



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

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

Stock Code 股份代號 : 1293

Annual Report

2019

年報



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. LI Jianping (*Chairman*)
Mr. WANG Xinming (*President*)
Mr. QI Junjie
Mr. LU Ao
Ms. XU Xing

Independent Non-Executive Directors

Mr. DIAO Jianshen
Ms. LIU Yangfang
Mr. CHAN Wan Tsun Adrian Alan

AUDIT COMMITTEE

Mr. DIAO Jianshen (*Chairman*)
Ms. LIU Yangfang
Mr. CHAN Wan Tsun Adrian Alan

REMUNERATION COMMITTEE

Mr. DIAO Jianshen (*Chairman*)
Mr. LI Jianping
Ms. LIU Yangfang

NOMINATION COMMITTEE

Ms. LIU Yangfang (*Chairman*)
Mr. LI Jianping
Mr. DIAO Jianshen

JOINT COMPANY SECRETARIES

Ms. XU Xing
Ms. CHENG Mei Chun

AUTHORISED REPRESENTATIVES

Mr. LI Jianping
Ms. XU Xing

STOCK CODE

1293

WEBSITE

www.klbaoxin.com

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

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Minhang District, Shanghai, PRC.

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong.

REGISTERED OFFICE

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Grand Cayman KY1-1104, Cayman Islands.

PRINCIPAL SHARE REGISTRAR

Maples Fund Services (Cayman) Limited
P.O. Box 1093, Boundary Hall, Cricket Square,
Grand Cayman, KY1-1102, Cayman Islands.

HONG KONG BRANCH SHARE REGISTRAR

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

LEGAL ADVISERS TO HONG KONG LAW

DLA Piper Hong Kong
25th Floor, Three Exchange Square,
8 Connaught Place,
Central, Hong Kong

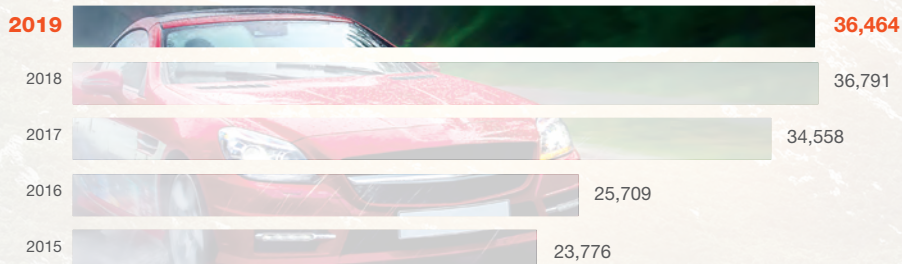
AUDITORS

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

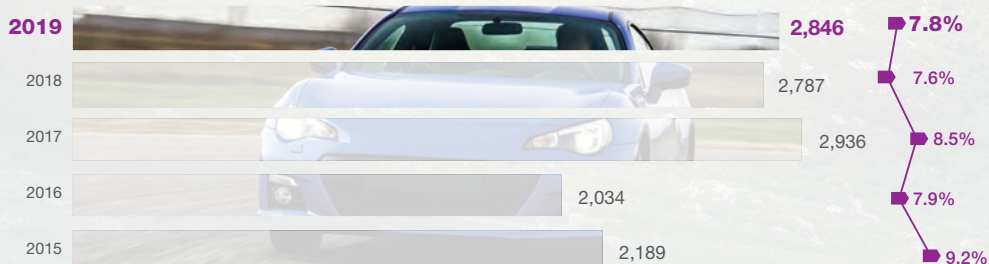
FINANCIAL HIGHLIGHTS



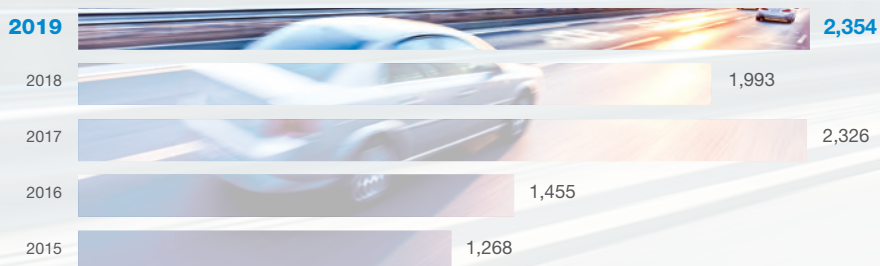
REVENUE
(in RMB million)



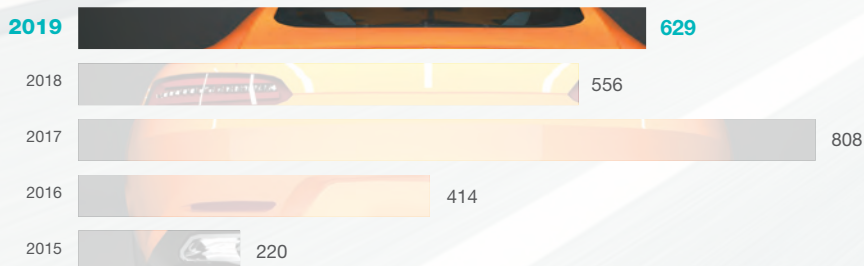
GROSS PROFIT AND GROSS PROFIT MARGIN
(in RMB million)



EBITDA
(in RMB million)



PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT
(in RMB million)



CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) and the management of Grand Baoxin Auto Group Limited (the “**Company**” or “**our Company**”), I am pleased to present the annual results report of the Company and its subsidiaries (collectively, the “**Group**”, “**our Group**”, “**we**” or “**us**”) for the twelve months ended 31 December 2019 (the “**Reporting Period**”).

In 2019, as external and uncertain factors took their toll, the global economy slowed down amid pressure. Despite the structural contradictions in China's domestic economy remained predominant, China strengthened its macro-countercyclical policies, with prime focus on the supply-side structural reform that would promote high-quality development. As such, the macro economy demonstrated strong resilience. According to the 2019 macroeconomic data released by the National Bureau of Statistics, China's gross domestic product for the year amounted to RMB99,086.5 billion, representing an increase of 6.1% as compared with the previous year calculated based on comparable prices. Economic indicators on consumption, investment and industry suggested steady improvements.

Affected by various internal and external factors, production and sales volume of automobiles declined further, and production and sales volume of passenger vehicles decreased at a greater extent than the decrease in the overall automobile market. According to the statistics of China Association of Automobile Manufacturers, in 2019, there were 25,721,000 units and 25,769,000 units of automobile produced and sold respectively, representing a year-on-year decrease of 7.5% and 8.2% in production and sales volume respectively, and rate of decrease for production and sales volume increased by 4.2 percentage points and 5.4 percentage points respectively compared to the previous year.

Meanwhile, at the beginning of 2020, the outbreak of novel coronavirus pneumonia (“**COVID-19**”) and the quarantine measures subsequently implemented by the Chinese government, along with the travel restrictions imposed by other countries, have had a certain level of impact on the production and sales volume of automobiles. During the period from January to February 2020, the total sales volume of passenger vehicles was 1,831,000 units, representing a year-on-year decrease of 43.6%, among which, the total sales volume in February was 224,000 units, indicating significant decreases in month-on-month and year-on-year sales volume, with a month-on-month decrease of 86.1% and a year-on-year decrease of 81.7%, respectively.

CHAIRMAN'S STATEMENT



In 2019, based on the analysis on the overall trend and development potential of the industry, the Group made adjustments to follow the development trend in the industry. The Group leveraged on its existing resources and operating conditions to adopt more prudent operating strategies and corresponding measures. The Group slowed down its pace on procurement, decreased inventory by phase, and continued to refine its brand portfolio and optimised its management. The Group focused on automobile after-sales market business and further improved its business structure to increase profitability. During the Reporting Period, the Group's total revenue and gross profit was RMB36,463.9 million and RMB2,845.9 million, respectively, and the Group's profit attributable to owners of the parent was RMB629.2 million, representing an increase of 13.1% as compared to the year ended 31 December 2018.

There will be times to press forward amid difficulties. Looking forward to 2020, driven by the demand for consumption upgrade and consumption policies, the consumption market for luxury passenger vehicles in China will witness continuous growth, and luxury automobile brands will become the segment market with the most steady growth in the overall passenger vehicle market, and its compound annual growth rate is expected to maintain at approximately 8% to 10%. Despite the external objective environment remains challenging in general, the Group will adhere to its corporate philosophy of "Service First", capture opportunities brought about by the market trends and timely adjust its development strategies. The Group will enhance its business achievements as well as improve its core competitiveness through methods such as refined management and continuous optimization of business structure.

Last but not least, on behalf of the Group, I would like to extend my heartfelt gratitude to all our shareholders, customers and business partners for their enduring trust and support and to all diligent and dedicated staff. We are convinced that, all the achievements the Group has made are attributed to the great support of our shareholders, customers and business partners and concerted efforts of our team. Looking forward to the future, promised by the vast market space in China, we are bound to attain our desired objectives and maximise returns for shareholders.

Yours sincerely,
LI Jianping
Chairman

Hong Kong, 30 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Industry review

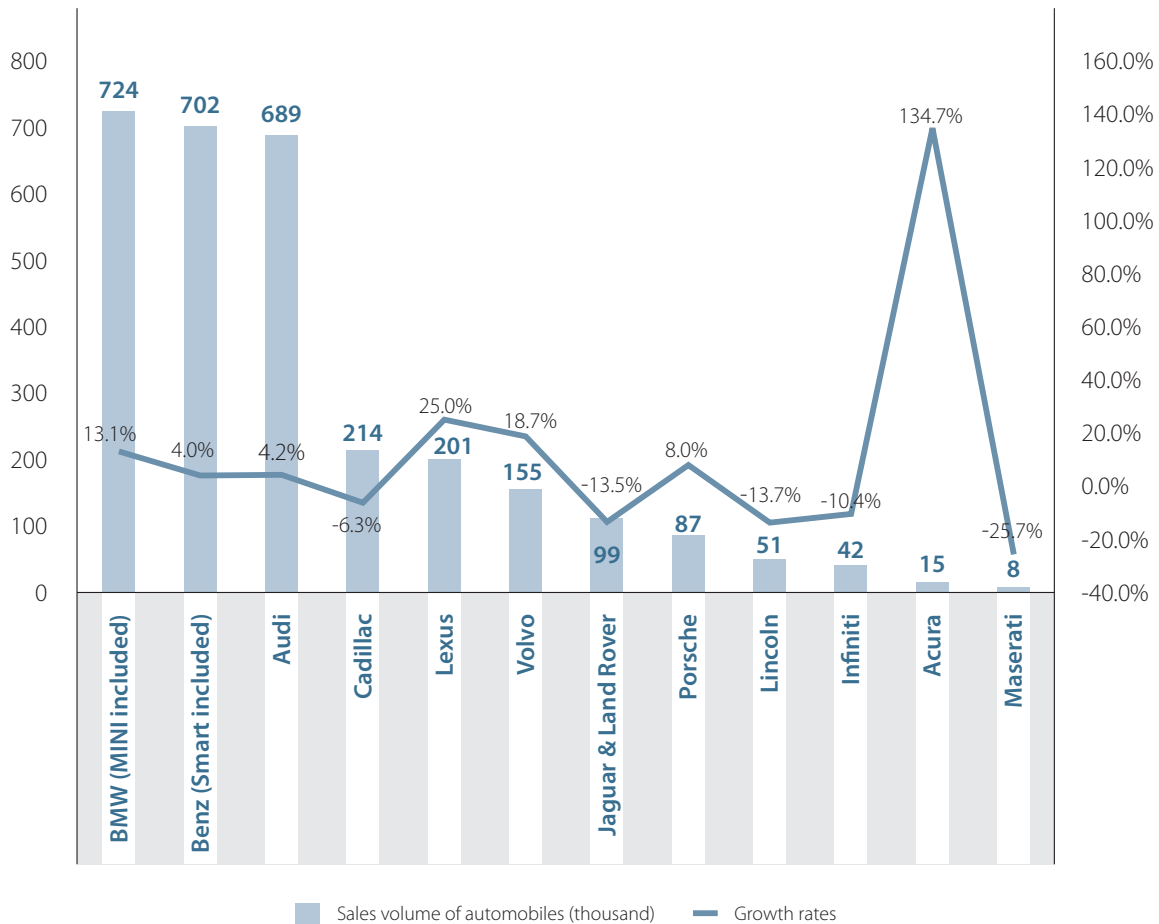
In retrospect, China's economic performance in 2019 was distinguished with a few expected targets accomplished, along with several highlights kindled in the economy. In 2019, the aggregate gross domestic product (the "GDP") amounted to approximately RMB100 trillion, with the GDP per capita exceeding USD10,000, the achieved output value is higher than average of upper-middle-income countries, and this has become more evident that China has made a big leap forward in terms of both its aggregate economic values and production capacity. Meanwhile, in 2019, our open economy has materialised growth amid the countercurrents and headwinds, with huge pressure fenced off, and steady progress made in economic restructuring. Moreover, along with the continuously overwhelming trend in living standard improvement among residents, we believe we are blessed with plenty of capacity to further unlock consumption potential in the market.

For the automobile market, 2019 was a year marked with uncertainties when cloudiness blended with promises. Drawing conclusion from production and sales performance, the overall production and sales of the passenger automobile industry was at a low level, which was in line with our earlier expectation of the year. According to statistics collected from the China Association of Automobile Manufacturers, in 2019, production volume and sales of passenger automobiles in China were 21.36 million and 21.444 million units, respectively, with the production volume and sales decreased by 9.2% and 9.6%, respectively, compared with the corresponding period in the previous year.

In 2019, although the sales volume of passenger vehicles in China continued to drop, luxury brands still showed promising results and achieved growth in both the new automobile market and the secondhand automobile market. The sales in luxury car market was boosted due to the adequate price reduction in the entry-level models of luxury brands, while sales surge was also brought about by the overall trend of consumption upgrade in customer clusters for trade-in transactions. According to the data from the China Automobile Dealers Association, the sales volume of new automobiles of luxury brands reached 3,130,830 units, representing a year-on-year increase of more than 12%, with market share of over 14%. The market of secondhand automobiles of luxury brands had similar performance as that of new automobiles of luxury brands, with sales volume reaching 2,380,910 units representing a year-on-year increase of 9.96%, and market share of 18.37%.

According to the statistical analysis released by the China Automobile Dealers Association, the luxury car market in 2019 followed a price-for-volume overall market trend, and the competitive landscape in the market has become predictable and stable, the downward trend in price movement helped increase buyers' traffic in the luxury car market, for instance, the buyer's traffic in Mercedes-Benz, BMW, Audi ("BBA"), Jaguar & Land Rover, Cadillac and Volvo has materialised growth. The Top 3 German traditional luxury brands BBA, identified as first-tier camp, was testified to an all-round leading performance. BBA, though taking turn winning the championship in first-tier camp, BMW (MINI included) eventually won championship in sales with its recorded sales of 723,680 units, an increase of 13.1% year-on-year. The performance gap that existed within second-tier and third-tier camps of luxury car sectors has become more evident than ever, which we consider to be the most noticeable change of all. Lexus, identified in the second-tier camp, has displayed strong delayed potential; and Lexus, joined by Cadillac, distinguished by its flexible marketing practice, are both crowned the twin figureheads in the market, while ushering into an evolutionary "5 plus N" era. Among which, Lexus, as a fully-imported automobile brand, had sales in China of 200,521 units in 2019, an increase of approximately 25% year-on-year. In contrast, although the performance of Jaguar & Land Rover improved in the second half of the year, its overall performance was unsatisfactory due to being dragged down throughout the year.

China's sales volume and year-on-year growth rate of the top 12 luxury automobile brands in 2019



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

BUSINESS OVERVIEW

During the Reporting Period, the Company emphasized automobile sales just as much as service quality in its policy concern. Along with sustaining the overall stable growth in sales performance, the Company also focused on business transformation and upgrade, and that the Company would steadily diverge from “sales-led” approach and join in the line of “service-led” in its policy pursuit. Such shift in focus has given impetus to the Company to optimise its profit structure, as well as to improve on after-sale services quality. Ultimately, the Company aimed to deliver the best services most agreeable to the needs of buyers, so as to address the uncertainties that clouded over the industry, and to safeguard the healthy, steady and sustainable growth of the Company in the long run.

For the year ended 31 December 2019, our revenue amounted to approximately RMB36,463.9 million, a decrease of 0.9%, year-on-year; gross profit amounted to RMB2,845.9 million, an increase of 2.1%; profit attributable to equity holders amounted to RMB629.2 million, an increase of 13.1%, and earnings per share recorded RMB0.22.

MANAGEMENT DISCUSSION AND ANALYSIS

New automobile sales

During the Reporting Period, the Group's total sales volume of new automobiles was 111,048 units, representing a year-on-year decrease of 1.6%. Sales revenue from new automobiles amounted to RMB31,687.7 million, representing a year-on-year decrease of 1.8%, of which the sales volume of luxury and ultra-luxury automobiles was 83,620 units, representing a year-on-year increase of 823 units; sales revenue amounted to RMB28,341.2 million, representing a year-on-year decrease of 0.9%. Gross profit margin of the sales of new automobiles was 2.3%.

Luxury brands continued to be the source of the Group's core sales revenue. Sales volume of new automobiles of various luxury brands which the Group dealt with had a steady growth during the Reporting Period. The proportion of sales revenue from new automobiles of luxury and ultra-luxury brands in the overall sales revenue from new automobiles further increased from 88.6% in last year to 89.4%.

During the Reporting Period, the luxury brands which we dealt with entered into a cycle of stable development. Various new models with market competitiveness, particularly BMW, rolled out respectively. In 2019, the newly-launched "BMW X3" has gradually become the mainstream car model, and its market share further expanded, the Group's brand portfolio and product structure were therefore further optimized.

The Jaguar & Land Rover brand which the Group dealt with was still in a gradually recovering stage in year 2019. The annual sales volume in China dropped by 13.5%, resulting in the sales of Jaguar & Land Rover brand which the Group dealt with being fluctuated. However, it is believed that, as the majority of the car models of Jaguar & Land Rover will be altered in 2020, such market effect will be gradually manifested.

Meanwhile, in response to changes in the external environment and sales policies adopted by manufacturers, the Group strengthened regional management of new automobile sales. While ensuring the overall gross profit of new automobile sales to remain stable, the Group also proactively strove for sales opportunities of the extended business of each automobile, and continued to enhance the penetration rate of the extended businesses of the Group such as auto finance and auto insurance and the profitability of automobile solely.

