售服務有限公司** (Wuxi Zhongsheng Xinghui Automobile Sales & Service Co., Ltd.)	Wuxi, the PRC 2012	Registered and paid-in capital of RMB60,000,000	–	100%	Sale and service of motor vehicles
武漢中升聚星汽車銷售服務有限公司** (Wuhan Zhongsheng Juxing Automobile Sales & Service Co., Ltd.)	Wuhan, the PRC 2014	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
合肥中升匯迪汽車銷售服務有限公司** (Hefei Zhongsheng Huidi Automobile Sales & Service Co., Ltd)	Hefei, the PRC 2012	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
鄭州中升匯迪汽車銷售服務有限公司** (Zhengzhou Zhongsheng Huidi Automobile Sales & Service Co., Ltd.)	Zhengzhou, the PRC 2010	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
濟南中升仕豪汽車銷售服務有限公司** (Jinan Zhongsheng Shihao Automobile Sales & Service Co., Ltd.)	Jinan, the PRC 2001	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
青島中升傑豪汽車銷售服務有限公司** (Qingdao Zhongsheng Jiehao Automobile Sales & Service Co., Ltd.)	Qingdao, the PRC 2009	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
深圳觀瀾中升雷克薩斯汽車銷售服務有限公司** (Shenzhen Guanlan Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Shenzhen, the PRC 2014	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
北京中升之星汽車銷售服務有限公司** (Beijing Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Beijing, the PRC 2007	Registered and paid-in capital of RMB50,000,000	–	75%	Sale and service of motor vehicles
杭州中升星宏汽車服務有限公司** (Zhejiang Zhongsheng Xinghong Automobile Sales & Service Co., Ltd.)	Hangzhou, the PRC 2006	Registered and paid-in capital of USD20,067,700	–	100%	Sale and service of motor vehicles
黑龍江中升之星汽車銷售服務有限公司** (Heilongjiang Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Harbin, the PRC 2014	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles

47. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
雲南中升遠安昆星汽車銷售服務有限公司* (Yunnan Zhongsheng Yuanan Kunxing Automobile Sales & Service Co., Ltd)	Kunming, the PRC 2004	Registered and paid-in capital of USD8,000,000	–	100%	Sale and service of motor vehicles
上海中升奉星汽車銷售服務有限公司** (Shanghai Zhongsheng Fengxing Automobile Sales & Service Co., Ltd.)	Shanghai, the PRC 2014	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
雲南中升之星汽車銷售服務有限公司** (Yunnan Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Kunming, the PRC 2016	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
深圳中升之星汽車銷售服務有限公司** (Shenzhen Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Shenzhen, the PRC 2016	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
上海中升星宏汽車銷售服務有限公司** (Shanghai Zhongsheng Xinghong Automobile Sales & Service Co., Ltd.)	Shanghai, the PRC 2015	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
蘇州海星汽車銷售服務有限公司** (Suzhou Haixing Automobile Sales & Services Co., Ltd.)	Suzhou, the PRC 2005	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
蘇州海星高新汽車銷售服務有限公司** (Suzhou Haixing Gaoxin Automobile Sales & Services Co., Ltd.)	Suzhou, the PRC 2012	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
張家港海星汽車銷售服務有限公司** (Zhangjiagang Haixing Automobile Sales & Services Co., Ltd.)	Zhangjiagang, the PRC, 2010	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
長沙中升之寶汽車銷售服務有限公司** (Changsha Zhongsheng Zhibao Automobile Sales & Services Co., Ltd.)	Changsha, the PRC, 2017	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
長春中升之星汽車銷售服務有限公司** (Changchun Zhongsheng Star Automobile Sales & Services Co., Ltd.)	Changchun, the PRC, 2012	Registered and paid-in capital of RMB70,000,000	–	100%	Sale and service of motor vehicles
西安中升之寶汽車銷售服務有限公司** (Xi'an Zhongsheng Zhibao Automobile Sales & Services Co., Ltd.)	Xi'an, the PRC, 2009	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
西安中升匯寶汽車銷售服務有限公司** (Xi'an Zhongsheng Huibao Automobile Sales & Services Co., Ltd.)	Xi'an, the PRC, 2013	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles

47. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest Held by the Company %	Held by a subsidiary %	Principal activities
深圳中升匯寶汽車銷售服務有限公司** (Shenzhen Zhongsheng Huibao Automobile Sales & Services Co., Ltd.)	Shenzhen, the PRC, 2010	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
重慶市寶馴汽車銷售服務有限公司** (Chongqing Baoxun Automobile Sales & Services Co., Ltd)	Chongqing, the PRC 2010	Registered and paid-in capital of RMB100,000,000	–	100%	Sale and service of motor vehicles
杭州中升星旗汽車銷售服務有限公司** (Hangzhou Zhongsheng Xingqi Automobile Sales & Services Co., Ltd)	Hangzhou, the PRC 2017	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
上海中升沃茂汽車銷售服務有限公司** (Shanghai Zhongsheng Womao Automobile Sales & Services Co., Ltd)	Shanghai, the PRC 2005	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
天津中升汽車用品有限公司** (Tianjin Zhongsheng Automobile Accessories Co., Ltd)	Tianjin, the PRC 2018	Registered and paid-in capital of RMB100,000,000	–	100%	Sale of automobile accessories
天津中升匯迪汽車銷售有限公司** (Tianjing Zhongsheng Huidi Automobile Sales Co., Ltd)	Tianjin, the PRC 2007	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
成都中升匯迪汽車銷售服務有限公司** (Chengdu Zhongsheng Huidi Automobile Sales & Service Co., Ltd.)	Chengdu, the PRC 2010	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
杭州中升之星汽車銷售服務有限公司** (Hangzhou Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Hangzhou, the PRC 2010	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
浙江中升裕迪汽車銷售服務有限公司** (Zhejiang Zhongsheng Yudi Automobile Sales & Service Co., Ltd.)	Hangzhou, the PRC 2010	Registered and paid-in capital of USD10,000,000	–	100%	Sale and service of motor vehicles
深圳中升雷克薩斯汽車有限公司** (Shenzhen Zhongsheng Lexus Automobile Co., Ltd.)	Shenzhen, the PRC 2003	Registered and paid-in capital of HK$30,000,000	–	100%	Sale and service of motor vehicles
寧波中升雷克薩斯汽車服務有限公司** (Ningbo Zhongsheng Lexus Automobile Services Co., Ltd)	Ningbo, the PRC 2006	Registered and paid-in capital of USD10,000,000	–	100%	Sale and service of motor vehicles
海口中升捷豐汽車銷售服務有限公司** (Haikou Zhongsheng Jiefeng Automobile Sales & Service Co., Ltd.)	Haikou, the PRC 2005	Registered and paid-in capital of RMB12,000,000	–	65%	Sale and service of motor vehicles

47. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
海口中升宏達汽車銷售服務有限公司** ((Haikou Zhongsheng Hongda Automobile Sales & Service Co., Ltd.)	Haikou, the PRC 2000	Registered and paid-in capital of RMB10,000,000	–	65%	Sale and service of motor vehicles
海南中升之星汽車銷售服務有限公司** (Hainan Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Haikou, the PRC 2013	Registered and paid-in capital of RMB25,000,000	–	65%	Sale and service of motor vehicles
Hong Kong Loong Wah Motors Ltd.	Hong Kong 1978	Registered and paid-in capital of HK$10,000,000	–	100%	Investment holding
大連中升之寶汽車銷售服務有限公司** (Dalian Zhongsheng Zhibao Automobile Sales & Service Co., Ltd.)	Dalian, the PRC 2008	Registered and paid-in capital of RMB100,000,000	–	100%	Sale and service of motor vehicles
南京中升之寶汽車銷售服務有限公司** (Nanjing Zhongsheng Zhibao Automobile Sales & Service Co., Ltd.)	Nanjing, the PRC 2008	Registered and paid-in capital of RMB80,000,000	–	100%	Sale and service of motor vehicles
合肥中升之寶汽車銷售服務有限公司** (Hefei Zhongsheng Zhibao Automobile Sales & Service Co., Ltd.)	Hefei, the PRC 2009	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
福建中升之寶汽車銷售服務有限公司** (Fujian Zhongsheng Zhibao Automobile Sales & Service Co., Ltd.)	Fuzhou, the PRC 2010	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
蘇州中升雷克薩斯汽車銷售服務有限公司** (Suzhou Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Suzhou, the PRC 2008	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
溫州濱海中升雷克薩斯汽車銷售服務有限公司** (Wenzhou Binhai Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Wenzhou, the PRC 2006	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
天津中升沃茂汽車銷售服務有限公司** (Tianjin Zhongsheng Womao Automobile Sales & Service Co., Ltd.)	Tianjin, the PRC 2010	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
上海中升沃豪汽車銷售服務有限公司** (Shanghai Zhongsheng Wohao Automobile Sales & Service Co., Ltd.)	Shanghai, the PRC 2010	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
蘇州中升沃茂汽車銷售服務有限公司** (Suzhou Zhongsheng Womao Automobile Sales & Service Co., Ltd.)	Suzhou, the PRC 2009	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles

47. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
寧波廣達汽車銷售服務有限公司** (Ningbo Guangda Automobile Sales & Service Co., Ltd.)	Ningbo, the PRC 2006	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
無錫中升仕豪汽車銷售服務有限公司** (Wuxi Zhongsheng Shihao Automobile Sales & Service Co., Ltd.)	Wuxi, the PRC 2010	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
溫州萊曼汽車快修有限公司** (Wenzhou Laiman Automobile Service Co., Ltd.)	Wenzhou, the PRC 2012	Registered and paid-in capital of RMB1,000,000	–	100%	Service of motor vehicles
洛陽中升匯寶汽車銷售服務有限公司** (Luoyang Zhongsheng Huibao Automobile Sales & Service Co., Ltd.)	Luoyang, the PRC 2016	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
新鄭市中升匯寶汽車銷售服務有限公司** (Xinzheng Zhongsheng Huibao Automobile Sales & Service Co., Ltd.)	Xinzheng, the PRC 2014	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
鄭州中升之寶汽車銷售服務有限公司** (Zhengzhou Zhongsheng Zhibao Automobile Sales & Service Co., Ltd.)	Zhengzhou, the PRC 2016	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
山東龐大興業汽車銷售服務有限公司** (Shandong Pangda Xingye Automobile Sales & Service Co., Ltd.)	Jinan, the PRC 2017	Registered and paid-in capital of RMB264,000,000	–	100%	Sale and service of motor vehicles
濟南龐大龍豐汽車銷售有限公司** (Jinan Pangda Longfeng Automobile Sales Co., Ltd.)	Jinan, the PRC 2011	Registered and paid-in capital of RMB2,000,000	–	100%	Sale and service of motor vehicles
濟南龐大一眾汽車銷售服務有限公司** (Jinan Pangda Faw-Volkswagen Automobile Sales & Service Co., Ltd.)	Jinan, the PRC 2012	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
石家莊中升捷豐汽車銷售服務有限公司** (Shijiazhuang Zhongsheng Jiefeng Automobile Sales & Service Co., Ltd.)	Shijiazhuang, the PRC 2008	Registered and paid-in capital of RMB12,000,000	–	100%	Sale and service of motor vehicles
瀋陽中升汽車銷售服務有限公司** (Shenyang Zhongsheng Automobile Sales & Service Co., Ltd.)	Shenyang, the PRC 2011	Registered and paid-in capital of RMB12,000,000	–	100%	Sale and service of motor vehicles
石家莊中升豐悦汽車銷售服務有限公司** (Shijiazhuang Zhongsheng Fengyue Automobile Sales & Service Co., Ltd.)	Shijiazhuang, the PRC 2011	Registered and paid-in capital of RMB12,000,000	–	100%	Sale and service of motor vehicles

47. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
石家莊華欣中升雷克薩斯汽車銷售服務有限公司** (Shijiazhuang Huaxin Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Shijiazhuang, the PRC 2018	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
唐山中升雷克薩斯汽車銷售服務有限公司** (Tangshan Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Tangshan, the PRC 2018	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
濟南中升瑞星汽車銷售服務有限公司** (Jinan Zhongsheng Ruixing Automobile Sales & Service Co., Ltd.)	Jinan, the PRC 2018	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
大慶中升雷克薩斯汽車銷售服務有限公司** (Daqing Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Daqing, the PRC 2018	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
北京龐大慶鴻雷克薩斯汽車銷售服務有限公司** (Beijing Pangda Qinghong Lexus Automobile Sales & Service Co., Ltd.)	Beijing, the PRC 2011	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
廣州新鉅豐田汽車銷售服務有限公司** (Guangzhou Xinju Toyota Automobile Sales & Service Co., Ltd.)	Guangzhou, the PRC 2002	Registered and paid-in capital of RMB10,100,000	–	100%	Sale and service of motor vehicles
南京中升豐田汽車服務有限公司** (Nanjing Zhongsheng Toyota Automobile Sales & Service Co., Ltd.)	Nanjing, the PRC 2003	Registered and paid-in capital of HKD13,860,000	–	60%	Sale and service of motor vehicles
成都中升雷克薩斯汽車銷售服務有限公司** (Chengdu Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Chengdu, the PRC 2012	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
成都中升智星汽車銷售服務有限公司** (Chengdu Zhongsheng Zhixing Automobile Sales & Service Co., Ltd.)	Chengdu, the PRC 2015	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
重慶中升之寶汽車銷售服務有限公司** (Chongqing Zhongsheng Zhibao Automobile Sales & Service Co., Ltd.)	Chongqing, the PRC 2010	Registered and paid-in capital of RMB100,000,000	–	100%	Sale and service of motor vehicles
深圳中升悅晟雷克薩斯汽車銷售服務有限公司** (Shenzhen Zhongsheng Yuesheng Lexus Automobile Sales & Service Co., Ltd.)	Shenzhen, the PRC 2017	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles

47. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
深圳寶安區中升雷克薩斯汽車銷售服務有限公司** (Shenzhen Baoan Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Shenzhen, the PRC 2017	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
鄭州中升之星汽車銷售服務有限公司** (Zhengzhou Zhongsheng Star Automobile Sales & Service Co., Ltd.)	Zhengzhou, the PRC 2015	Registered and paid-in capital of RMB60,000,000	–	100%	Sale and service of motor vehicles
成都中升沃茂汽車銷售服務有限公司** (Chengdu Zhongsheng Womao Automobile Sales & Service Co., Ltd.)	Chengdu, the PRC 2009	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
易惠(天津)信息技術有限公司** (Yihui (Tianjin) Information Technology Co., Ltd.)	Tianjin, the PRC 2018	Registered and paid-in capital of RMB20,000,000	–	100%	Other services
惠州中升雷克薩斯汽車服務有限公司** (Huizhou Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Huizhou, the PRC 2008	Registered and paid-in capital of HKD30,000,000	–	100%	Sale and service of motor vehicles
佛山市順德區中升雷克薩斯汽車銷售服務有限公司** (Foshan Shunde Zhongsheng Lexus Automobile Sales & Service Co., Ltd.)	Foshan, the PRC 2008	Registered and paid-in capital of HKD30,000,000	–	100%	Sale and service of motor vehicles
南通寶鐵龍汽車銷售服務有限公司** (Nantong Baotielong Automobile Sales & Service Co., Ltd.)	Nantong, the PRC 2002	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
浙江九華汽車有限公司** (Zhejiang Jiuhua Automobile Co., Ltd.)	Hangzhou, the PRC 2007	Registered and paid-in capital of RMB26,000,000	–	80%	Sale and service of motor vehicles
寧波九華汽車有限公司** (Ningbo Jiuhua Automobile Co., Ltd.)	Ningbo, the PRC 2009	Registered and paid-in capital of RMB18,000,000	–	80%	Sale and service of motor vehicles
嘉興九華汽車有限公司** (Jiaxing Jiuhua Automobile Co., Ltd.)	Jiaxing, the PRC 2009	Registered and paid-in capital of RMB12,000,000	–	80%	Sale and service of motor vehicles
金華九華汽車有限公司** (Jinhua Jiuhua Automobile Co., Ltd.)	Jinhua, the PRC 2009	Registered and paid-in capital of RMB12,000,000	–	80%	Sale and service of motor vehicles
杭州九華汽車有限公司** (Hangzhou Jiuhua Automobile Co., Ltd.)	Hangzhou, the PRC 2009	Registered and paid-in capital of RMB12,000,000	–	80%	Sale and service of motor vehicles