After-sales service

During the Reporting Period, the revenue for after-sales service of the Group was RMB4,732.8 million, representing a year-on-year increase of 5.1%, accounting for 13.0% of the total revenue of the Group. The gross profit of after-sales service was RMB2,078.4 million, representing a year-on-year increase of 2.0%. The gross profit margin of after-sales service was 43.9%, representing a decrease of 1.4 percentage points when compared with the same period of last year.

During the Reporting Period, the Group speeded up the industry layout of after-sales business, leveraged on the internet automobile service platform "Hui Yang Che (匯養車)" jointly created with China Grand Automotive Services Co., Ltd (廣匯汽車服務集團股份有限公司) ("CGA"), the Group's controlling shareholder, to develop service segments such as "Quick Maintenance (雙人快保)", "Quick Paint-Spraying (快速噴漆)" and "Information Release (信息發佈)", increased the external after-sales customer diversion channels through setting up online connection between customers and different stores, so as to further increase customer stickiness. Meanwhile, benefitting from the stability of the Group's sales of new automobiles, the Group fulfilled the individual needs of customers at all levels for different brands and models by enhancing data analysis and conducting effective online and offline integration, and provided customers with differentiated and customized service products and contents.

During the Reporting Period, the Group continued to strengthen cost control by introducing cost-saving measures and seeking new income sources. It also utilized its business scale advantages to conduct centralized procurement and allocation for all regions on parts and maintenance supplies that need bulk-purchase as well as organized biddings on a regular basis to ensure product quality and service quality while further reducing the Group's procurement costs.

Derivative business

During the Reporting Period, the Group actively expanded the automobile derivative business. The Group increased the service standard of derivative business by continuously improving its existing management system and providing a wide variety of derivative service products. As of 31 December 2019, the Group recorded a revenue of RMB745.0 million from automobile derivative business, representing a year-on-year decrease of 4.8%.

During the Reporting Period, the Group focused on creating online virtual reality showrooms, developed short videos and increased online consumption stickiness. During the novel coronavirus epidemic outbreak, the Group adjusted the staff ratio of online sales and marketing, implemented online business for each 4S store outlet, facilitated online car purchases at home, and provided multi-dimensional comparison and analysis of different car types for potential customers, thus laying a solid foundation for offline dealings after the epidemic.

- Automobile finance business

During the Reporting Period, the Group recorded commission income of RMB249.6 million from its financial service business, which decreased by 4.3% as compared to RMB260.8 million in the corresponding period of last year. Meanwhile, the penetration rate of automobile finance in the new automobile business was approximately 60%.

During the Reporting Period, the Group adhered to the concept of stable operation and development, appropriately controlled the growth of financial assets, ensured the Company's mid-to-long-term positive development, persisted in risk control, maintained high-standard approval threshold, and reduced the 30-day overdue loan rate and 90-day non-performing loan rate, so as to guarantee the quality of newly-added assets. Meanwhile, the Group focused on providing customers with innovative, differentiated and professionalized lease products and services, and maintained higher level of customer satisfaction.

- Secondhand automobile business

During the Reporting Period, the number of secondhand automobiles of the Group traded accumulated to 39,866 units, representing a year-on-year increase of 9.0%. The penetration rate of secondhand automobiles was 35.9%, representing an increase of 1.08 percentage points when compared with the same period of last year.

During the Reporting Period, the Group leveraged on its existing offline 4S stores, and by linking with new car sales, integrating the supply chain finance, as well as actively expanding the evaluation, replacement and retail business of secondhand automobiles, the Group ensured its continuous expansion of the existing customer base and provision of quality retail resources of secondhand automobiles, so as to proactively respond to the impacts brought to the secondhand automobile business by external factors such as price fluctuation of new automobiles.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Group continued to strengthen the establishment of secondhand automobile teams, upgraded the Enterprise Resource Planning (the “ERP”) management system of secondhand automobiles, improved its assessment, testing and pricing capabilities, carried out efficient and standardized business and implemented efficient control on financial integration. Meanwhile, the Group also strictly controlled the turnover management of secondhand automobile inventories and set up relevant systems, thus ensuring the healthy and smooth inventory operations.

- Insurance business

During the Reporting Period, the commission income of the Group’s insurance business was RMB362.5 million, representing a decrease of 3.6% as compared to that of RMB376.1 million in 2018.

During the Reporting Period, the Group actively developed innovative non-automobile insurance service products by improving its existing business management model, created an industry-leading “Insurance Cloud (保險雲)” platform, completed the business data connection of major insurance companies, and implemented platformized management and control for business operations. Therefore, it effectively enhanced management efficiency, and by which mitigated the impact of downward fee adjustments that had been introduced for three times in the past.

Network layout

As a leading domestic dealer of luxury automobiles, the Group’s business mainly concentrates in the eastern part of China, which acts as the axis for expanding into the northern, central and southern part of China and also the northeast and northwest regions, thus covering the majority of the mainstream market for luxury and ultra-luxury automobiles in China as of now.

During the Reporting Period, the Group implemented its strategic policy that emphasized on internal adjustment, adopted a cautious attitude towards network expansion, focused on the improvement on management optimization and operational efficiency of existing stores, enhanced the concentration on high-quality brands and eliminated weaker brands, so as to achieve the objectives of cost reduction and optimization. Meanwhile, the Group also rebuilt and improved its existing stores, and managed to reduce capital expenditure of the Company while further raised the efficiency of capital usage, thus allowing itself to have a steady transition throughout the current industry adjustment.

During the Reporting Period, through acquiring two BMW 4S shops from CGA, its controlling shareholder, and certain existing 4S shops of other brands as well as upgrading and rebuilding them into BMW 4S shops, the Group was able to strengthen its strategic advantage and brand distributions in core regions.

As of 31 December 2019, the Group operated a total of 116 stores and owned a diversified car brand portfolio comprising 10 luxury and ultra-luxury automobile brands (namely BMW (including MINI), Audi, Jaguar Land Rover, Volvo, Cadillac, Chrysler, Alfa Romeo, Porsche, Rolls Royce and Maserati). Specifically, such stores included 94 luxury and ultra-luxury brand dealing stores, 17 mid-to-high brand dealing stores and 5 independent after-sales service (maintenance and decoration and loss assessment center) stores.

FUTURE OUTLOOK AND STRATEGIES

In 2019, the automobile industry in China went through the process of transformation and upgrading. Under the influence of factors such as Sino-US economic and trade frictions, changes in environmental protection standards and decrease in subsidies for new energy, the sales market of new automobiles was under additional pressure. Meanwhile, against the backdrop of the steady growth of automobile ownership volume and aging of vehicles, along with the impact of new emerging technology (such as the Internet) and business models, the focus of industry expansion rapidly shifted to the after-sales market. In the segmental business areas, the secondhand automobile market maintained stable development; while the automobile finance business quickly bloomed with substantial room for market development and has become a strong driving force for industry adjustment and transformation. In addition, with the rapid development of 5G, the automobile field will undergo huge reforms. Autonomous driving and “Connected-car Applications (車聯網)” will be introduced successively.

With the official signing of phase one trade deal between US and China, the tensions from Sino-US trade disputes and external economic situations have eased. However, with the outbreak of novel coronavirus epidemic since early 2020, it will undoubtedly create huge challenges to the operating environment of domestic enterprises in the short term. The Group believes that, as a vital part of the automobile industry chain, car dealers are at the forefront of consumption and possess high sensitivity to the market. Although such epidemic will have adverse effect on the industry supply in the short run, it will not change the long-term recovery of the industry. Meanwhile, the epidemic will increase the high demand of the public on public transportation, and this may stimulate consumers to purchase their first cars once the epidemic has been overcome. Moreover, stabilization policies for car consumption introduced by car manufacturers can more effectively offset the impact of the epidemic on the automobile industry.

Continuously driven by the relevant factors such as upgrade of consumption structure and increase of car models covering the segmental markets, the share of China’s luxury automobile market in the future is expected to be further expanded. The Group will adhere to its positioning as the dealer of luxury automobiles, continuously develop the sales service industry chain of luxury and ultra-luxury automobile brands, as well as create service standards equipped with the Group’s distinguished brand features.

The Group will rely on its rich experience in the automobile industry to make timely and accurate judgement on changes in the future development trends of the automobile industry (particularly the expanding new energy vehicle sector). The Group has set up professional talent teams and technical reserves, actively established strategic cooperation with the automobile manufacturers of major global brands and the supporting enterprises of related industry chains, captured the development opportunities of new energy vehicle market and after-sales market, organized the layout of the upstream and downstream industry chain of new energy vehicles, thus creating a service chain for new energy vehicle combining charging, travelling and energy integration.

Meanwhile, the Group will adhere to efficient management policies, constantly optimize the internal refined management system, uphold the Company’s governance philosophy of maintaining a sound financial position and increasing its rate of return, be market-oriented and improve its dealership network, and expand the huge development potential of after-sales market, so as to ensure that the Group is able to achieve healthy, sustainable and stable long-term development and a win-win situation for shareholders, employees, customers and society.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

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

Revenue source	Year ended 31 December			
	2019		2018	
	Revenue (RMB'000)	Contribution to total Revenue (%)	Revenue (RMB'000) (Restated)	Contribution to total Revenue (%) (Restated)
Automobile sales	31,687,726	86.9	32,255,010	87.7
Luxury and ultra-luxury brands	28,341,202	77.7	28,588,866	77.7
Mid-to-upper market brands	3,346,524	9.2	3,666,144	10.0
After-sales business	4,732,762	13.0	4,501,060	12.2
Luxury and ultra-luxury brands	4,356,197	12.0	4,098,643	11.1
Mid-to-upper market brands	376,565	1.0	402,417	1.1
Finance leasing services	43,390	0.1	34,666	0.1
Total revenue	36,463,878	100	36,790,736	100

Revenue from the sales of automobiles decreased by 1.8% due to the fact that the overall performance of the new automobile sales market was under pressure while being affected by the external economic environment. At the same time, the brands Jaguar & Land Rover and Maserati were underperformed in China during the Reporting Period.

Automobile sales generated a substantial portion of our revenue, accounting for 86.9% of our total revenue for the year ended 31 December 2019. Revenue generated from the sales of luxury and ultra-luxury brands and our mid-to-upper market brands accounted for approximately 77.7% (2018: 77.7%) and 9.2% (2018: 10.0%), respectively, of our total revenue.

Revenue from our after-sales business increased by 5.1% from RMB4,501.1 million for the year ended 31 December 2018 to RMB4,732.8 million for the same period in 2019.

Cost of sales and services

For the year ended 31 December 2019, our cost of sales and services decreased by 1.1%, from RMB34,003.9 million for the same period in 2018 to RMB33,618.0 million, which was primarily due to the Group's insistence on adopting strict control on sales expenses and optimizing its cost-allocation strategy.

The cost of sales and services attributable to our automobile sales business amounted to RMB30,962.6 million for the year ended 31 December 2019, representing a decrease of RMB576.3 million, or 1.8%, from the same period in 2018. The cost of sales attributable to our after-sales business amounted to RMB2,654.3 million for the year ended 31 December 2019, representing an increase of RMB190.5 million, or 7.7% from the same period in 2018.

Gross profit and gross profit margin

Gross profit for the year ended 31 December 2019 was RMB2,845.9 million, representing an increase of RMB59.1 million or 2.1% from the same period in 2018. Gross profit from automobile sales increased by 1.3% from RMB716.2 million for the year ended 31 December 2018 to RMB725.2 million for the same period in 2019, of which RMB722.1 million was from the sales of luxury and ultra-luxury automobiles. Gross profit from after-sales business increased by 2.0% from RMB2,037.2 million for the year ended 31 December 2018 to RMB2,078.4 million for the same period in 2019. Automobile sales and after-sales business contributed to 25.5% (2018: 25.7%) and 73.0% (2018: 73.1%), respectively, to the total gross profit for the year ended 31 December 2019.

Gross profit margin for the year ended 31 December 2019 was 7.8% (2018: 7.6%), of which the gross profit margin of automobile sales was 2.3% (2018: 2.2%) and of after-sales business was 43.9% (2018: 45.3%).

Other income and gains, net

Other income and net gains increased by 4.3% from RMB834.1 million for the same period in 2018 to RMB869.6 million for the year ended 31 December 2019, mainly due to the growth in rental income and the decrease in foreign exchange differences during the Reporting Period when compared with the same period of last year. During the Reporting Period, the Group recorded other gains amounting to RMB27.2 million from the changes of fair value of investment properties.

Selling and distribution costs and administrative expenses

For the year ended 31 December 2019, our selling and distribution costs decreased by 3.2% to RMB1,210.6 million from RMB1,251.0 million for the same period in 2018. Our administrative expenses decreased by 2.7% from RMB747.5 million for the same period in 2018 to RMB727.1 million, which was primarily due to the Group's adoption of a more stringent policy on reducing cost and increasing efficiency, which in turn further controlled expenditures and raised the efficiency of capital usage during the Reporting Period.

Profit from operations

As a result of the foregoing, our profit from operations for the year ended 31 December 2019 increased by 9.6% to RMB1,777.8 million from RMB1,622.4 million for the same period in 2018.

Finance costs

Finance costs increased by 16.4% from RMB706.5 million for the year ended 31 December 2018 to RMB822.2 million for the same period in 2019, primarily because of the HKFRS 16 impact amounted to RMB90.4 million. Upon deducting the effect of HKFRS 16, finance costs in 2019 was RMB731.8 million.

Profit for the year

As a result of the cumulative effect of the foregoing, our profit for the year ended 31 December 2019 increased by 11.8% to RMB622.8 million from RMB557.1 million for the same period in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

As at 31 December 2019, our cash and cash equivalents amounted to RMB1,663.1 million, representing a decrease of 35.1% from RMB2,562.3 million as at 31 December 2018. Such decrease was primarily due to the use of cash flows generated from operating activities by the Group to repay certain debts, as well as the increased use of cash payments and the decreased use of payment by notes during the Reporting Period.

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

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of bank loans and other borrowings, cash flow generated from our operating activities and other funds raised from the capital markets from time to time. For the year ended 31 December 2019, our net cash generated from operating activities was RMB662.3 million (2018: RMB706.0 million).

Net current assets

As at 31 December 2019, we had net current assets of RMB2,248.1 million, representing a decrease of RMB3,639.2 million from RMB5,887.3 million as at 31 December 2018.

Capital expenditure

Our capital expenditures primarily comprised of expenditures on property, plant and equipment, land use rights and intangible assets. During the year ended 31 December 2019, our total capital expenditures amounted to RMB673.2 million (2018: RMB776.2 million).

Inventories

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

Our inventories decreased by 15.2% from RMB4,132.1 million as at 31 December 2018 to RMB3,503.6 million as at 31 December 2019.

Our average inventory turnover days for the year ended 31 December 2019 decreased to 41.5 days from 44.3 days in 2018. This was primarily due to the fact that we accelerated the pace of new automobile sales during the Reporting Period as well as enhanced quota management of the costs on inventory, which in turn increased the efficiency of inventory turnover and controlled financial costs.

Trade Receivables

Trade receivables increased from RMB560.5 million for the year ended 31 December 2018 to RMB613.5 million for the year ended 31 December 2019, primarily due to the increase of insurance commission receivables.

Interest-bearing bank and other borrowings

As at 31 December 2019, the Group's available and unutilised banking facilities amounted to approximately RMB7,189.5 million (31 December 2018: RMB8,544.0 million).

Our interest-bearing bank and other borrowings as at 31 December 2019 were RMB9,628.1 million, representing a decrease of RMB42.4 million from RMB9,670.5 million as at 31 December 2018. The decrease in our interest-bearing bank and other borrowings was primarily due to the use of cash flows generated from operating activities by us to repay certain debts.

Interest rate risk and foreign exchange rate risk

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

Substantially all of our revenue, costs and expenses are denominated in Renminbi. We also use Renminbi as our reporting currency. As of 31 December 2019, certain of our financial liabilities were denominated in foreign currencies, and considering the fluctuation of foreign currency rate, we also used derivative financial instruments to control our exposure to foreign exchange risk.

Gearing ratio

The Group monitors capital by using a gearing ratio, which is net debt divided by the equity attributable to owners of the parent plus net debt. Net debt includes bank loans and other borrowings, trade, bills and other payables, accruals, and senior perpetual capital securities less cash and bank balances. Our gearing ratio for the year ended 31 December 2019 was 67.5% (2018: 69.3%).

Human resources

As at 31 December 2019, the Group had 7,210 employees (31 December 2018: 7,759). Total staff costs for the year ended 31 December 2019, excluding Directors' remuneration were approximately RMB1,089.1 million (2018: RMB1,136.1 million).

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

Contingent liabilities

As at 31 December 2019, the Group had no significant contingent liabilities (31 December 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of the Group's assets

Our Group had pledged our group assets, shares in certain subsidiaries and letters of credit as securities against bank loans and other borrowings and bills payable which were used to finance daily business operation and acquisition. As at 31 December 2019, the pledged group assets amounted to approximately RMB6,263.7 million (31 December 2018: RMB5,999.5 million).

SIGNIFICANT ACQUISITION, DISPOSAL OR INVESTMENT

Acquisitions

The Group did not have any significant acquisitions of subsidiaries and affiliated companies during the year ended 31 December 2019.

Disposals

The Group did not have any significant disposals of subsidiaries and affiliated companies during the year ended 31 December 2019.

Important events after 31 December 2019

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.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving good corporate governance standards.

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

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

In the opinion of the Directors, throughout the year ended 31 December 2019, the Company has complied with most of the code provisions as set out in the CG Code, save and except for provision A.2.1.

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

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made to all the Directors who have confirmed that they have complied with the Model Code throughout the year ended 31 December 2019.

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

Role of the Board

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

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

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

Composition

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

The Board

Executive Directors

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

Independent non-executive Directors

Mr. Diao Jianshen
Ms. Liu Yangfang
Mr. Chan Wan Tsun Adrian Alan

The biographical details of the Directors are set out on pages 34 to 36 of this annual report. In addition, a list of the names of the Directors and their role and function is published on the websites of the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

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

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

Insurance Coverage

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

Chairman and Chief Executive Officer

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

During the financial year ended 31 December 2019, the position of Chairman was held by Mr. Li Jianping, and Mr. Wang Xinming acted as the President of the Company. The role and responsibilities of the chief executive officer are delegated to other executive Directors and management of the Company. The Board is of the view that the current management structure can effectively facilitate the Company's operation and business development.