47. SUBSIDIARIES (continued)

Company name	Place and date of incorporation/ operation	Authorised/registered/ paid-in/share capital	Proportion of ownership interest		Principal activities
			Held by the Company %	Held by a subsidiary %	
紹興九華汽車有限公司** (Shaoxing Jiuhua Automobile Co., Ltd.)	Shaoxing, the PRC 2010	Registered and paid-in capital of RMB10,000,000	–	80%	Sale and service of motor vehicles
湖州九和汽車有限公司** (Huzhou Jiuhe Automobile Co., Ltd.)	Huzhou, the PRC 2011	Registered and paid-in capital of RMB5,000,000	–	80%	Sale and service of motor vehicles
浙江康橋通源汽車銷售服務有限公司** (Zhejiang Kangqiao Tongyuan Automobile Sales & Service Co., Ltd.)	Hangzhou, the PRC 2013	Registered and paid-in capital of RMB44,000,000	–	80%	Sale and service of motor vehicles
佛山市三水豐田汽車銷售服務有限公司** (Foshan Sanshui Toyota Automobile Sales & Service Co., Ltd.)	Foshan, the PRC 2007	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles

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

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

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

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and other borrowings, finance leases, convertible bonds and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, trade payables and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

INTEREST RATE RISK

The Group has no significant interest-bearing assets other than pledged bank deposits (note 25) and cash and cash equivalents (note 27).

The Group's interest rate risk arises from its borrowings, details of which are set out in note 28. Borrowings at variable rates expose the Group to the risk of changes on market interest rates.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2019		
RMB	**15**	**(17,310)**
RMB	**(15)**	**17,310**
2018		
RMB	15	(22,964)
RMB	(15)	22,964

FOREIGN CURRENCY RISK

Most of the Group's assets and liabilities were denominated in RMB, except for certain cash and cash equivalents, bank loans and other borrowings and the liability component of convertible bonds denominated in Hong Kong dollars, United States dollars and Japanese Yen as disclosed in note 27, note 28 and note 29, respectively.

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

CREDIT RISK

The Group has no significant concentrations of credit risk. The carrying amounts of bank deposits, cash and cash equivalents, trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

CREDIT RISK (continued)

MAXIMUM EXPOSURE AND YEAR-END STAGING AS AT 31 DECEMBER 2019

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 2019. The amounts presented are gross carrying amounts for financial assets.

31 December 2019

	12-months ECLs	Lifetime ECLs	
	Stage 1 RMB'000	Simplified Approach RMB'000	Total RMB'000
Trade receivables	—	1,462,767	1,462,767
Financial assets included in prepayments, other receivables and other assets	7,084,395	—	7,084,395
	7,084,395	1,462,767	8,547,162

31 December 2018

	12-months ECLs	Lifetime ECLs	
	Stage 1 RMB'000	Simplified Approach RMB'000	Total RMB'000
Trade receivables	—	1,341,740	1,341,740
Financial assets included in prepayments, other receivables and other assets	6,090,919	—	6,090,919
	6,090,919	1,341,740	7,432,659

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

CREDIT RISK (continued)