Independent Non-executive Directors

During the year ended 31 December 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board, with one of whom possesses appropriate professional qualification, accounting or related financial management expertise.

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

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

Appointment and Re-election of Directors

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

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

CORPORATE GOVERNANCE REPORT

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

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

In accordance with Article 16.18 of the Articles of Association, Mr. Diao Jianshen, Ms. Liu Yangfang and Mr. Chan Wan Tsun Adrian Alan shall retire at the Annual General Meeting of the Company to be held on 12 June 2020 (the "**2020 AGM**"). All of the above retiring Directors, being eligible, will offer themselves for re-election at the 2020 AGM.

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

Board Committees

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

The Board committees are provided with sufficient resources to discharge their duties and are able to seek independent professional advice where appropriate and upon request. Details of these Board committees, including their compositions, major responsibilities and functions, and work performed during the year ended 31 December 2019 are set out below.

Audit Committee

The Audit Committee consists of the following members during the year ended 31 December 2019:

Independent non-executive Directors

Mr. Diao Jianshen (*Chairman*)

Ms. Liu Yangfang

Mr. Chan Wan Tsun Adrian Alan

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

During the year ended 31 December 2019, the Audit Committee met twice to:

- review the consolidated financial statements, annual and interim reports before submission to the Board for approval; review any significant issues on the financial reporting and compliance procedures, scope of work and appointment of external auditors, any connected transactions of the Group;
- make arrangements for employees to discuss any possible operational improprieties; and
- review the risk management and internal control systems, and the effectiveness of the Company's internal audit function.

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

Remuneration Committee

The Remuneration Committee consists of the following members during the year ended 31 December 2019:

Independent non-executive Directors

Mr. Diao Jianshen (*Chairman*)

Ms. Liu Yangfang

Executive Director

Mr. Li Jianping

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

During the year ended 31 December 2019, the Remuneration Committee met once to:

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

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

CORPORATE GOVERNANCE REPORT

Nomination Committee

The Nomination Committee consists of the following members during the year ended 31 December 2019:

Independent non-executive Directors

Ms. Liu Yangfang (*Chairperson*)

Mr. Diao Jianshen

Executive Director

Mr. Li Jianping

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

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

During the year ended 31 December 2019, the Nomination Committee met once to:

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

Board Meetings

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

During the year ended 31 December 2019, the Board has held five board meetings to review financial and operating performance of the Company and to discuss future strategies. The Directors participated in the Board meetings in person or through electronic means.

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

Attendance Record of Directors and Committee Members

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

Name of Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
<i>Executive Directors</i>					
Mr. Li Jianping	5/5	N/A	1/1	1/1	1/1
Mr. Wang Xinming	5/5	N/A	N/A	N/A	1/1
Mr. Qi Junjie	5/5	N/A	N/A	N/A	1/1
Mr. Lu Ao	5/5	N/A	N/A	N/A	1/1
Ms. Xu Xing	5/5	N/A	N/A	N/A	1/1
<i>Independent non-executive Directors</i>					
Mr. Diao Jianshen	5/5	2/2	1/1	1/1	1/1
Ms. Liu Yangfang	5/5	2/2	1/1	1/1	1/1
Mr. Chan Wan Tsun Adrian Alan	5/5	2/2	N/A	N/A	1/1

Apart from regular Board meetings, the Chairman of the Board also held a meeting with the independent non-executive Directors without the presence of executive Directors during the year ended 31 December 2019.

Continuous Professional Development of Directors

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

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

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

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

During the year ended 31 December 2019, all Directors have been required to provide the Company with a record of the training they received on a half-year basis, and such records have been maintained by the Company.

A summary of the Directors' participation in internal and other external training for the year ended 31 December 2019 is as follows:

Name of Directors	Attending briefing/seminars	Reading materials/ regulatory updates/ management monthly updates
<i>Executive Directors</i>		
Mr. Li Jianping	√	√
Mr. Wang Xinming	√	√
Mr. Qi Junjie	√	√
Mr. Lu Ao	√	√
Ms. Xu Xing	√	√
<i>Independent non-executive Directors</i>		
Mr. Diao Jianshen	√	√
Ms. Liu Yangfang	√	√
Mr. Chan Wan Tsun Adrian Alan	√	√

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

CORPORATE GOVERNANCE REPORT

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.

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

BOARD NOMINATION POLICY

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

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

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

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

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

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

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

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditors' Report on pages 49 to 53 of this annual report.

AUDITORS' REMUNERATION

The remuneration paid to the Group's external auditors, Ernst & Young for the year ended 31 December 2019 is set out below:

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

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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

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

- The Group strictly complies with the disclosure requirements of the Listing Rules and the Guidelines on Disclosure of Inside Information published by the Securities and Futures Commission in June 2012 for dealing with and disseminating inside information.
- The Group discloses broad and non-exclusive information to the public through financial report, announcement and official website.
- The Group has established the internal confidential rules directed against the senior management and general staff who can access inside information due to their rankings or duties, provides education and training on confidential regulations and requires the aforesaid staff to sign a confidential commitment. In respect of results announcement or material transaction, the Group strictly controls and limits the scope of staff who can access information. The material sensitive information is concealed by confidential code (including electronic, written and verbal). The Group also gives written notices about the lock-up period and other matters required for special attention to avoid the dissemination of inside information.

Based on the results of evaluations and representations made by the management and the internal auditor during the year ended 31 December 2019, the Board, as supported by the Audit Committee, is satisfied that (i) there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business objectives; (ii) that appropriate systems of risk management and internal control have been in place during the year ended 31 December 2019 and up to the date of approval of this annual report; and (iii) that the Company's risk management and internal control systems are effective and adequate.

JOINT COMPANY SECRETARIES

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

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

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

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

Ms. Xu and Ms. Cheng have each complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of professional training to update her skills and knowledge for the year ended 31 December 2019.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on the remuneration of senior management of the Group. The goal of developing staff remuneration packages is to enable the Company to motivate the executive Directors and senior management by linking their remuneration to the Company’s operating results, individual performances and comparable market rates. Details of the remuneration of each Director for the year ended 31 December 2019 are set out in note 9 to the financial statements of this annual report.

For the year ended 31 December 2019, the aggregate emolument paid to members of non-director senior management was within the following bands:

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

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

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

Procedure for Convening an Extraordinary General Meeting by Shareholders

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

Procedure for Putting Forward Proposals at General Meetings

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

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

Procedure for Putting Forward Enquiries to the Board

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

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

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

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

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

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

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

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2019, the Company did not make any changes to its articles of association. An up-to-date version of the Company's article of association is available on both the websites of the Stock Exchange and the Company.

DIVIDEND POLICY

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

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. LI Jianping (李建平), aged 59, has been an executive Director, the chairman of the Board and a member of the Remuneration Committee and the Nomination Committee of the Company since 21 June 2016. Mr. Li has been the chairman of the board of directors of CGA since July 2015 and has been an executive director of China Grand Automotive Services Co., Ltd. (廣匯汽車服務有限責任公司) (“**CGA Limited**”) and its predecessor since September 2013. Mr. Li was a president of CGA Limited and its predecessor from August 2013 to July 2015 and a vice president of CGA Limited and its predecessor from May 2012 to August 2013. Mr. Li was the chairman and general manager of Xinjiang Military Imported Auto Parts Co., Ltd. (新疆軍工進口汽車配件有限公司), currently a subsidiary of CGA, from August 1988 to April 2008. From October 2002 to July 2017, Mr. Li has been serving as the general manager and chairman of Urumqi Huatong Toyota Sales and Services Co., Ltd. (烏魯木齊華通豐田汽車銷售服務有限公司), currently a subsidiary of CGA. Mr. Li currently serves as the director of Urumqi Huatong Toyota Sales and Services Co., Ltd.. Mr. Li was the chairman and general manager of a subsidiary of CGA, Xinjiang Tianhui Automobile Services Co., Ltd. (新疆天匯汽車服務有限公司) from April 2008 to August 2013. Mr. Li obtained a university diploma in economics and management by taking correspondence courses from Urumqi Army Institute (烏魯木齊陸軍學院) in June 2006.

Mr. WANG Xinming (王新明), aged 47, has been an executive Director and the President of the Company since 21 June 2016. Mr. Wang has been a director of CGA since June 2016, and a president of CGA since May 2016. Mr. Wang served as a vice president of CGA from July 2015 to May 2016. From December 2013 to July 2015, Mr. Wang was the assistant to the president of CGA Limited and its predecessor. Mr. Wang served successively as a deputy store manager, vice general manager of operations, executive vice general manager of operations and general manager of Hebei region, general manager of the north China region and general manager of the greater north China region of CGA from November 2008 to November 2013. Mr. Wang served successively as the store manager and general manager for store operations of Shijiazhuang Tianhe Automobile Dealership Co., Ltd. (石家莊天河汽車貿易有限公司) from January 2002 to November 2008. Mr. Wang obtained a bachelor’s degree in administrative management from Hebei University of Economics and Business (河北經貿大學) in July 1994.

Mr. QI Junjie (戚俊傑), aged 47, has been an executive Director of the Company since 29 July 2016. Mr. Qi has been the employee’s representative supervisor of CGA since 18 December 2019 and has been the secretary of the party committee of CGA since May 2016 and was the chairman of the board of directors of Xinjiang Guanghui Liquefied Natural Gas Development Co., Ltd. (新疆廣匯液化天然氣發展有限責任公司) from September 2015 to July 2016. Mr. Qi has been a director of Xinjiang Guanghui Energy Company Limited (新疆廣匯能源股份有限公司) since October 2015. Mr. Qi served as the deputy county chief and deputy secretary of Xinjiang Jimunai County (新疆吉木乃縣) and the director of the National Border Co-operative District (國家邊境合作區) from July 2008 to September 2014. Mr. Qi was an official of the Forest Bureau of Xinjiang Aletai District (新疆阿勒泰地區林業局) from July 1994 to July 2008. Mr. Qi obtained a master degree in botanical architecture specialty from Xinjiang Agricultural University (新疆農業大學) in July 1997 and obtained a bachelor’s degree in plant protection specialty from Xinjiang Agricultural University (新疆農業大學) in July 1994.

Mr. LU Ao (盧翱), aged 47, has been an executive Director of the Company since 21 June 2016. Mr. Lu has been the vice president and chief financial officer of CGA since July 2015. Mr. Lu served as the chief business development officer, vice president and chief financial officer of CGA Limited and its predecessor from January 2007 until July 2015. Mr. Lu served as a manager of the corporate development department of the Asia Pacific region of Danone from August 2005 to September 2006, and a manager of the corporate investment and M&A strategic consulting department of PricewaterhouseCoopers from January 2004 to August 2005. Mr. Lu obtained a bachelor’s degree in economics from Southwest University of Finance & Economics (西南財經大學) in July 1995, and obtained an MBA degree from Fordham University in the Beijing International MBA program at Peking University in February 2004. Mr. Lu was admitted as a certified public accountant of PRC by Chinese Institute of Certified Public Accountants in August 1998.

Ms. XU Xing (許星), aged 42, has been the executive director of the Company since 8 June 2018 and was the non-executive director of the Company from October 2017 to June 2018. She was also appointed as a joint company secretary of the Company on 20 November 2018. Ms. Xu is primarily responsible for the corporate governance and capital market related matters of the Company and therefore has extensive experience in matters concerning the board of directors and the corporate governance of the Company. Ms. Xu was also appointed as the vice president of the Company in May 2017. Ms. Xu is the secretary of the board and vice president of CGA and was the assistant to the president of CGA from October 2016 to June 2018. Prior to joining CGA, Ms. Xu was the executive president of Shanghai Yanhua Smartech Group Co., Ltd (上海延華智能科技(集團)股份有限公司) (“**SYSG**”), a company listed on Shenzhen Stock Exchange (SHE: 002178) from January 2014 to October 2016. Ms. Xu was also the deputy general manager and secretary of the board of SYSG from December 2009 to August 2014. From November 2007 to May 2009, Ms. Xu was a senior consultant in Han Consulting (China) Ltd. (漢普管理諮詢(中國)有限公司). Ms. Xu has over 10 years of experience in senior management. Ms. Xu obtained a master’s degree from University of Portsmouth, United Kingdom in 2006 and a MBA degree from Shanghai University of Finance and Economics (上海財經大學) in 2007. Ms. Xu also obtained a EMBA from China Europe International Business School (中歐國際工商學院) and the Certificate of Secretary of the Board (董事會秘書資格證書) issued by the Shenzhen Stock Exchange in 2009.

Independent non-executive Directors

Mr. DIAO Jianshen (刁建申), aged 66, is an independent non-executive director of the Company, the chairman of each of the Audit Committee and the Remuneration Committee, and a member of the Nomination Committee of the Company. Mr. Diao has been a vice president of the China Automobile Dealers Association since 2008. He was a director and executive deputy general manager of 華星新世界汽車服務有限公司 (Huaxing New World Auto Service Company Limited) from 2002 to 2008. From 1998 to 2002, he was a general manager of 中國汽車貿易華北公司 (China Automobile Trading (North China) Corporation). He graduated from 中共北京市委黨校 (CPC Beijing Municipal Party School) with a major in economic management in 1988 and from the Chinese Academy of Social Sciences with a major in business economics in 1998. Mr. Diao was appointed as an independent non-executive director of the Company on 22 November 2011.

Ms. LIU Yangfang (劉陽芳), aged 48, is an independent non-executive director, the chairman of the Nomination Committee, and a member of each of the Audit Committee and the Remuneration Committee of the Company. Ms. Liu has been the managing partner of HENG TAI LAW OFFICES (“HENG TAI”) (Previously name as C & S Law Firm) since January 2016. She was the partner of HENG TAI from December 2008 to December 2015 and the practicing lawyer of HENG TAI from July 2000 to November 2008. Ms. Liu has over 15 years of professional legal service experience in corporate law. Ms. Liu obtained a bachelor’s degree of law majoring in International Economic Law of Fudan University in July 2000 and a master’s degree (LLM) from Chicago-Kent College of Law of Illinois Institute of Technology in the United States of America in May 2010, respectively. Ms. Liu was appointed as an independent non-executive director of the Company on 8 June 2018.

Mr. CHAN Wan Tsun Adrian Alan (陳弘俊), aged 41, is an independent non-executive director and a member of the Audit Committee of the Company. Mr. Chan has been the chief financial officer of Sun Ray Capital Investment Corporation since July 2015. He has been the chief financial officer of LabyRx Immunologic Therapeutics Limited since July 2018 and has been the chief financial officer of Lifepans Limited since August 2018. Since 21 October 2019, Mr. Chan has been appointed as an independent non-executive director of Best Linking Group Holdings Limited (stock code: 8617), the shares of which are listed on the GEM of the Stock Exchange. From 2009 to June 2015, he was the chief financial officer of Enviro Energy International Holdings Limited (stock code: 1102), a company whose shares are listed on the Main Board of the Stock Exchange. He has over 15 years of experience in corporate finance. He was an associate director of UOB Asia (Hong Kong) Limited from 2005 to 2009, mainly responsible for the execution of financial advisory,

DIRECTORS AND SENIOR MANAGEMENT

initial public offering, merger and acquisitions, privatisation and other equity capital market transactions in the Greater China Region and Southeast Asia. He has also previously worked for the equity capital markets department of DBS Asia Capital Limited from 2002 to 2005, the corporate finance department of DBS Vickers Securities from 2000 to 2001, and as auditor for a top-tier international accounting firm. Mr. Chan graduated from the University of New South Wales, Australia with a Bachelor of Commerce degree in Accounting and Finance in 2000. He is a member of CPA Australia and the Hong Kong Institute of Certified Public Accountants, respectively. Mr. Chan was appointed as an independent non-executive director of the Company on 22 November 2011.

SENIOR MANAGEMENT

Our senior management team are as follows:

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

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

JOINT COMPANY SECRETARIES

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

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

REPORT OF THE DIRECTORS

The Directors are pleased to present this annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

The business review of the Group as at 31 December 2019 is set out in the section headed "Management Discussion and Analysis" from pages 8 to 18 of this annual report.

RESULTS

The Group's results for the year ended 31 December 2019 are set out in the consolidated statement of comprehensive income on page 55 of this annual report.

FINANCIAL STATEMENTS

The profits of the Group for the year ended 31 December 2019 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 54 to 169 of this annual report.

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2019 and for the last five financial years are set out on page 170 of this annual report.

RESERVES

As at 31 December 2019, distributable reserves of the Company amounted to RMB2,373.0 million (2018: RMB2,372.4 million). Details of movements in reserves of the Company during the year are set out in note 50 to the financial statements.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2019.

ANNUAL GENERAL MEETING

The 2020 AGM will be held on 12 June 2020. Notice of the 2020 AGM will be published and issued to shareholders of the Company in due course.

REPORT OF THE DIRECTORS

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders of the Company who are eligible to attend and vote at the 2020 AGM, the register of members of the Company will be closed from Tuesday, 9 June 2020 to Friday, 12 June 2020, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the 2020 AGM, all duly stamped share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Monday, 8 June 2020.

PROPERTY AND EQUIPMENT

Details of movements in property and equipment during the year ended 31 December 2019 are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year are set out in note 36 to the financial statements.

Except as disclosed in this annual report, during the year ended 31 December 2019, the Company had no material investment held, had not carried out any material acquisition or disposal of subsidiaries, associates and joint ventures, and had no definite plan for material investment or acquisition of capital assets.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

Saved as disclosed otherwise below, each of the transactions carried out with CGA, the controlling shareholder of the Company, or CGA's subsidiary, which was set out in note 45 to the financial statements, constitutes connected transactions under Chapter 14A of the Listing Rules but are exempt from the relevant reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules.

Kailong Property Leasing Framework Agreement

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

The Kailong Property Lease Agreement has expired on 30 June 2019 and is subject to annual caps of RMB2,000,000, RMB3,800,000 and RMB4,000,000 for 2016, 2017 and 2018, respectively. The Kailong Property Lease Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company and are subject to the reporting and announcement requirements, but are exempt from the circular and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Please refer to the announcement of the Company dated 29 July 2016 for further details.

2017 Sale and Leaseback Framework Agreement

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

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

2018 Sale and Leaseback Framework Agreement

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

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

Baoxin Property Leasing Framework Agreement

On 30 April 2019, the Company and CGA entered into a property leasing framework agreement (the “**Baoxin Property Leasing Framework Agreement**”), pursuant to which the Group shall lease certain property(ies) and/or land owned by the Group to CGA and/or its subsidiaries.

The Baoxin Property Leasing Framework Agreement will expire on 31 December 2021 and is subject to annual caps of RMB7,000,000, RMB8,000,000 and RMB9,000,000 for 2019, 2020 and 2021, respectively. The Baoxin Property Leasing Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company and are subject to the reporting and announcement requirements, but are exempt from the circular and the independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. Please refer to the announcement of the Company dated 30 April 2019 for further details.

REPORT OF THE DIRECTORS

CGA Property Leasing Framework Agreement

On 30 April 2019, the Company and CGA entered into a property leasing framework agreement (the “**CGA Property Leasing Framework Agreement**”), pursuant to which CGA and/or its subsidiaries shall lease certain property(ies) and/or land owned by CGA and/or its subsidiaries to the Group.

The CGA Property Leasing Framework Agreement will expire on 31 December 2021 and is subject to annual caps of RMB7,000,000, RMB8,000,000 and RMB9,000,000 for 2019, 2020 and 2021, respectively. The CGA Property Leasing Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company and are subject to the reporting and announcement requirements, but are exempt from the circular and the independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. Please refer to the announcement of the Company dated 30 April 2019 for further details.

Save as disclosed above, all related-party transactions set out in note 45 to the financial statements did not constitute connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Confirmation by auditor

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

Confirmation by independent non-executive Directors

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

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms or better; and
- (c) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company’s shareholders as a whole.

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

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended 31 December 2019, as far as the Directors are aware, the Group has complied with all relevant laws and regulations that have significant impact on the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”) POLICY

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

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

DIRECTORS

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

Executive Directors

Mr. LI Jianping (*Chairman*)

Mr. WANG Xinming (*President*)

Mr. QI Junjie

Mr. LU Ao

Ms. XU Xing

Independent Non-Executive Directors

Mr. DIAO Jianshen

Ms. LIU Yangfang

Mr. CHAN Wan Tsun Adrian Alan

Pursuant to article 16.18 of the Company’s articles of association (the “Articles”), Mr. Diao Jianshen, Ms. Liu Yangfang and Mr. Chan Wan Tsun Adrian Alan will retire at the 2020 AGM. All the above Directors, being eligible, will offer themselves for re-election at the 2020 AGM.

None of the Directors has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS’ INTERESTS IN CONTRACTS

Other than the connected transactions set out in this annual report, no transaction, arrangement or contract of significance to which the Company or its subsidiaries was a party, and in which a Director or an entity connected with a Director had a direct or indirect material interest, subsisted at the end of the year or at any time during the year ended 31 December 2019.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's articles of association, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office in defending any proceedings in which judgement is given in his/her favour, or which he/she is acquitted. The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and officers arising out of corporate activities.

EQUITY-LINKED ARRANGEMENTS

Apart from the Share Option Scheme (as defined below) of the Company set forth in note 37 to the financial statements, the Company did not enter into any equity-linked agreement during the year ended 31 December 2019, nor was there any subsisting equity-linked agreement entered into by the Company at the end of the reporting year.

SHARE OPTION SCHEME

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

During the year ended 31 December 2019, no share option has been granted by the Company pursuant to the share option scheme adopted by the Company on 14 December 2011 (the **"Share Option Scheme"**). A summary of the terms of the Share Option Scheme is set out in appendix VI to the Company's prospectus dated 2 December 2011.

Movements of option shares under the Share Option Scheme during the year ended 31 December 2019 were as follows:

	Date of grant	Exercise price per share	Exercise period from until		Number of share options							
					Vesting period (Notes)	Outstanding as at 01/01/2019	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Others during the period	Outstanding as at 31/12/2019
(i) Directors												
LI Jianping	28/03/2018	3.256 (iv)	28/03/2018	27/03/2028	(i) (ii) (iii)	4,000,000	-	-	-	-	400,000(v)	3,600,000
WANG Xinming	28/03/2018	3.256 (iv)	28/03/2018	27/03/2028	(i) (ii) (iii)	4,000,000	-	-	-	-	400,000(v)	3,600,000
LU Ao	28/03/2018	3.256 (iv)	28/03/2018	27/03/2028	(i) (ii) (iii)	2,000,000	-	-	-	-	200,000(v)	1,800,000
QI Junjie	28/03/2018	3.256 (iv)	28/03/2018	27/03/2028	(i) (ii) (iii)	2,000,000	-	-	-	-	200,000(v)	1,800,000
XU Xing	28/03/2018	3.256 (iv)	28/03/2018	27/03/2028	(i) (ii) (iii)	2,000,000	-	-	-	-	200,000(v)	1,800,000
(ii) Eligible employees												
	28/03/2018	3.256 (iv)	28/03/2018	27/03/2028	(i) (ii) (iii)	61,000,000	1,400,000(vi)	200,000	6,140,000	940,000	-	55,120,000
Total:						75,000,000	1,400,000(vi)	200,000	6,140,000	940,000	1,400,000(v)	67,720,000

Notes:

- (i) 30% of the share options will be vested on, and exercisable from, the first anniversary of the date of grant;
- (ii) a further 30% of the share options will be vested on, and exercisable from, the second anniversary of the date of grant;
- (iii) a further 40% of the share options will be vested on, and exercisable from, the third anniversary of the date of grant;
- (iv) The closing price of the shares of the Company immediately before the date of grant (i.e. as at 27 March 2018) was HK\$3.27;
- (v) During the year ended 31 December 2019, 1,400,000 share options were temporarily lapsed which were later cancelled in July 2019;
- (vi) The eligible employee(s) who received the share options had left the Group in June 2019 and therefore the options were cancelled in July 2019.

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

REPORT OF THE DIRECTORS

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

As at 31 December 2019, the interests and short positions of the Directors or chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Name of Director/ chief executive	Capacity/ nature of interest	Number of ordinary shares	Number of underlying shares pursuant to share options ^(1, 2)	Approximate percentage in the Company's issued voting shares
LI Jianping	Beneficial owner	–	3,600,000 (L)	0.13%
WANG Xingming	Beneficial owner	–	3,600,000 (L)	0.13%
QI Junjie	Beneficial owner	–	1,800,000 (L)	0.06%
LU Ao	Beneficial owner	–	1,800,000 (L)	0.06%
XU Xing	Beneficial owner	–	1,800,000 (L)	0.06%

Notes:

- (1) These underlying shares were unlisted option shares granted pursuant to the Share Option Scheme, particulars of which are set out in the section headed "Share Option Scheme" in this report.
- (2) The letter "L" denotes the person's long position in such shares.

Save as disclosed above, as at 31 December 2019, none of the Directors, chief executives and their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Apart from the Share Option Scheme, during the year ended 31 December 2019, the Company and any of its subsidiaries were not a party to any arrangements whose objects are, or one of whose objects is, to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. Save for those disclosed above, during the year 31 December 2019, none of the Directors (including their respective spouses and children under the age of 18) had any interests in or was granted any right to subscribe for the securities of the Company or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

RETIREMENT BENEFIT SCHEME

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

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 2019, the interests or short positions of substantial shareholders, other than the Directors or the chief executives of the Company whose interests or short positions in the shares and underlying shares of the Company and of its associated corporations (within the meaning of Part XV of the SFO) as set out above, who had 5% or more interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be maintained by the Company under section 336 of the SFO were as follows:

Name	Capacity/ nature of interest	Number of ordinary shares ⁽³⁾	Approximate percentage in the Company's issued voting shares
China Grand Automotive Services (Hong Kong) Limited (" CGA HK ") (廣匯汽車服務(香港)有限公司) ⁽¹⁾	Beneficial interest	1,921,117,571 (L)	67.70%
*China Grand Automotive Services Co., Ltd. (" CGA Limited ") (廣匯汽車服務有限責任公司) ⁽¹⁾	Interest in controlled corporation	1,921,117,571 (L)	67.70%
Shanghai Huiyong Automotive Distribution Co., Ltd. (上海匯湧汽車銷售有限公司) ⁽¹⁾	Interest in controlled corporation	1,921,117,571 (L)	67.70%
China Grand Automotive Services Group Co., Ltd. (" CGA ") (廣匯汽車服務集團股份公司) ⁽¹⁾	Interest in controlled corporation	1,921,117,571 (L)	67.70%
Baoxin Investment Management Ltd. ⁽²⁾	Beneficial interest	219,379,630 (L)	7.73%
Mr. YANG Aihua ⁽²⁾	Interest in controlled corporation	219,379,630 (L)	7.73%

(L) — long position;

* For identification purpose only

REPORT OF THE DIRECTORS

Notes:

- (1) CGA HK is wholly owned by Shanghai Huiyong Automotive Distribution Co., Ltd. (上海匯湧汽車銷售有限公司) (which is in turn owned as to approximately 44.23% by CGA Limited and approximately 55.77% by CGA). CGA Limited is wholly owned by CGA. Each of CGA Limited, Shanghai Huiyong Automotive Distribution Co., Ltd. and CGA are deemed to be interested in the shares held by CGA HK.
- (2) Baoxin Investment Management Ltd. is wholly owned by Mr. Yang Aihua. Mr. Yang Aihua is deemed to be interested in the shares held by Baoxin Investment Management Ltd.
- (3) The letter "L" denotes the person's long position in such shares.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the shares or underlying shares representing 5% or more of the issued share capital of the Company as at 31 December 2019.

MAJOR CUSTOMERS AND SUPPLIERS

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

The aggregate purchase attributable to the Group's five largest suppliers accounted for approximately 78.8% (2018: 77.7%) and the largest supplier accounted for approximately 41.2% (2018: 35.5%) of the Group's total purchases for the year ended 31 December 2019.

At no time during the year ended 31 December 2019 have the Directors, their close associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

TAX RELIEF FOR HOLDERS OF LISTED SECURITIES

As at 31 December 2019, holders of listed securities of the Company were not entitled to obtain any relief from taxation by reason of their holding of such securities pursuant to the laws of the Cayman Islands.

ASSESSMENT OF PROPERTY INTERESTS OR TANGIBLE ASSETS

During the year ended 31 December 2019, the Company has not valued its property interests or other tangible assets in accordance with Chapter 5 of the Listing Rules.

CONTINUING OBLIGATIONS UNDER CHAPTER 13 OF THE LISTING RULES

In accordance with the requirements under Rule 13.21 of the Listing Rules, the Directors report below details of loan facilities, which existed during the year ended 31 December 2019 and up to the date of this annual report and included conditions relating to specific performance of the controlling shareholder of the Company:

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

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

- (i) CGA, directly or indirectly, ceases to be the single largest shareholder of the Company or ceases to have control over the Company; or
- (ii) CGA ceases to beneficially own, directly or indirectly, 100% of the issued share capital of CGA HK or ceases to control CGA HK.

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

REPORT OF THE DIRECTORS

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

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

- (i) CGA, directly or indirectly, ceases to be the single largest shareholder of the Company or ceases to control the Company;
- (ii) the Company ceases to be consolidated in the audited and consolidated financial statements of CGA; or
- (iii) CGA ceases to beneficially own, directly or indirectly, 100% of the issued share capital of CGA HK or ceases to control CGA HK.

AUDITORS

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

On behalf of the Board

LI Jianping

Chairman

Hong Kong, 30 March 2020

INDEPENDENT AUDITOR'S REPORT



To the shareholders of Grand Baoxin Auto Group Limited

(Incorporated in the Cayman Islands as an exempted company with limited liability)

OPINION

We have audited the consolidated financial statements of Grand Baoxin Auto Group Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 54 to 169, 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 (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA’s *Code of Ethics for Professional Accountants* (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

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

How our audit addressed the key audit matter

Impairment assessment of goodwill

The carrying value and impairment provision of goodwill amounted to RMB1,222,016,000 and RMB25,051,000 as at 31 December 2019, respectively. The Group is required to perform an impairment test for goodwill at least annually. The impairment test was based on the recoverable values of the respective cash-generating units ("CGUs") to which the goodwill were assigned. We focused on this area because management's impairment assessment processes were complex and involved significant judgements, including the degree of subjectivity of expected future cash flow forecasts, associated growth rates and the discount rates applied.

Specific disclosures about goodwill are included in note 2.4 "Summary of significant accounting policies", note 3 "Significant accounting judgements and estimates" and note 19 "Goodwill" to the financial statements.

Vendor rebates

The Group recognised volume-related vendor rebates on an accrual basis based on the terms of the suppliers' contracts. As at 31 December 2019, the rebates recognised in the consolidated statement of financial position amounted to approximately RMB7,434,768,000. We focused on this area because the balance of rebates was significant and the process of calculation of the accrual was complex.

Specific disclosures about vendor rebates are included in note 2.4 "Summary of significant accounting policies" and note 25 "Prepayments, other receivables and other assets" to the financial statements.

We evaluated the forecasts used in the determination of the recoverable values with respect to future revenues and operating results by comparing the forecasts with the historical performance of the respective CGUs and the business development plan. We involved our valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group, in particular, the discount rates and long term growth rates. We also checked the related disclosures.

We obtained an understanding of 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 rebates based on the rebate policies. We also checked subsequent settlement of the rebates against the accrued balances.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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.

INDEPENDENT AUDITOR'S REPORT

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

Ernst & Young

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

30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
REVENUE	5(a)	36,463,878	36,790,736
Cost of sales and services provided	6(b)	(33,617,970)	(34,003,949)
Gross profit		2,845,908	2,786,787
Other income and gains, net	5(b)	869,641	834,147
Selling and distribution expenses		(1,210,639)	(1,251,045)
Administrative expenses		(727,135)	(747,465)
Profit from operations		1,777,775	1,622,424
Finance costs	7	(822,183)	(706,522)
Share of profits and losses of:			
A joint venture	20	1,988	1,978
Associates	21	59,229	(14,550)
Profit before tax	6	1,016,809	903,330
Income tax expense	8	(394,052)	(346,226)
Profit for the year		622,757	557,104
Incl: Net loss of the parties being absorbed before business combination involving the entities under common control		(7,301)	(9,717)
Attributable to:			
Owners of the parent		629,202	556,282
Non-controlling interests		(6,445)	822
		622,757	557,104
Earnings per share attributable to ordinary equity holders of the parent	12		
Basic and diluted			
– For profit for the year (RMB)		0.22	0.20

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000 (Restated)
PROFIT FOR THE YEAR	622,757	557,104
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the year	(29,764)	–
Reclassification adjustments for gains included in the consolidated statement of profit or loss	2,888	–
Time value component of fair value hedges	54,670	(54,702)
Exchange differences on translation of financial statements	(78,801)	(153,744)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	(51,007)	(208,446)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Financial asset at fair value through other comprehensive income:		
Changes in fair value	–	18,616
Gains on property revaluation	–	68,072
Income tax effect	–	(17,018)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	–	69,670
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(51,007)	(138,776)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	571,750	418,328
Attributable to:		
Owners of the parent	578,195	417,506
Non-controlling interests	(6,445)	822
	571,750	418,328

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	13	3,460,341	3,966,493
Investment properties	14	398,144	370,905
Right-of-use assets	15(b)	1,920,323	–
Prepaid land lease payments	15(a)	–	455,695
Goodwill	19	1,222,016	1,222,016
Other intangible assets	16	1,465,459	1,523,265
Prepayments and deposits	17	91,632	58,757
Finance lease receivables	18	110,672	131,710
Amounts due from related parties	45(c)	–	25,000
Investment in a joint venture	20	101,983	99,995
Investments in associates	21	126,092	31,556
Financial asset at fair value through other comprehensive income	22	–	36,000
Derivative financial instruments	33	–	10,359
Deferred tax assets	35(a)	243,694	168,219
Total non-current assets		9,140,356	8,099,970
CURRENT ASSETS			
Inventories	23	3,503,624	4,132,068
Trade receivables	24	613,544	560,511
Finance lease receivables	18	208,701	191,338
Prepayments, other receivables and other assets	25	10,098,416	8,977,080
Amounts due from related parties	45(c)	26,474	23,799
Derivative financial instruments	33	26,127	16,649
Pledged deposits	26	3,447,803	3,547,907
Cash in transit	27	49,669	46,213
Cash and bank balances	28	1,663,106	2,562,269
Total current assets		19,637,464	20,057,834
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	7,688,337	3,842,108
Trade and bills payables	30	6,586,920	7,520,321
Other payables and accruals	31	1,366,849	1,267,601
Lease liabilities	15(c)	226,303	–
Amounts due to related parties	45(c)	888,947	940,607
Income tax payable		631,963	477,412
Derivative financial instruments	33	–	2,995
Finance lease payables	32	–	119,509
Total current liabilities		17,389,319	14,170,553

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)
NET CURRENT ASSETS		2,248,145	5,887,281
TOTAL ASSETS LESS CURRENT LIABILITIES		11,388,501	13,987,251
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	1,939,752	5,828,368
Derivative financial instruments	33	27,342	–
Other payables		13,704	42,882
Lease liabilities	15(c)	1,209,947	–
Deferred tax liabilities	35(b)	500,577	535,028
Amounts due to related parties	45(c)	–	352,788
Finance lease payables	32	–	121,400
Total non-current liabilities		3,691,322	6,880,466
Net assets		7,697,179	7,106,785
EQUITY			
Equity attributable to owners of the parent			
Share capital	36	23,277	23,275
Reserves	38	7,646,307	7,048,470
		7,669,584	7,071,745
Non-controlling interests		27,595	35,040
Total equity		7,697,179	7,106,785