MAXIMUM EXPOSURE AND YEAR-END STAGING AS AT 31 DECEMBER 2019 (continued)

For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix at 31 December 2019 and 2018 was set out below:

31 December 2019

	Ageing		
	Within 3 months	3 months to 1 year	over 1 year
Expected credit loss rate	**0%**	**6%**	**44%**
Gross carrying amount (RMB'000)	**1,411,385**	**43,827**	**19,235**
Expected credit losses (RMB'000)	**461**	**2,720**	**8,499**

31 December 2018

	Ageing		
	Within 3 months	3 months to 1 year	over 1 year
Expected credit loss rate	—	3%	25%
Gross carrying amount (RMB'000)	1,290,645	39,662	16,712
Expected credit losses (RMB'000)	—	1,172	4,107

For the financial assets included in prepayments, other receivables and other assets to which the Group applies the general approach for impairment, there was no recent history of default. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. No loss allowance was provided because management estimated that the expected credit losses as at 31 December 2019 were not significant.

As at 31 December 2019, all pledged bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

LIQUIDITY RISK

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

2019

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Bank loans and other borrowings	–	2,906,031	14,932,257	4,070,259	–	21,908,547
Lease liabilities	–	145,724	318,081	1,799,602	3,285,673	5,549,080
Other liabilities	245,000	–	–	–	–	245,000
Trade and bills payables	–	4,568,395	300,549	6,123	–	4,875,067
Other payables	–	523,800	286,168	–	–	809,968
Amounts due to related parties	436	–	–	–	–	436
Convertible bonds	–	–	–	4,826,113	–	4,826,113
	245,436	8,143,950	15,837,055	10,702,097	3,285,673	38,214,211

2018

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Bank loans and other borrowings	–	4,500,933	13,198,732	5,908,608	–	23,608,273
Other liabilities	245,000	–	–	–	–	245,000
Trade and bills payables	–	4,164,867	649,894	–	–	4,814,761
Other payables	–	524,662	294,009	–	–	818,671
Amounts due to related parties	1,119	–	–	–	–	1,119
Convertible bonds	–	–	–	4,046,722	–	4,046,722
	246,119	9,190,462	14,142,635	9,955,330	–	33,534,546

48. 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 ended 31 December 2019.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. Net debt includes bank loans and other borrowings, other liabilities, convertible bonds, amounts due to related parties, trade, bills and other payables and accruals, less cash and cash equivalents, cash in transit and pledged bank deposits. The gearing ratios as at the reporting dates were as follows:

	2019 **RMB'000**	2018 RMB'000
Bank loans and other borrowings	**21,014,052**	22,641,778
Lease liabilities (2018: finance lease payables)	**3,801,625**	6,391
Other liabilities	**245,000**	245,000
Convertible bonds	**4,293,929**	4,046,722
Trade and bills payables	**4,875,067**	4,814,761
Other payables and accruals	**3,223,610**	2,996,549
Amounts due to related parties	**436**	1,119
Less: Cash and cash equivalents	**(6,101,176)**	(6,142,664)
Cash in transit	**(263,989)**	(431,044)
Pledged bank deposits	**(1,341,025)**	(1,312,577)
Net debt	**29,747,529**	26,866,035
Total equity	**22,176,669**	19,036,223
Total equity and net debt	**51,924,198**	45,902,258
Gearing ratio	**57.3%**	58.5%

49. EVENTS AFTER THE REPORTING PERIOD

In response to the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been implemented across China. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group.