LI Jianping
Director

LU Ao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Share capital	Share premium*	Share option reserve*	Statutory reserve*	Merger reserve*	Other reserve*	Exchange fluctuation reserve*	Retained profits*	Total	Non-controlling interests	Total equity
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
At 1 January 2018	23,275	2,611,625	29,019	565,755	58,018	(29,475)	(401,701)	4,053,298	6,909,814	39,362	6,949,176
Add: Business combination involving entities under common control	-	-	-	-	20,000	-	-	(2,484)	17,516	-	17,516
At 1 January 2018 (Restated)	23,275	2,611,625	29,019	565,755	78,018	(29,475)	(401,701)	4,050,814	6,927,330	39,362	6,966,692
Profit for the year (Restated)	-	-	-	-	-	-	-	556,282	556,282	822	557,104
Changing fair value upon reclassification from owned-occupied properties to investment properties	-	-	-	-	-	51,054	-	-	51,054	-	51,054
Change in fair value of a financial asset	-	-	-	-	-	18,616	-	-	18,616	-	18,616
Time value component of fair value hedges	-	-	-	-	-	(54,702)	-	-	(54,702)	-	(54,702)
Exchange differences related to foreign operations	-	-	-	-	-	-	(153,744)	-	(153,744)	-	(153,744)
Total comprehensive income	-	-	-	-	-	14,968	(153,744)	556,282	417,506	822	418,328
Business combination under common control	-	-	-	-	(85,000)	-	-	-	(85,000)	-	(85,000)
Acquisition of non-controlling interests	-	-	-	-	-	3,144	-	-	3,144	(5,144)	(2,000)
Proposed final 2017 dividend	-	(239,214)	-	-	-	-	-	-	(239,214)	-	(239,214)
Transfer from retained profits	-	-	-	142,976	-	-	-	(142,976)	-	-	-
Equity-settled share option arrangements	-	-	47,979	-	-	-	-	-	47,979	-	47,979
At 31 December 2018 (Restated)	23,275	2,372,411	76,998	708,731	(6,982)	(11,363)	(555,445)	4,464,120	7,071,745	35,040	7,106,785
At 1 January 2019	23,275	2,372,411	76,998	708,731	(26,982)	(11,363)	(555,445)	4,476,321	7,063,946	35,040	7,098,986
Add: Business combination involving entities under common control	-	-	-	-	20,000	-	-	(12,201)	7,799	-	7,799
At 1 January 2019 (Restated)	23,275	2,372,411	76,998	708,731	(6,982)	(11,363)	(555,445)	4,464,120	7,071,745	35,040	7,106,785
Profit for the year	-	-	-	-	-	-	-	629,202	629,202	(6,445)	622,757
Transfer upon financial instrument becoming an associate	-	-	-	-	-	(18,616)	-	18,616	-	-	-
Cash flow hedges	-	-	-	-	-	(26,876)	-	-	(26,876)	-	(26,876)
Time value component of fair value hedges	-	-	-	-	-	54,670	-	-	54,670	-	54,670
Exchange differences related to foreign operations	-	-	-	-	-	-	(78,801)	-	(78,801)	-	(78,801)
Total comprehensive income for the year	-	-	-	-	-	9,178	(78,801)	647,818	578,195	(6,445)	571,750
Business combination under common control	-	-	-	-	(11,550)	-	-	-	(11,550)	-	(11,550)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(1,000)	(1,000)
Transfer from retained profits	-	-	-	590,498	-	-	-	(590,498)	-	-	-
Equity-settled share option exercised	2	571	(274)	-	-	-	-	274	573	-	573
Equity-settled share option forfeited	-	-	(7,049)	-	-	-	-	7,049	-	-	-
Equity-settled share option arrangements	-	-	30,621	-	-	-	-	-	30,621	-	30,621
At 31 December 2019	23,277	2,372,982	100,296	1,299,299	(18,532)	(2,185)	(634,246)	4,528,763	7,669,584	27,595	7,697,179

* These reserve accounts comprise the consolidated reserves of RMB7,646,307,000 (2018 (Restated): RMB7,048,470,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
Operating activities			
Profit before tax		1,016,809	903,330
Adjustments for:			
Share of profit of a joint venture	20(b)	(1,988)	(1,978)
Share of (profits)/losses of associates	21	(59,229)	14,550
Depreciation of property, plant and equipment	6	272,105	348,432
Depreciation of right-of-use assets	15(b)	213,809	–
Amortisation of prepaid land lease payments	15(a)	–	16,046
Amortisation of other intangible assets	16	61,811	59,352
Fair value loss/(gain), net:			
Intrinsic value of hedging instruments	33	27,176	(67,904)
Non-hedging instruments	6	1,019	(6,937)
Bank interest income	5	(33,084)	(40,415)
Loss on disposal of items of property, plant and equipment	5	10,373	25,469
(Gain)/loss on disposal of items of other intangible assets	5	(187)	28
Write-down of inventories to net realisable value	6	19,589	11,928
Dividend income from a financial asset at fair value through other comprehensive income	5	–	(815)
Finance costs	7	822,183	706,522
Loss on termination of an agreement	5	–	33,466
Provision for impairment of trade receivables, finance lease receivables and other receivables		23,694	8,877
Change in fair value of investment properties	6	(27,239)	(31,351)
Equity-settled share option arrangements		30,621	47,979
		2,377,462	2,026,579
Operating activities			
Decrease/(increase) in pledged deposits		100,104	(493,754)
Increase in cash in transit		(3,456)	(10,270)
Increase in trade receivables		(57,823)	(19,903)
Increase in prepayments, other receivables and other assets		(1,162,077)	(1,691,384)
Decrease in inventories		608,855	104,966
Decrease/(increase) in finance lease receivables		1,287	(36,454)
Decrease/(increase) in amounts due from related parties – trade-related		22,325	(30,113)
(Decrease)/increase in trade and bills payables		(933,401)	1,208,878
Increase/(decrease) in other payables and accruals		29,582	(275,394)
Increase in finance lease payables		–	240,909
Decrease in amounts due to related parties – trade-related		(15,429)	(115,044)
Cash generated from operations		967,429	909,016
Income tax paid		(305,179)	(203,010)
Net cash flows generated from operating activities		662,250	706,006

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
Investing activities			
Purchase of items of property, plant and equipment		(637,489)	(718,923)
Proceeds from disposal of items of property, plant and equipment		717,347	513,964
Proceeds from disposal of other intangible assets		399	383
Purchase of land use rights		–	(2,977)
Purchase of other intangible assets		(2,923)	(8,624)
Acquisition of subsidiaries, net of cash paid		(51,053)	(743,074)
Settlements from an embedded derivative at fair value		24,361	(30,825)
Interest received		39,359	40,410
Dividends from an associate/a financial asset at fair value through other comprehensive income	21	693	815
Business combination under common control	39	(34,370)	(85,000)
Decrease/(increase) of term deposits of maturity over three months	28	19,819	(13,619)
Net cash flows generated from/(used in) investing activities		76,143	(1,047,470)
Financing activities			
Acquisition of non-controlling interests		–	(2,000)
Proceeds from interest-bearing bank and other borrowings		18,851,711	21,043,892
Repayment of interest-bearing bank and other borrowings		(19,080,992)	(20,547,408)
Interest paid		(639,754)	(636,560)
Exercise of share options		573	–
Principal portion of lease payments/finance lease rental payments		(355,611)	–
Advances from a related party		1,201,800	400,000
Dividends paid		(1,000)	(239,214)
Repayment of advances to related parties		(1,590,819)	(295,000)
Net cash flows used in financing activities		(1,614,092)	(276,290)
Net decrease in cash and cash equivalents			
Cash and cash equivalents at the beginning of year		2,542,450	3,173,995
Effect of foreign exchange rate changes, net		(3,645)	(13,791)
Cash and cash equivalents at the end of year	28	1,663,106	2,542,450
Analysis of balances of cash and cash equivalents			
Cash and cash in bank		1,663,106	2,467,720
Short term deposits		–	74,730
		1,663,106	2,542,450

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION

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

During the year, the Group was principally engaged in the sale and service of motor vehicles. In the opinion of the directors of the Company (the “Directors”), the ultimate holding company of the Company is CGA, the shares of which are listed on the Shanghai Stock Exchange.

Information about subsidiaries

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

Company name	Place of operation/ date of incorporation or registration	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
NCGA Holdings Limited	Hong Kong 2006	Registered and paid-in capital of US\$117,838,975	100%	–	Investment holding
燕駿汽車有限公司 (Yan Jun Auto Co., Limited)	Hong Kong 1993	Registered and paid-in capital of HK\$59,900,000	–	100%	Investment holding
開隆投資管理有限公司 (Kailong Investments Management Limited)	Hong Kong 2010	Authorised capital of HK\$10,000, issued capital of HK\$1 and paid-in capital of nil	–	100%	Investment holding
金花企業集團(香港)有限公司 (Gin Wi Enterprises Group (HK) Limited)	Hong Kong 1999	Registered and paid-in capital of HK\$10,000	–	100%	Investment holding
聯鷹集團有限公司 (Eagle Reach Group Co., Ltd.)	Hong Kong 2013	Registered and paid-in capital of Nil	–	100%	Investment holding
上海寶信汽車銷售服務有限公司 (Shanghai Baoxin Automobile Sales & Services Co., Ltd.)	Shanghai, the PRC 2004	Registered and paid-in capital of RMB214,650,000	–	100%	Sale and service of motor vehicles
上海開隆汽車貿易有限公司 (Shanghai Kailong Automobile Trading Co., Ltd.)	Shanghai, the PRC 1999	Registered and paid-in capital of RMB87,000,000	–	100%	Sale and service of motor vehicles

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION (continued) Information about subsidiaries (continued)

Company name	Place of operation/ date of incorporation or registration	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
蘇州寶信汽車銷售服務有限公司 (Suzhou Baoxin Automobile Sales & Services Co., Ltd.)	Suzhou, the PRC 2004	Registered and paid-in capital of RMB1,100,000,000	–	100%	Sale and service of motor vehicles
青島信寶行汽車銷售服務有限公司 (Qingdao Xinbaohang Automobile Sales & Services Co., Ltd.)	Qingdao, the PRC 2008	Registered and paid-in capital of RMB56,000,000	–	100%	Sale and service of motor vehicles
天津寶信汽車銷售服務有限公司 (Tianjin Baoxin Automobile Sales & Services Co., Ltd.)	Tianjin, the PRC 2008	Registered and paid-in capital of RMB60,000,000	–	100%	Sale and service of motor vehicles
常熟寶信汽車銷售服務有限公司 (Changshu Baoxin Automobile Sales & Services Co., Ltd.)	Changshu, the PRC 2006	Registered and paid-in capital of RMB90,000,000	–	100%	Sale and service of motor vehicles
杭州寶信汽車銷售服務有限公司 (Hangzhou Baoxin Automobile Sales & Services Co., Ltd.)	Hangzhou, the PRC 2008	Registered and paid-in capital of RMB110,000,000	–	100%	Sale and service of motor vehicles
上海亞歐汽車銷售服務有限公司 (Shanghai Yaou Automobile Sales & Services Co., Ltd.)	Shanghai, the PRC 2004	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
泰州信寶行汽車銷售服務有限公司 (Taizhou Xinbaohang Automobile Sales & Services Co., Ltd.)	Taizhou, the PRC 2010	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
蘇州信寶行汽車銷售服務有限公司 (Suzhou Xinbaohang Automobile Sales & Services Co., Ltd.)	Suzhou, the PRC 2010	Registered and paid-in capital of RMB85,000,000	–	100%	Sale and service of motor vehicles
北京燕寶汽車服務有限公司 (Beijing Yanbao Auto Services Co., Ltd.)	Beijing, the PRC 1995	Registered and paid-in capital of RMB89,350,000	–	100%	Rendering of car repair and maintenance services
陝西金花汽車貿易有限責任公司 (Shaanxi Ginwa Auto Trade Co., Ltd.)	Xi'an, the PRC 2001	Registered and paid-in capital of RMB52,000,000	–	100%	Sale of motor vehicles

31 December 2019

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Company name	Place of operation/ date of incorporation or registration	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
大連燕寶汽車有限公司 (Dalian Yanbao Auto Co., Ltd.)	Dalian, the PRC 1995	Registered and paid-in capital of US\$7,920,000	–	100%	Rendering of motor vehicle maintenance services
北京燕德寶汽車銷售有限公司 (Beijing Yan De Bao Auto Sales Co., Ltd.)	Beijing, the PRC 2002	Registered and paid-in capital of RMB120,030,000	–	100%	Sale of motor vehicles
烏魯木齊燕寶汽車銷售服務有限公司 (Urumqi Yanbao Auto Sales & Services Co., Ltd.)	Urumqi, the PRC 2005	Registered and paid-in capital of RMB145,600,000	–	100%	Rendering of motor vehicle repair and maintenance services
北京燕英捷汽車銷售服務有限公司 (Beijing Yanyingjie Auto Sales & Services Co., Ltd.)	Beijing, the PRC 2010	Registered and paid-in capital of US\$10,000,000	–	100%	Sale of motor vehicles
北京燕英捷燕順捷汽車銷售服務有限公司 (Beijing Yanyingjie & Yanshunjie Auto Sales & Services Co., Ltd.)	Beijing, the PRC 1998	Registered and paid-in capital of RMB45,000,000	–	100%	Sale and service of motor vehicles
北京燕豪汽車銷售服務有限公司 (Beijing Yanhao Auto Sales & Services Co., Ltd.)	Beijing, the PRC 2009	Registered capital of RMB169,130,000 and paid-in capital of RMB137,133,507	–	100%	Sale of motor vehicles
大連燕德寶汽車銷售有限公司 (Dalian Yandebao Auto Sales Co., Ltd.)	Dalian, the PRC 2002	Registered and paid-in capital of RMB176,000,000	–	100%	Sale and service of motor vehicles
西安金花寶鼎汽車銷售服務有限公司 (Xi'an Ginwi Baoding Auto Services Co., Ltd.)	Xi'an, the PRC 2001	Registered and paid-in capital of RMB26,000,000	–	100%	Sale and service of motor vehicle
北京晨德寶汽車銷售服務有限公司 (Beijing Chendebao Auto Sales and Services Co., Ltd.)	Beijing, the PRC 2003	Registered and paid-in capital of RMB94,500,000	–	100%	Sale and service of motor vehicles

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Company name	Place of operation/ date of incorporation or registration	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
廊坊燕寶汽車銷售服務有限公司 (Langfang Yanbao Auto Sales & Services Co., Ltd.)	Langfang, the PRC 2011	Registered and paid-in capital of RMB25,000,000	–	100%	Sale and service of motor vehicles
四川港宏汽車銷售有限責任公司 (Sichuan Ganghong Auto Sales Co., Ltd.)	Sichuan, the PRC 1996	Registered and paid-in capital of RMB35,000,000	–	100%	Sale of motor vehicles
揚州信寶行汽車銷售服務有限公司 (Yangzhou Xinbaohang Automobile Sales & Services Co., Ltd.)	Yangzhou, the PRC 2010	Registered and paid-in capital of RMB33,000,000	–	100%	Sale and service of motor vehicles
蕪湖眾國寶泓汽車銷售服務有限公司 (Wuhu Zhongguo Baohong Automobile Sales & Services Co., Ltd.)	Wuhu, the PRC 2013	Registered and paid-in capital of RMB55,000,000	–	100%	Sale of motor vehicles
四川港宏風神汽車銷售有限公司 (Sichuan Ganghong Fengshen Automobile Sales Co., Ltd.)	Sichuan, the PRC 2000	Register capital of RMB30,000,000 and paid-in capital of RMB25,000,000	–	100%	Sale of motor vehicles
四川港宏西物時代汽車銷售有限公司 (Sichuan Ganghong Xiwushidai Automobile Sales Co., Ltd.)	Sichuan, the PRC 2003	Register capital of RMB38,000,000 and paid-in capital of RMB13,000,000	–	100%	Sale of motor vehicles
寧波寶信汽車銷售服務有限公司 (Ninbo Baohong Automobile Sales & Services Co., Ltd.)	Ninbo, the PRC 2008	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
東莞寶信汽車銷售服務有限公司 (Dongguan Baoxin Automobile Sales & Services Co., Ltd.)	Dongguan, the PRC 2012	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Company name	Place of operation/ date of incorporation or registration	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
溫州捷順汽車技術服務有限公司 (Wenzhou Jieshun Auto technique & Services Co., Ltd.)	Wenzhou, the PRC 2006	Registered and paid-in capital of RMB120,000,000	–	100%	Sale and service of motor vehicles
溫州好德寶汽車服務有限公司 (Wenzhou Haodebao Auto Services Co., Ltd.)	Wenzhou, the PRC 2006	Registered and paid-in capital of RMB55,000,000	–	100%	Sale and service of motor vehicles
上海晨隆汽車銷售有限公司 (Shanghai Chenlong Automobile Sales Co., Ltd.)	Shanghai, the PRC 2010	Registered and paid-in capital of RMB39,000,000	–	100%	Sale and service of motor vehicles
上海徐匯開隆汽車銷售服務有限公司 (Shanghai Xuhui Kailong Automobile Sales & Services Co., Ltd.)	Shanghai, the PRC 2006	Registered and paid-in capital of RMB12,000,000	–	100%	Sale and service of motor vehicles
合肥寶泓汽車銷售服務有限公司 (Hefei Baohong Automobile Sales & Services Co., Ltd.)	Hefei, the PRC 2012	Registered and paid-in capital of RMB76,000,000	–	100%	Sale and service of motor vehicles
上海眾國寶泓汽車銷售服務有限公司 (Shanghai Zhongguo Baohong Automobile Sales & Services Co., Ltd.)	Shanghai, the PRC 2010	Registered and paid-in capital of RMB80,000,000	–	100%	Sale and service of motor vehicles
四川港宏企業管理有限公司 (Sichuan Ganghong Corporation Management Co., Ltd.)	Sichuan, the PRC 1999	Registered and paid-in capital of RMB137,300,000	100%	–	Investing holding
四川港宏凱威行汽車銷售服務有限公司 (Sichuan Ganghongkaiweihang Automobile Sales & Services Co., Ltd.)	Sichuan, the PRC 2011	Registered and paid-in capital of RMB15,000,000	–	100%	Sale and service of motor vehicles
煙臺寶信汽車銷售服務有限公司 (Yantai Baoxin Automobile Sales & Services Co., Ltd.)	Yantai, the PRC 2012	Registered and paid-in capital of RMB55,000,000	–	100%	Sale and service of motor vehicles
上海寶信實嘉汽車銷售有限公司 (Shanghai Baoxin Shijia Automobile Sales Co., Ltd.)	Shanghai, the PRC 2012	Registered and paid-in capital of RMB300,000,000	–	100%	Sale and service of motor vehicles

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Company name	Place of operation/ date of incorporation or registration	Authorised/registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
上海鼎信融資租賃有限公司 (Shanghai Dingxin Finance Leasing Co., Ltd.)	Shanghai, the PRC 2013	Registered and paid-in capital of USD30,000,000	100%	–	Finance leasing
上海博駿保險代理有限公司 (Shanghai Bojun Insurance Agency Co., Ltd.)	Shanghai, the PRC 2013	Registered and paid-in capital of RMB50,000,000	–	100%	Insurance agency
溫州市好達機電有限公司 (Wenzhou Haoda electromechanical Co., Ltd.)	Wenzhou, the PRC 2000	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
紹興捷順汽車銷售服務有限公司 (Shaoxing Jieshun Automobile Sales & Services Co., Ltd.)	Shaoxing, the PRC 2010	Registered and paid-in capital of RMB60,000,000	–	100%	Sale and service of motor vehicles
里安市寶隆汽車銷售服務有限公司 (Ruian Baolong Automobile Sales & Services Co., Ltd.)	Ruian, the PRC 2008	Registered and paid-in capital of RMB43,800,000	–	90%	Sale and service of motor vehicles
北京寶信行汽車銷售服務有限公司 (Beijing Baoxinhang Auto Sales and Services Co., Ltd.)	Beijing, the PRC 2013	Registered and paid-in capital of RMB150,000,000	–	100%	Sale and service of motor vehicles
天津燕鵬捷汽車銷售服務有限公司 (Tianjin Yanpengjie Automobile Sales & Services Co., Ltd.)	Tianjin, the PRC 2011	Registered and paid-in capital of RMB35,000,000	–	100%	Sale and service of motor vehicles
天津燕英捷汽車銷售服務有限公司 (Tianjin Yanyingjie Automobile Sales & Services Co., Ltd.)	Tianjin, the PRC 2010	Registered and paid-in capital of USD5,000,000	–	100%	Sale and service of motor vehicles
杭州寶信置業有限公司 (Hangzhou Baoxin Real Estate Co., Ltd.)	Hangzhou, the PRC 2010	Registered and paid-in capital of RMB10,000,000	–	100%	Development and Management of Real Estates
江蘇滬隆投資實業有限公司 (Jiangsu Hulong Industrial Investment Co., Ltd.)	Yangzhou, the PRC 2010	Registered and paid-in capital of RMB20,000,000	–	100%	Development of Real Estates and Industrial Investment

1. CORPORATE AND GROUP INFORMATION (continued)

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (together, the “Group”) for the year ended 31 December 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

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.

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 prepaid land lease payments, buildings and lands 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 included in interest-bearing bank and other borrowings. 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.

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impact on transition (continued)

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 RMB248,467,000 that were reclassified from property, plant and equipment.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

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.

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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

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	2,044,699
Decrease in property, plant and equipment	(248,467)
Decrease in prepaid land lease payments	(455,695)
Decrease in prepayments, other receivables and other assets	(74,091)
Increase in total assets	1,266,446
Liabilities	
Increase in lease liabilities	1,507,355
Decrease in finance lease payables	(240,909)
Increase in total liabilities	1,266,446

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 (restated)	2,199,437
Less:	
Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019 (restated)	(29,515)
Add:	
Commitments relating to lease previously classified as finance leases	240,909
Total undiscounted lease liabilities as at 1 January 2019 for adoption of HKFRS 16	2,410,831
Weighted average incremental borrowing rate as at 1 January 2019	6.5%
Lease liabilities as at 1 January 2019	1,507,355

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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	<i>Definition of a Business</i> ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> 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.

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

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

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 a joint venture

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

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

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

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and a joint venture (continued)

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

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

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

Business combinations and goodwill

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

Business combinations involving entities under common control

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations involving entities under common control (continued)

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

Business combinations not involving entities under common control

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations not involving entities under common control (continued)

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

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

Fair value measurement

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

Impairment of non-financial assets

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

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

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

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;
- or

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset (2018: leasehold property under an operating lease) which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

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

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

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

Non-current assets held for sale

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

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

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 either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

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

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

Category	Estimated useful life
Software	5 years
Dealership agreements	20 – 40 years
Customer relationship	15 years
Club membership	29 years
Car licences	Indefinite useful life

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(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:

Prepaid land lease payments	20 to 30 years
Buildings and lands	2 to 45 years
Motor vehicles	1 to 2 years

(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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

- (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 machinery and equipment (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 equipments 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.

At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. The finance income of such leases is realised in the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable before 1 January 2019) (continued)

Group as a lessor (continued)

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.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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.

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 and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals, amounts due to related parties, derivative financial instruments and interest-bearing bank and other borrowings.

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, interest-bearing loans and 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.

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31 December 2019

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.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting(continued)

Initial recognition and subsequent measurement (continued)

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

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

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

Cash flow hedges

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting(continued)

Initial recognition and subsequent measurement (continued)

Fair value hedges

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

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

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

Hedges of a net investment

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting(continued)

Initial recognition and subsequent measurement (continued)

Current versus non-current classification

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

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any 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 with initial terms of three months or less, which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint venture, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(a) Sale of goods

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

(b) Rendering of services

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

- (i) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- (ii) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- (iii) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

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

Revenue from other sources

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

Other income

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

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

Commission income is recognised at the point in time when the services are fully rendered and accepted by customers.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 according to the expected entitlement earned up to the reporting date for each relevant supplier contract.

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

Share-based payments

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

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

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

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.

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31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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.

Borrowing costs

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

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

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions 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 retranslation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Judgement in the timing of satisfaction of performance obligations

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

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets as at 31 December 2019 was RMB245,950,000 (2018: RMB170,836,000). More details are given in note 35(a).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimation of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount as at 31 December 2019 of goodwill was RMB1,222,016,000 (2018: RM1,222,016,000). Further details are given in note 19.

Provision for expected credit losses on trade receivables

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

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

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

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.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Estimation of fair value of investment properties

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

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

- (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;
- (b) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices; and
- (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The fair value of investment properties at 31 December 2019 was RMB398,144,000 (2018: RMB370,905,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

Useful lives of property, plant and equipment

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Write-down of inventories to net realisable value

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

Impairment of non-financial assets (other than goodwill)

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

4. OPERATING SEGMENT INFORMATION

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

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

Information about geographical areas

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

NOTES TO FINANCIAL STATEMENTS

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4. OPERATING SEGMENT INFORMATION (CONTINUED)

Information about major customers

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

5. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue:

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000 (Restated)
Revenue from contracts with customers		
Sale of motor vehicles	31,687,726	32,255,010
After-sales services	4,732,762	4,501,060
Revenue from other sources		
Finance leasing services	43,390	34,666
	36,463,878	36,790,736

Revenue from contracts with customers

(i) Disaggregated revenue information

	2019 RMB'000	2018 RMB'000 (Restated)
Type of goods or service		
Sale of motor vehicles	31,687,726	32,255,010
After-sales services	4,732,762	4,501,060
Total revenue from contracts with customers	36,420,488	36,756,070
Timing of revenue recognition		
Goods transferred at a point in time	31,687,726	32,255,010
Services transferred at a point in time	4,732,762	4,501,060
Total revenue from contracts with customers	36,420,488	36,756,070

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

(a) Revenue: (continued)

Revenue from contracts with customers (continued)

(ii) Performance obligations

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

Sale of motor vehicles

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

After-sales services

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

(b) Other income and gains, net:

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
Commission income		745,028	782,780
Advertisement support received from motor vehicle manufacturers		19,699	13,620
Gross rental income from investment property operating leases*		21,218	8,246
Rental income from subleases		43,248	20,000
Government grants		58,838	62,972
Bank interest income		33,084	40,415
Loss on disposal of items of property, plant and equipment		(10,373)	(25,469)
Gain/(loss) on disposal of items of other intangible assets		187	(28)
Loss on termination of an agreement		–	(33,466)
Fair value gains on investment properties	14	27,239	31,351
Net fair value (loss)/gain on derivative instruments		(1,019)	6,937
Foreign exchange differences, net		(59,015)	(75,125)
Dividend income from a financial asset at fair value through other comprehensive income		–	815
Others		(8,493)	1,099
Total		869,641	834,147

* Rental income from investment property operating leases does not include variable lease payments that do not depend on an index or a rate.

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6. PROFIT BEFORE TAX

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

	2019 RMB'000	2018 RMB'000 (Restated)
(a) Employee benefit expense (including Directors' and chief executive's remuneration (note 9)):		
Wages and salaries	844,320	875,494
Other welfare	224,907	227,012
Equity-settled share option expense	30,621	47,979
	1,099,848	1,150,485
(b) Cost of sales and services:		
Cost of sales of motor vehicles	30,962,554	31,538,848
Others	2,655,416	2,465,101
	33,617,970	34,003,949

31 December 2019

6. PROFIT BEFORE TAX (continued)

(c) Other items:	Notes	2019 RMB'000	2018 RMB'000 (Restated)
Depreciation of property, plant and equipment	13	272,105	348,432
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	15(a)/15(b)	213,809	16,046
Amortisation of other intangible assets	16	61,811	59,352
Advertisement and business promotion expenses		268,039	266,681
Auditor's remuneration		6,100	6,100
Bank charges		28,318	33,646
Foreign exchange differences, net		59,015	75,125
Lease expenses		28,303	220,179
Logistics and petroleum expenses		71,225	53,620
Office expenses		20,636	23,588
Impairment of financial assets:			
Impairment of trade receivables		4,790	3,715
Impairment of prepayments, other receivables and other assets		16,516	4,159
Impairment of finance lease receivables		2,388	1,003
Write-down of inventories to net realisable value		19,589	11,928
Loss on disposal of items of property, plant and equipment		10,373	25,469
Gross rental income from investment property operating leases		(21,218)	(8,246)
Rental income from subleases		(43,248)	(20,000)
Government grants		(58,838)	(62,972)
Fair value gain on investment properties	14	(27,239)	(31,351)
Net fair value loss/(gain) on derivative instruments		1,019	(6,937)
Bank interest income		(33,084)	(40,415)

NOTES TO FINANCIAL STATEMENTS

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7. FINANCE COSTS

An analysis of finance costs is as follows:

	Note	2019 RMB'000	2018 RMB'000
Interest on bank loans and other loans		731,841	706,522
Incl: Loan arrangement fee		79,899	76,820
Interest on lease liabilities	15	90,342	–
Total interest expense on financial liabilities not at fair value through profit or loss		822,183	706,522
		822,183	706,522

8. INCOME TAX

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

	2019 RMB'000	2018 RMB'000
Current:		
Mainland China corporate income tax	503,978	430,670
Deferred tax (note 35)	(109,926)	(84,444)
Total tax charge for the year	394,052	346,226

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

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

The subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (2018: 16.5%) during the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year.

According to the Corporate Income Tax Law of the People's Republic of China (the "CIT Law"), the uniform income tax rate is 25% (2018: 25%), except for a few subsidiaries in Xing Jiang Province that are entitled to reduced two rates prevailing in the area.

8. INCOME TAX (continued)

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

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

	2019 RMB'000	2018 RMB'000 (Restated)
Profit before tax	1,016,809	903,330
Tax at the statutory tax rate	254,202	225,833
Lower tax rates enacted by local authority	(6,670)	(3,153)
Tax losses not recognised	116,422	92,766
Tax effect of non-deductible expenses	50,218	29,058
Profits and losses attributable to joint ventures and associates	(15,304)	3,143
Tax losses utilised from previous periods	(4,816)	(1,421)
Tax charge	394,052	346,226

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

NOTES TO FINANCIAL STATEMENTS

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9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Year ended 31 December 2019			Total RMB'000
	Directors' fees RMB'000	Salaries, allowances and other benefits RMB'000	Equity-settled share option expense RMB'000	
Independent non-executive directors				
– Diao Jianshen	267	–	–	267
– Chan Wan Tsun Adrian Alan	267	–	–	267
– Liu Yangfang	267	–	–	267
Executive directors				
– Li Jianping	–	1,000	1,731	2,731
– Wang Xinming	–	800	1,731	2,531
– Qi Junjie	–	800	866	1,666
– Lu Ao	–	800	866	1,666
– Xu Xing	–	500	866	1,366
	801	3,900	6,060	10,761

31 December 2019

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

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

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

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

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

During 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 37 to the financial statements. The fair value of such options, which has been recognised in the consolidated 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.

NOTES TO FINANCIAL STATEMENTS

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10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included five Directors and chief executives (2018: five Directors and chief executives), details of whose remuneration are detailed in note 9 above. None of the five highest paid individuals is neither a director nor chief executive (2018: None).

11. DIVIDENDS

No final dividend for the year ended 31 December 2019 was recommended per ordinary share (2018:None).

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,837,418,048 (2018: 2,837,311,429) in issue during the year.

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

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

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

Earnings	2019 RMB'000	2018 RMB'000 (Restated)
Profit attributable to ordinary equity holders of the parent	629,202	556,282
Shares	2019	2018
Weighted average number of ordinary shares in issue during the year	2,837,418,048	2,837,311,429
Earnings per share	2019 RMB	2018 RMB (Restated)
Basic and diluted	0.22	0.20

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019							
At 1 January 2019 (restated):							
Cost	3,377,877	868,729	404,638	290,515	686,282	18,303	5,646,344
Accumulation depreciation	(547,854)	(546,268)	(239,596)	(219,125)	(127,008)	-	(1,679,851)
Net carrying amount	2,830,023	322,461	165,042	71,390	559,274	18,303	3,966,493
At 31 December 2018, net of (restated) accumulated depreciation	2,830,023	322,461	165,042	71,390	559,274	18,303	3,966,493
Effect of adoption of HKFRS 16 (note 15)	-	-	-	-	(248,467)	-	(248,467)
At 1 January 2019 (restated)	2,830,023	322,461	165,042	71,390	310,807	18,303	3,718,026
Additions	41,787	76,716	24,782	10,039	682,754	29,195	865,273
Disposals	(244,055)	(4,646)	(1,115)	(1,260)	(598,483)	-	(849,559)
Depreciation provided during the year (note 6)	(81,519)	(81,140)	(35,880)	(22,024)	(51,542)	-	(272,105)
Transfers	9,462	5,429	2,616	715	3,310	(21,532)	-
Transfers to intangible assets	-	-	-	-	-	(1,294)	(1,294)
At 31 December 2019, net of accumulated depreciation	2,555,698	318,820	155,445	58,860	346,846	24,672	3,460,341
At 31 December 2019:							
Cost	3,169,092	976,749	425,426	290,436	414,985	24,672	5,301,360
Accumulated depreciation	(613,394)	(657,929)	(269,981)	(231,576)	(68,139)	-	(1,841,019)
Net carrying amount	2,555,698	318,820	155,445	58,860	346,846	24,672	3,460,341

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018							
At 1 December 2018 (restated):							
Cost	3,363,891	725,668	366,320	276,491	713,049	87,790	5,533,209
Accumulation depreciation	(523,028)	(439,433)	(218,072)	(203,636)	(138,483)	-	(1,522,652)
Net carrying amount	2,840,863	286,235	148,248	72,855	574,566	87,790	4,010,557
At 1 January 2018, net of (restated) accumulated depreciation	2,840,863	286,235	148,248	72,855	574,566	87,790	4,010,557
Additions (restated)	242,155	175,162	40,227	35,791	420,690	12,826	926,851
Acquisition of subsidiaries	123,516	-	17,222	2,929	7,170	-	150,837
Disposals (restated)	(114,674)	(24,991)	(13,932)	(9,570)	(354,509)	(21,757)	(539,433)
Depreciation provided during the year (restated) (note 6)	(83,437)	(115,385)	(27,139)	(31,867)	(90,604)	-	(348,432)
Transfers	55,487	1,440	416	1,252	1,961	(60,556)	-
Transfers to investment properties	(233,887)	-	-	-	-	-	(233,887)
At 31 December 2018, net of (restated) accumulated depreciation	2,830,023	322,461	165,042	71,390	559,274	18,303	3,966,493
At 31 December 2018 (restated):							
Cost	3,377,877	868,729	404,638	290,515	686,282	18,303	5,646,344
Accumulated depreciation	(547,854)	(546,268)	(239,596)	(219,125)	(127,008)	-	(1,679,851)
Net carrying amount	2,830,023	322,461	165,042	71,390	559,274	18,303	3,966,493

The net carrying amount of the Group's fixed assets held under finance leases included in the total amounts of motor vehicles at 31 December 2018 was RMB248,467,000.

As at 31 December 2019, the application for the property ownership certificates for certain buildings with a net book value of approximately RMB234,165,000 (2018: RMB233,415,000) was still in progress.

As at 31 December 2019, certain of the Group's buildings with an aggregate net book value of appropriately RMB81,276,000 (2018: RMB86,042,000) were pledged as security for the Group interest-bearing bank and other borrowings (note 29(c)).

31 December 2019

14. INVESTMENT PROPERTIES

	31 December 2019 RMB'000	31 December 2018 RMB'000
Carrying amount at 1 January	370,905	–
Transfer from owner-occupied properties	–	233,887
Transfer from prepaid land lease payments	–	37,595
Surplus on revaluation	–	68,072
Net gain from a fair value adjustment	27,239	31,351
Carrying amount at 31 December	398,144	370,905

The application for the ownership certificates of a certain building located in Yangzhou City of Jiangsu Province, the PRC, with a fair value of RMB78,940,000 as at 31 December 2019 (31 December 2018: RMB74,555,000), is in progress.

The Company has determined that the investment properties consist of three commercial assets, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2019 based on valuations performed by an independent professionally qualified valuer, at RMB398,144,000 (31 December 2018: RMB370,905,000). The Group's management decides to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The investment properties are leased to third parties under operating leases, further summarised details of which are included in note 15 to the financial statements.

Fair value hierarchy

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

	2019	2018
Estimated rental value (per sq.m. and per month)	RMB51 – RMB71	RMB48-RMB60
Long term growth rate p.a	1% – 3%	1% – 3%
Long term vacancy rate	0% – 10%	0% – 5%
Discount rate	5%-6%	6%

NOTES TO FINANCIAL STATEMENTS

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14. INVESTMENT PROPERTIES (continued)

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

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

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

During the year, there were no transfers of fair value measurement between level 1 and level 2 and no transfers into or out of level 3 (2018: Nil).

15. LEASES

The Group as a lessee

The Group has lease contracts for various items of prepaid land lease payments, buildings and lands and motor vehicles used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 20 to 30 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings and lands generally have lease terms between 2 and 45 years, while motor vehicles generally have lease terms between 1 and 2 years. The rest of the leases generally have lease terms of 12 months or less and/or is individually of low value.