50. 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:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	2,232,660	2,185,612
Amounts due from subsidiaries	8,543,752	9,073,713
Total non-current assets	10,776,412	11,259,325
CURRENT ASSETS		
Prepayments, other receivables and other assets	19,305	29,762
Cash and cash equivalents	497,561	671,721
Total current assets	516,866	701,483
CURRENT LIABILITIES		
Bank loans and other borrowings	258,321	65,715
Other payables and accruals	11,027	12
Total current liabilities	269,348	65,727
NET CURRENT ASSETS	247,518	635,756
TOTAL ASSETS LESS CURRENT LIABILITIES	11,023,930	11,895,081
NON-CURRENT LIABILITIES		
Convertible bonds	4,293,929	4,046,722
Bank loans and other borrowings	2,743,521	2,868,203
Total non-current liabilities	7,037,450	6,914,925
NET ASSETS	3,986,480	4,980,156
EQUITY		
Share capital	197	197
Reserves	3,986,283	4,979,959
Total equity	3,986,480	4,980,156

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Share option reserve RMB'000	Equity component of convertible bonds RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Other reserve RMB'000	Total RMB'000
As at 1 January 2018	6,802,125	—	56,779	(342,189)	(760,547)	203,729	5,959,897
Total comprehensive loss for the year	—	—	—	163,221	(291,581)	—	(128,360)
Conversion of convertible bonds	77,898	—	(2,271)	—	—	—	75,627
Equity-settled share-based transactions	—	33,367	—	—	—	—	33,367
Transfer of equity component of convertible bonds upon the redemption of the convertible bonds	—	—	(54,508)	—	—	(351,996)	(406,504)
Issue of convertible bonds	—	—	113,139	—	—	—	113,139
Final 2017 dividend declared	(667,207)	—	—	—	—	—	(667,207)
As at 31 December 2018	**6,212,816**	**33,367**	**113,139**	**(178,968)**	**(1,052,128)**	**(148,267)**	**4,979,959**
Total comprehensive loss for the year	**—**	**—**	**—**	**78,997**	**(349,999)**	**—**	**(271,002)**
Equity-settled share-based transactions	**—**	**16,024**	**—**	**—**	**—**	**—**	**16,024**
Final 2018 dividend declared	**(738,698)**	**—**	**—**	**—**	**—**	**—**	**(738,698)**
As at 31 December 2019	**5,474,118**	**49,391**	**113,139**	**(99,971)**	**(1,402,127)**	**(148,267)**	**3,986,283**

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2020.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial information and financial statements is set out below.

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	**124,042,520**	107,735,655	86,290,288	71,599,221	59,142,607
Cost of sales and services provided	**(112,554,874)**	(97,812,525)	(77,606,286)	(65,046,942)	(54,473,414)
Gross profit	**11,487,646**	9,923,130	8,684,002	6,552,279	4,669,193
Other income and gains, net	**3,109,521**	2,561,221	1,842,863	1,325,514	1,104,143
Selling and distribution expenses	**(4,938,772)**	(4,310,827)	(3,294,302)	(2,806,807)	(2,609,155)
Administrative expenses	**(1,940,062)**	(1,745,100)	(1,347,069)	(1,178,687)	(1,154,254)
Profit from operations	**7,718,333**	6,428,424	5,885,494	3,892,299	2,009,927
Finance costs	**(1,390,554)**	(1,230,522)	(1,076,712)	(1,018,020)	(1,295,697)
Share of (losses)/profits of:					
Joint ventures	**(1,208)**	2,856	4,595	4,148	1,408
Profit before tax	**6,326,571**	5,200,758	4,813,377	2,878,427	715,638
Income tax expense	**(1,807,055)**	(1,505,440)	(1,337,523)	(836,689)	(234,329)
Profit for the year	**4,519,516**	3,695,318	3,475,854	2,041,738	481,309
Attributable to:					
Owners of the parent	**4,501,673**	3,636,636	3,350,413	1,860,228	460,964
Non-controlling interests	**17,843**	58,682	125,441	181,510	20,345
	4,519,516	3,695,318	3,475,854	2,041,738	481,309

	31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**63,024,282**	57,168,187	47,580,792	39,645,059	38,725,315
TOTAL LIABILITIES	**(40,847,613)**	(38,131,964)	(30,911,629)	(26,546,100)	(26,109,320)
NON-CONTROLLING INTERESTS	**(418,116)**	(796,608)	(756,172)	(880,631)	(1,347,484)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**21,758,553**	18,239,615	15,912,991	12,218,328	11,268,511