- (a) Prepaid land lease payments (before 1 January 2019)

	RMB'000
Carrying amount at 1 January 2018	489,796
Acquisition of subsidiaries	19,540
Transfer to investment properties	(37,595)
Recognised in profit or loss during the year	(16,046)
Carrying amount at 31 December 2018	455,695

15. LEASES (continued)

The Group as a lessee (continued)

(b) Right-of-use assets

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

	Prepaid land lease payments RMB'000	Buildings and lands RMB'000	Motor vehicles RMB'000	Total RMB'000
As at 1 January 2019	455,695	1,340,537	248,467	2,044,699
Additions	–	166,200	147,403	313,603
Depreciation charge	(14,212)	(172,787)	(26,810)	(213,809)
Termination	–	–	(224,170)	(224,170)
As at 31 December 2019	441,483	1,333,950	144,890	1,920,323

As at 31 December 2019, the application for the land use right certificates for certain land with a net book value of approximately RMB1,648,000 (2018: RMB2,872,000) was still in progress.

(c) 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	1,507,355	–
New leases	284,506	250,000
Accretion of interest recognised during the year	90,342	2,064
Payments	(445,953)	(11,155)
Carrying amount at 31 December	1,436,250	240,909
Analysed into:		
Current portion	226,303	119,509
Non-current portion	1,209,947	121,400

The maturity analysis of lease liabilities is disclosed in note 47 to the financial statements.

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15. LEASES (continued)

The Group as a lessee (continued)

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

	2019 RMB'000
Interest on lease liabilities	90,342
Depreciation charge of right-of-use assets	213,809
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales, administrative and selling and distribution expenses)	28,244
Expense relating to leases of low-value assets (included in cost of sales, administrative and selling and distribution expenses)	59
Total amount recognised in profit or loss	332,454

The Group as a lessor

The Group leases its investment properties (note 14) consisting of three commercial properties and subleases under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB64,466,000 (2018: RMB28,246,000), details of which are included in note 5(b) to the financial statements.

At 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 RMB'000	2018 RMB'000
Within one year	46,406	11,896
After one year but within two years	41,906	15,549
After two years but within three years	42,807	15,942
After three years but within four years	38,213	16,346
After four years but within five years	42,630	18,651
After five years	273,030	85,070
	484,992	163,454

16. OTHER INTANGIBLE ASSETS

	Software RMB'000	Dealership agreements RMB'000	Customer relationship RMB'000	Car licences RMB'000	Club membership RMB'000	Total RMB'000
Cost:						
At 1 January 2019 (restated)	30,310	1,445,755	299,894	16,976	2,454	1,795,389
Additions	1,163	-	-	1,760	-	2,923
Disposals	(86)	-	-	(182)	-	(268)
Transfer from construction in progress	1,294	-	-	-	-	1,294
At 31 December 2019	32,681	1,445,755	299,894	18,554	2,454	1,799,338
Accumulated amortisation:						
At 1 January 2019 (restated)	12,751	135,888	122,962	-	523	272,124
Charge for the year	2,807	38,926	19,993	-	85	61,811
Disposals	(56)	-	-	-	-	(56)
At 31 December 2019	15,502	174,814	142,955	-	608	333,879
Net book value:						
At 31 December 2019	17,179	1,270,941	156,939	18,554	1,846	1,465,459

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16. OTHER INTANGIBLE ASSETS (continued)

	Software RMB'000	Dealership agreements RMB'000	Customer relationship RMB'000	Car licences RMB'000	Club membership RMB'000	Total RMB'000
Cost:						
At 1 January 2018 (restated)	33,480	1,049,637	299,894	10,468	2,454	1,395,933
Additions (restated)	2,116	–	–	6,508	–	8,624
Acquisition of subsidiaries	–	396,118	–	–	–	396,118
Disposals	(5,286)	–	–	–	–	(5,286)
At 31 December 2018 (restated)	30,310	1,445,755	299,894	16,976	2,454	1,795,389
Accumulated amortisation:						
At 1 January 2018 (restated)	15,121	99,469	102,618	–	439	217,647
Charge for the year (restated)	2,505	36,419	20,344	–	84	59,352
Disposals	(4,875)	–	–	–	–	(4,875)
At 31 December 2018 (restated)	12,751	135,888	122,962	–	523	272,124
Net book value:						
At 31 December 2018 (restated)	17,559	1,309,867	176,932	16,976	1,931	1,523,265

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

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

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17. PREPAYMENTS AND DEPOSITS

	31 December 2019 RMB'000	31 December 2018 RMB'000
Prepayments for investment	31,500	–
Long term deposits	60,132	58,757
	91,632	58,757

18. FINANCE LEASE RECEIVABLES

	31 December 2019 RMB'000	31 December 2018 RMB'000
Analysed as:		
Current	208,701	191,338
Non-current	110,672	131,710
	319,373	323,048

At 31 December 2019, the future minimum lease receivables under finance leases and their present values were as follows:

	Minimum lease receivables 31 December 2019 RMB'000	Present value of minimum lease receivables December 31 2019 RMB'000
Finance lease receivables:		
Within one year	238,583	208,701
Later than one year and not later than five years	120,248	110,672
	358,831	319,373
Less: Unearned finance lease income	36,067	
Present value of minimum lease payment receivables	322,764	
Less: Allowances for impairment losses	3,391	
Total net finance lease receivables	319,373	

NOTES TO FINANCIAL STATEMENTS

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18. FINANCE LEASE RECEIVABLES (continued)

At 31 December 2019, the future minimum lease receivables under finance leases and their present values were as follows: (continued)

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

Finance lease receivables amounted to RMB62,856,000 (2018: nil) was pledged to secure interest-bearing bank borrowings (note 29(b)).

Measurements of allowances for impairment losses are as follows:

	2019 RMB'000
At 31 December 2018 and 1 January 2019	1,003
Charge for the year	2,388
At 31 December 2019	3,391

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

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19. GOODWILL

	31 December 2019 RMB'000	31 December 2018 RMB'000
Cost:		
At the beginning of the year	1,247,067	918,287
Acquisition of subsidiaries	–	328,780
Accumulated impairment	(25,051)	(25,051)
	1,222,016	1,222,016

Impairment testing of goodwill

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

Goodwill acquired through business combinations is allocated to the cash-generating unites, i.e. 4S dealership business acquired for impairment testing.

The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The growth rate used to extrapolate the cash flows of the cash-generating unit beyond the five-year period from the end of the reporting period is 3% (2018: 3%) for all years. The discount rate applied to the cash flow projections beyond the one-year period is 13.5% (2018: 13.5%).

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

	31 December 2019 RMB'000	31 December 2018 RMB'000
4S dealership business	1,222,016	1,222,016

Key assumptions used in the value in use calculation

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

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

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

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19. GOODWILL (continued)

Sensitivity to changes in assumptions

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

20. INVESTMENT IN A JOINT VENTURE

	31 December 2019 RMB'000	31 December 2018 RMB'000
Share of net assets	61,148	59,160
Loans to a joint venture	40,835	40,835
	101,983	99,995

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

(a) Particulars of a joint venture

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

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

	2019 RMB'000	2018 RMB'000
Share of the joint venture's profit for the year	1,988	1,978
Share of the joint venture's total comprehensive income for the year	1,988	1,978
Aggregate carrying amount of the Group's investment in the joint venture	101,983	99,995

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21. INVESTMENTS IN ASSOCIATES

	31 December 2019 RMB'000	31 December 2018 RMB'000
Share of net assets	126,092	31,556

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

(a) Particulars of associates

Associates	Place of registration and business	Registered and paid-in capital	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Wuxi Kailong Real Estate Co., Ltd.	Jiangsu, the PRC	Registered capital of RMB120,000,000 and paid-in capital of RMB70,000,000	30%	30%	30%	Real estate development
Deyang Nan Ling Gang Hong Automobile Sales & Services Co., Ltd.	Sichuan, the PRC	RMB25,000,000	49%	49%	49%	Sale and service of motor vehicles
Sichuan Gang Hong Vehicle Trade Co., Ltd.	Sichuan, the PRC	RMB31,000,000	40%	40%	40%	Sale and service of motor vehicles
Qingdao Motors (H.K.) Limited (Note)	Hong Kong	HKD1,000	26%	26%	26%	Sale and service of motor vehicles

Note:

The Group classified the unlisted equity investment in Qingdao Motors (H.K.) Limited. as investment in associates from financial assets at fair value through other comprehensive income since 1 March 2019, as the Group appointed board seat thereon. The fair value of RMB36,000,000 as of 1 March 2019 was recorded as initial cost of the investment in the associate. During the year ended 31 December 2019, the Company received dividends in the amounting of RMB693,000 (2018: RMB815,000) from Qingdao Motors (H.K.) Limited.

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

	31 December 2019 RMB'000	31 December 2018 RMB'000
Share of the associates' profit/(loss) for the year	59,229	(14,550)
Share of the associates' total comprehensive income/(loss) for the year	59,229	(14,550)
Aggregate carrying amount of the Group's investments in associates	126,092	31,556

The Group's amount due from the associates is disclosed in note 45 to the financial statements.

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22. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2019 RMB'000	31 December 2018 RMB'000
Financial asset designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value	-	36,000

The above financial asset was irrevocably designated at fair value through other comprehensive income as the Group considers this investment to be strategic in nature, and was classified as investment in associates during the year which is disclosed in note 21 to the financial statements.

23. INVENTORIES

	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)
Motor vehicles	3,260,531	3,904,307
Spare parts and accessories	262,682	239,689
	3,523,213	4,143,996
Less: Provision for inventories	19,589	11,928
	3,503,624	4,132,068

As at 31 December 2019, vehicle certificates (“車輛合格證”) for certain of the Group’s inventories with an aggregate carrying amount of RMB787,311,000 (2018: RMB295,262,000) were pledged as security for the Group’s interest-bearing bank and other borrowings (note 29).

As at 31 December 2019, vehicle certificates for certain of the Group’s inventories with an aggregate carrying amount of RMB1,884,428,000 (2018: RMB2,070,260,000) were pledged as security for the Group’s bills payable.

As at 31 December 2019, the carrying amount of inventories with provision carried at net realisable value was RMB221,398,000 (2018: RMB188,152,000).

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24. TRADE RECEIVABLES

	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)
Trade receivables	617,686	564,226
Impairment	(4,142)	(3,715)
	613,544	560,511

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

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

	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)
Within 3 months	544,161	485,416
More than 3 months but less than 1 year	48,174	60,034
Over 1 year	21,209	15,061
	613,544	560,511

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

	31 December 2019 RMB'000	31 December 2018 RMB'000
At beginning of year	3,715	–
Impairment losses (note 6)	4,790	3,715
Amount written off as uncollectible	(4,363)	–
At end of year	4,142	3,715

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24. TRADE RECEIVABLES (continued)

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

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

25. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)
Prepayments to suppliers	1,977,670	1,906,934
Rebates	7,434,768	6,359,165
VAT recoverable (i)	173,720	266,150
Prepaid lease for buildings and land use rights	8,820	88,389
Prepayments of purchase of items of property, plant and equipment	50,270	57,548
Prepaid interest expense	15,380	30,951
Loans to employees	12,398	15,349
Others	441,609	256,753
	10,114,635	8,981,239
Impairment allowance	(16,219)	(4,159)
	10,098,416	8,977,080

Note:

- (i) The Group's sales of motor vehicles are subject to Mainland China Value Added Tax ("VAT"). Input VAT on purchases can be deducted from the output VAT payable. The VAT recoverable is the net difference between output and deductible input VAT. The applicable tax rate for domestic sales of the Group is 13%.

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

The information about the credit risk exposure on the Group's prepayments, other receivables and other assets using a provision matrix is disclosed in note 47 to the financial statements.

31 December 2019

26. PLEDGED DEPOSITS

	31 December 2019 RMB'000	31 December 2018 RMB'000
Deposits pledged with banks as collateral against		
– letters of credit granted by the banks	31,400	240,590
– bill facilities granted by the banks	3,416,403	3,189,209
– short term bank loans granted by the banks (note 29)	–	118,108
	3,447,803	3,547,907

Pledged bank deposits amounting to RMB3,447,803,000 (31 December 2018: RMB3,547,907,000) were denominated in RMB at the end of the reporting period, and earned interest at interest rates stipulated by the respective finance institutions.

27. CASH IN TRANSIT

	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)
Cash in transit	49,669	46,213

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

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28. CASH AND BANK BALANCES

	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)
Cash and cash in bank	1,663,106	2,467,720
Short term deposits	-	94,549
	1,663,106	2,562,269
Term deposits with maturity over three months	-	19,819
Cash and cash equivalents	1,663,106	2,542,450

At the end of the reporting period, the cash and bank balances and short term deposits of the Group denominated in Renminbi ("RMB") amounted to RMB1,494,913,000 (2018 (Restated): RMB2,429,500,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

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29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2019		
	Effective interest rate (%)	Original maturity	RMB'000
Current			
Bank borrowings			
– guaranteed (a)	4.4-7.2	2020	1,799,985
– secured (b)	4.4-8.0	2020	72,440
– secured (b)	6.6	On demand	29,000
– unsecured	4.4-5.0	2020	384,898
– guaranteed (a)	Libor*+3.2	2020	3,769,643
– unsecured	Hibor**+2.0	2020	289,785
– secured and guaranteed (c)	4.4-8.5	2020	231,741
			6,577,492
Other borrowings ***			
– guaranteed (a)	7.5-8.0	2020	137,220
– secured (b)	7.9-8.5	2020	111,075
– unsecured	8.5-9.4	2020	33,490
– secured and guaranteed (c)	4.2-11.0	2020	829,060
			1,110,845
			7,688,337
Non-current			
Bank borrowings			
– secured (b)	8.0	2021-2022	10,690
– guaranteed (a)	4.9	2021-2025	609,434
– guaranteed (a)	Libor*+3.08	2021-2022	1,300,542
– secured and guaranteed (c)	5.4	2021-2024	19,086
			1,939,752
			9,628,089

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

	31 December 2018		
	Effective interest rate (%)	Original maturity	RMB'000
Current			
Bank borrowings			
– guaranteed	4.6-7.2	2019	2,165,801
– secured	Hibor**+1.0	2019	207,321
– secured	6.6	On demand	29,000
– unsecured	4.4-6.0	2019	263,987
– secured and guaranteed	4.8-6.3	2019	587,882
			3,253,991
Other borrowings			
– unsecured	8.0-9.0	2019	184,236
– secured and guaranteed	4.7-9.0	2019	403,881
			588,117
			3,842,108
Non-current			
Bank borrowings			
– guaranteed	Libor*+3.2	2020	5,072,205
– guaranteed	4.9	2020-2025	731,998
– secured and guaranteed	5.4	2020-2024	24,165
			5,828,368
			9,670,476

* London Inter-Bank Offered Rate

** Hong Kong Inter-Bank Offered Rate

*** As at 31 December 2019, other borrowings amounting to RMB951,994,000 were repaid subsequently with no interest charges since the repayment was made within interest-free period in respect of the motor vehicle purchase financing.

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

- (a) The Group's certain bank and other borrowings are guaranteed by:
- (i) certain of the Group's bank and other borrowings due within one year amounting to RMB5,706,848,000 (2018: RMB2,165,801,000) guaranteed by CGA as at 31 December 2019;
 - (ii) and bank loans due over one year amounting to RMB1,909,976,000 (2018: RMB5,804,203,000) guaranteed by CGA and its one subsidiary.
- (b) The Group's certain bank and other borrowings are secured by:
- (i) mortgages over the vehicle certificates for certain of the Group's inventories, which had an aggregate carrying value of approximately RMB157,545,000 (2018: RMB9,508,000) as at 31 December 2019;
 - (ii) and finance lease receivables which amounted to RMB62,856,000 (2018: nil) pledged for bank borrowings amounting to RMB55,094,000 (2018: nil) as at 31 December 2019.
- (c) The Group's certain bank and other borrowings are secured and guaranteed as follows:
- (i) Certain of the Group's bank borrowings and other borrowings which amounted to RMB1,055,722,000 (2018: RMB953,763,000) were secured by mortgages over the vehicle certificates for certain of the Group's inventories, which had an aggregate carrying value of approximately RMB629,766,000 (2018: RMB273,332,000), and the pledge of certain of the Group's time deposits amounting to nil (2018: RMB118,108,000), and guaranteed by CGA as at 31 December 2019;
 - (ii) The Group's certain bank borrowings amounting to RMB24,165,000 (2018: RMB28,979,000) were secured by the property, plant and equipment amounting to RMB81,276,000 (2018: RMB86,042,000). The current portion of these borrowings amounted to RMB5,080,000.
- (d) As at 31 December 2019, the Group had unutilised banking facilities of RMB7,189,542,000 (2018: RMB8,543,969,000).

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30. TRADE AND BILLS PAYABLES

	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)
Trade payables	348,363	351,696
Bills payable	6,238,557	7,168,625
Trade and bills payables	6,586,920	7,520,321

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

	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)
Within 3 months	6,258,045	7,062,565
3 to 6 months	294,285	428,863
6 to 12 months	7,832	4,349
Over 12 months	26,758	24,544
	6,586,920	7,520,321

The trade and bills payables are non-interest-bearing. The trade payables are normally settled on 60-day terms.

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31. OTHER PAYABLES AND ACCRUALS

	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)
Contract liabilities	912,790	892,095
Taxes payable (other than income tax)	107,974	35,682
Payables for purchase of items of property, plant and equipment	10,645	14,309
Payables for purchase of items of land use rights	21,217	21,217
Lease payables	17,168	31,293
Interest payables	31,558	35,407
Staff payroll and welfare payables	83,298	77,931
Payables for purchase of equity interests from third parties	9,303	28,856
Others	172,896	130,811
	1,366,849	1,267,601

Details of contract liabilities are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)	1 January 2018 RMB'000 (Restated)
<i>Short-term advances received from customers</i>			
Sale of motor vehicles	694,028	678,301	723,716
After-sales services	218,762	213,794	106,517
Total contract liabilities	912,790	892,095	830,233

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

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32. 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 within the current year.

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

	31 December 2018 RMB'000
Analysed as:	
Current	119,509
Non-current	121,400
	240,909

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

Related Party:

	Minimum lease payables 31 December 2018 RMB'000	Present value of minimum lease payables 31 December 2018 RMB'000
Finance lease payables:		
Within one year	139,444	119,509
Later than one year and not later than five years	127,534	121,400
Total minimum finance lease payables	266,978	240,909
Future finance charges	(26,069)	
Total net finance lease payables	240,909	

On 24 April 2018, Shanghai Dingxin Financial Leasing Co., Ltd ("Dingxin Leasing"), a wholly-owned subsidiary of the Company, and All Trust Leasing Company Limited ("All Trust Leasing"), a wholly-owned subsidiary of CGA, entered into the Sale and Leaseback Framework Agreement (the "Framework Agreement"). Pursuant to the Framework Agreement, Dingxin Leasing shall sell to All Trust Leasing vehicles owned by Dingxin Leasing, which shall then be leased back for use by Dingxin Leasing. Upon expiry of the lease term, Dingxin Leasing shall repurchase the leased assets in accordance with the agreed terms and with a consideration of a nominal amount of RMB100. The Framework Agreement was treated as a finance lease, and these leases were classified as finance leases prior to HKFRS 16 adoption.

31 December 2019

33. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2019 Assets RMB'000	31 December 2019 Liabilities RMB'000
Qualified for hedge accounting		
Interest rate swaps (A)	–	27,342
Forward currency contracts (A)	26,127	–
	26,127	27,342
Analysed as:		
Current	26,127	–
Non-current	–	27,342

	31 December 2018 Assets RMB'000	31 December 2018 Liabilities RMB'000
Qualified for hedge accounting		
Forward currency contracts (A)	13,202	–
Not qualified for hedge accounting		
Interest rate swaps (B)	13,296	–
Forward currency contracts (B)	510	2,995
	27,008	2,995
Analysed as:		
Current	16,649	2,995
Non-current	10,359	–

The Group has entered into various currency contracts and interest rate swaps. As at 31 December 2019, these forward currency contracts(A) and interest rate swaps(A) were all designated for hedging purposes. The forward currency contracts(B) and interest rate swaps(B) are not designated for hedging purposes and measured at fair value through profit or loss. Fair value loss at non-hedged forward currency contracts(B) and interest rate swaps(B) amounting to RMB1,019,000 (2018: gain of RMB6,937,000) were recognized in the consolidated statement of profit or loss during the year.

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33. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge – Interest rate risk

As at 31 December 2019, the Group had interest rate swaps with financial institutions with an aggregate notional amount of USD190,500,000 whereby it received interest of a floating rate on the notional amount at the London Interbank Offered Rate ("LIBOR") monthly and pays a fixed rate of interest on the notional amount. The interest rate swaps are being used to hedge the interest rate risk in relation to a USD denominated floating rate bank borrowing with a principal of USD190,500,000.

There is an economic relationship between the hedged items and the hedging instruments as the terms of interest rate swap contracts match the terms of the expected highly probable forecast transactions and the secured bank loan (i.e., notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the foreign exchange forward and swap contracts are identical to the hedged risk components. To measure the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

Hedge ineffectiveness can arise from:

- Different interest rate curves applied to discount the hedged items and hedging instruments
- The counterparties' credit risks differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amounts of cash flows of hedged items and hedging instruments

The impacts of the hedging instruments on the consolidated statement of financial position are as follows:

	Notional amount USD'000	Carrying amount RMB'000	Line item in the consolidated statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year RMB'000
As at 31 December 2019				
Interest rate swaps (A)	190,500	(27,342)	Derivative financial Instruments (liabilities)	(27,342)

33. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge – Interest rate risk (continued)

The impacts of the hedged items on the consolidated statement of financial position are as follows:

	Change in fair value used for measuring hedge ineffectiveness for the year RMB'000	Cash flow hedge reserve RMB'000
As at 31 December 2019		
Interest rate swaps (A)	(27,342)	(26,876)

The effects of the cash flow hedge on the consolidated statement of profit or loss and the consolidated statement of comprehensive income are as follows:

	Total hedging loss recognised in other comprehensive income			Amount reclassified from other comprehensive income to profit or loss			Line item (gross amount) in the consolidated statement of profit or loss
	Gross amount	Tax effect	Total	Gross amount	Tax effect	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Year ended 31 December 2019							
Interest rate swaps (A)	(29,764)	-	(29,764)	2,888	-	2,888	Finance costs

The loss of interest rate swaps (A) amounting to RMB2,422,000 were recognised in other comprehensive income and reclassified to finance costs during the year.

Fair value hedge – Foreign currency risk

The Group designates only the intrinsic value of the forward currency contracts as the hedging instrument in fair value hedges of an intragroup monetary item which results in an exposure to foreign exchange rate gains or losses that are not fully eliminated on consolidation. The changes in the time value of the option contracts that relate to the hedged item are recognised within other comprehensive income in the costs of hedging reserve within equity.

There is an economic relationship between the hedged item and the hedging instrument as the terms of the forward currency contracts match the terms of intra-group monetary items (i.e., notional amount, maturity, payment and reset dates). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the interest rate swap is identical to that of the hedged risk component. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in fair value of the hedged item attributable to the hedged risk.

NOTES TO FINANCIAL STATEMENTS

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33. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair value hedge – Foreign currency risk (continued)

The hedge ineffectiveness can arise from:

- Differences in the timing of cash flows of the hedged item and the hedging instrument;
- The counterparties' credit risks differently impacting the fair value movements of the hedging instrument and the hedged item.

The impact of the hedging instrument on the consolidated statement of financial position is as follows:

	Notional amount USD'000	Carrying amount RMB'000	Line item in the consolidated statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year RMB'000
As at 31 December 2019				
Forward currency contracts (A)	148,630	26,127	Derivative financial Instruments (assets)	17,127
As at 31 December 2018				
Forward currency contracts (A)	371,600	13,202	Derivative financial Instruments (assets)	67,904

33. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair value hedge – Foreign currency risk (continued)

The impact of the hedged item on the consolidated statement of financial position is as follows:

	Carrying amount RMB'000	Accumulated fair value adjustments RMB'000	Line item in the consolidated statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year RMB'000
As at 31 December 2019				
Intra-group monetary items that result in exchange rate differences	-	(17,127)	-	17,127
As at 31 December 2018				
Intra-group monetary items that result in exchange rate differences	-	67,904	-	(67,904)

In addition to above unsettled hedging instruments, the total fair value adjustments (loss) of settled forward currency contracts (A) in respect of intra-group monetary items that result in exchange rate differences amounted to RMB10,049,000 during the year (2018: nil).

The impact of the time value of the hedging instrument on the statement of financial position is as follows:

Reserves	31 December 2019 RMB'000	31 December 2018 RMB'000
Time value component of fair value hedge		
Opening balance	(54,702)	-
Change in time value component of fair value hedge	54,670	(54,702)
Closing balance	(32)	(54,702)

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34. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the People's Republic of China (the "PRC") state regulations, the subsidiaries of Mainland China participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 13% to 20% (2018: 13% to 20%) of the previous year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries. The Group has no obligation for the payment of pension benefits beyond the annual contributions as set out above.

According to the relevant rules and regulations of the PRC, the Mainland China subsidiaries and their employees are each required to make contributions to an accommodation fund at 5% to 12% (2018: 5% to 12%) of the salaries and wages of the employees which is administered by the Public Accumulation Funds Administration Centre. There is no further obligation on the part of the Group except for such contributions to the accommodation fund.

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

35. DEFERRED TAX

(a) Deferred tax assets

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

	Losses available for offsetting against future taxable profits RMB'000	Deferred rental expenses RMB'000	Inventory impairment RMB'000	Others RMB'000	Total RMB'000
At 31 December 2017 and 1 January 2018	66,434	4,934	–	17,908	89,276
Deferred tax recognised in the consolidated statement of profit or loss during the year (Note 8(a))	57,725	9,166	2,982	11,687	81,560
At 31 December 2018	124,159	14,100	2,982	29,595	170,836
At 31 December 2018 and 1 January 2019	124,159	14,100	2,982	29,595	170,836
Deferred tax recognised in the consolidated statement of profit or loss during the year (Note 8(a))	43,507	7,101	1,915	22,591	75,114
At 31 December 2019	167,666	21,201	4,897	52,186	245,950

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35. DEFERRED TAX (continued)**(b) Deferred tax liabilities**

	Depreciation allowances in excess of related depreciation RMB'000	Capitalisation of costs in relation to construction in progress RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Gain on exchange of assets RMB'000	Fair value adjustment of investment Properties RMB'000	Total RMB'000
At 31 December 2017 and 1 January 2018	12,869	41,474	314,359	54,000	-	422,702
Deferred tax recognised in the consolidated statement of profit or loss during the year (Note 8(a))	4,017	(2,585)	(15,493)	(139)	11,316	(2,884)
Acquisition of subsidiaries	-	-	100,809	-	-	100,809
Changes in fair value of investment properties (Note 14)	-	-	-	-	17,018	17,018
At 31 December 2018	16,886	38,889	399,675	53,861	28,334	537,645
At 31 December 2018 and 1 January 2019	16,886	38,889	399,675	53,861	28,334	537,645
Deferred tax recognised in the consolidated statement of profit or loss during the year (Note 8(a))	27,537	(1,816)	(16,959)	(53,861)	10,287	(34,812)
At 31 December 2019	44,423	37,073	382,716	-	38,621	502,833

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	243,694	168,219
Net deferred tax liabilities recognised in the consolidated statement of financial position	(500,577)	(535,028)
	(256,883)	(366,809)

NOTES TO FINANCIAL STATEMENTS

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35. DEFERRED TAX (continued)

Pursuant to the CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. Under the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, or the China-HK Tax Arrangement, a qualified Hong Kong tax resident which is the “beneficial owner” and holds 25% or more of the equity interest in a PRC-resident enterprise is entitled to a reduced withholding tax rate of 5%. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from retained earnings as at 31 December 2007 are exempted from withholding tax.

At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group’s subsidiaries and a joint venture established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries and the joint venture will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries and the joint venture in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB7,576,865,513 at 31 December 2019 (2018: RMB6,798,297,224).

Deferred tax assets of RMB448,161,000 (2018: RMB331,739,000) have not been recognised in respect of tax losses arising in Mainland China as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised. These tax losses will expire in one to five years.

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36. SHARE CAPITAL

Shares	31 December 2019	31 December 2018
Authorised: Ordinary shares	5,000,000,000 shares of HK\$0.01 each	5,000,000,000 shares of HK\$0.01 each
Issued and fully paid: Ordinary shares	2,837,511,429 shares of HK\$0.01 each	2,837,311,429 shares of HK\$0.01 each
Equivalent to RMB'000	23,277	23,275

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2018	2,837,311,429	23,275	2,611,625	2,634,900
Dividends paid	–	–	(239,214)	(239,214)
At 31 December 2018	2,837,311,429	23,275	2,372,411	2,395,686
Share options exercised	200,000	2	571	573
At 31 December 2019	2,837,511,429	23,277	2,372,982	2,396,259

Details of the Company's share option scheme and the share options issued under the scheme are included in note 37 to the financial statements.

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37. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include employees of the Company and its subsidiaries. The Scheme became effective on 14 December 2011, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at the listing date. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of offer, an amount of HK\$1.00 is payable upon acceptance of the grant of options and such payment shall not be refundable and shall not be deemed to be a part of the payment of the exercise price. The exercise period of the share options granted is determinable by the Directors, and commences after a vesting period of one year and ends on the expiry date of the Scheme.

The exercise price of share options is determinable by the Directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company’s shares on the date of offer of the share options; and (ii) the average of the closing prices of the Company’s shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Share.

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

On 28 March 2018, the Company granted 75,000,000 ordinary shares (the “Granted Option”) of HK\$0.01 each in the shares of the Company to Directors (“Scheme A”) and other employees of the Group (“Scheme B”) under the Scheme. These granted options have a total vesting period of three years, out of which 30%, 30% and 40% will become vested at end of each of these three years, respectively. The share options are exercisable from 28 March 2018 for a period of 10 years.

37. SHARE OPTION SCHEME (continued)

The following share options were outstanding under Scheme A and Scheme B during the year.

	2019		2018	
	Weighted average exercise price HK\$ per share	Number of options	Weighted average exercise price HK\$ per share	Number of options
At 1 January	3.256	75,000,000	–	–
Granted during the year	3.256	–	3.256	75,000,000
Forfeited during the year	3.256	(7,080,000)	–	–
Exercised during the year	3.256	(200,000)	–	–
At 31 December	3.256	67,720,000	3.256	75,000,000

The exercise prices and exercise periods of the share options outstanding as of 31 December 2019 are as follows:

Number of options	Exercise price HK\$ per share	Exercise period
20,176,000	3.256	28-3-2019 to 27-3-2028
20,376,000	3.256	28-3-2020 to 27-3-2028
27,168,000	3.256	28-3-2021 to 27-3-2028

The fair value of the Granted Option during previous year was RMB101,741,000, of which the Group recognised a share option expense of RMB30,621,000 (2018: RMB47,979,000).

At of 31 December 2019, the Company had 67,720,000 share options outstanding under the Scheme (31 December 2018: 75,000,000). The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 67,720,000 additional ordinary shares of the Company and additional share capital of HK\$677,200 and share premium of HK\$219,819,000 (before issue expenses).

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38. RESERVES

(i) Statutory reserve

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

(ii) Merger reserve

The merger reserve of the Group represents the capital contributions from the equity holders of the Company and the excess of the consideration over the carrying amount of the non-controlling interests acquired.

(iii) Other reserve

The other reserve of the Group represents the excess of the consideration over the carrying amount of the non-controlling interests acquired, cash flow hedges, deferred costs of the hedging reserve and the changing fair value upon reclassification from own-occupied properties to investment properties.

(iv) Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of the Company and certain overseas subsidiaries of which the functional currencies are other than the RMB.

39. BUSINESS COMBINATION

- (a) On 12 September 2019, the Company entered into an agreement with CGA to acquire 100% equity interests in Shanghai Huibaohang Automotive Sales Services Limited ("Shanghai Huibaohang", formally known as Shanghai Guanghui Tengde Automotive Sales Services Limited), at a cash consideration of RMB11,550,000. As both parties were under control of CGA before and after the combination and such control was not a provisional one, this combination was the business combination involving an entity under common control. The considerations of this transaction amounting to RMB11,550,000 was paid respectively in September 2019, and the right of control was transferred to the Group. Therefore, from 12 September 2019 onwards, the Group included Shanghai Huibaohang in the consolidated financial statements, and it is accounted for as if it had been consolidated as at the beginning of the comparative period.

	From 1 January to 12 September 2019 RMB'000	From 1 January to 31 December 2018 RMB'000
Revenue	12,821	66,978
Net loss	4,437	9,717
Net (outflow)/inflow of cash and cash equivalents	(1,167)	366

The carrying amounts of Shanghai Huibaohang's assets and liabilities at the combination date and the balance sheet date of the previous accounting period are as follows:

	12 September 2019 RMB'000	31 December 2018 RMB'000
Property, plant and equipment	958	2,521
Other intangible assets	138	159
Right-of-use assets	13,494	–
Inventories	88	5,389
Trade receivables	12	2,545
Prepayments, other receivables and other assets	1,517	2,946
Amounts due from related parties	13,180	13,180
Cash in transit	–	5
Cash and bank balances	37	1,204
Trade and bills payables	(86)	(919)
Other payables and accruals	(636)	(2,285)
Lease liabilities	(13,790)	–
Amounts due to related parties	(11,550)	(16,946)
Total	3,362	7,799
Combination difference (through equity interest)	8,188	
Combination consideration	11,550	

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31 December 2019

39. BUSINESS COMBINATION (continued)

- (b) On 18 November 2019, the Company entered into an agreement with Hebei Guanghui Investment Co., Ltd. to acquire 100% equity interests in Shijiazhuang Mingzhibao Automobile Sales Service Company Limited ("Shijiazhuang Mingzhibao"), which is a new subsidiary of CGA set up in 2019, at a cash consideration of RMB22,000,000, and entered into an agreement with Shandong Guanghui Auto Service Co., Ltd. to acquire 100% equity interests in Xuzhou Mingzhibao Automobile Sales Service Company Limited ("Xuzhou Mingzhibao"), which is also a new subsidiary of CGA set up in 2019, at a consideration of RMB10,600,000. As all parties were under control of CGA before and after the combination and such control was not a provisional one, this combination was the business combination involving an entity under common control. The consideration of this transaction amounting to RMB22,820,000 was paid on 26 November 2019, and the right of control was transferred to the Group. Therefore, from 18 November 2019 onwards, the Group included Shijiazhuang Mingzhibao and Xuzhou Mingzhibao in the consolidated financial statements, and they are accounted for as if they had been consolidated as at the beginning of the comparative period. Since Shijiazhuang Mingzhibao and Xuzhou Mingzhibao were set up in 2019, the comparative figures from 1 January to 31 December 2018 were not restated.

	From 1 January to 18 November 2019 RMB'000
Revenue	2,071
Net loss	2,864
Net inflow of cash and cash equivalents	1,856

The carrying amounts of Shijiazhuang Mingzhibao and Xuzhou Mingzhibao's assets and liabilities at the combination date and the balance sheet date of the previous accounting period are as follows:

	18 November 2019 RMB'000
Property, plant and equipment	21,625
Right-of-use assets	27,092
Prepayments and deposits	2,700
Inventories	9,635
Trade receivables	247
Prepayments, other receivables and other assets	7,084
Cash in transit	438
Cash and bank balances	1,106
Interest-bearing bank and other borrowings	(9,217)
Trade and bills payables	(57)
Other payables and accruals	(2,266)
Lease liabilities	(28,651)
Total	29,736
Combination difference (through equity interest)	2,864
Combination consideration	32,600

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

2019	Finance lease payables/ Lease liabilities RMB'000	Amounts due to related parties RMB'000	Interest-bearing bank and other borrowings RMB'000
At 31 December 2018	240,909	1,264,850	9,670,476
Effect of adoption of HKFRS 16	1,266,446	-	-
At 1 January 2019 (restated)	1,507,355	1,264,850	9,670,476
Changes from financing cash flows	(355,611)	1,201,800	(229,281)
New leases	284,506	-	-
Foreign exchange movement	-	-	106,995
Interest expense	90,342	3,859	79,899
Interest paid classified as operating cash flows	(90,342)	(3,908)	-
Repayment of advances to related parties	-	(1,590,819)	-
At 31 December 2019	1,436,250	875,782	9,628,089
2018		Amounts due to related parties RMB'000	Interest-bearing bank and other borrowings RMB'000 (Restated)
At 1 January 2018		1,160,903	8,971,226
Changes from financing cash flows		400,000	116,221
Foreign exchange movement		-	283,782
Interest expense		2,936	57,193
Interest paid		(3,989)	-
Repayment of advances to related parties		(295,000)	-
Increase arising from acquisition of subsidiaries		-	242,054
At 31 December 2018		1,264,850	9,670,476

NOTES TO FINANCIAL STATEMENTS

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40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2019 RMB'000
Within operating activities	90,342
Within financing activities	355,611
	445,953

41. FINANCIAL INSTRUMENTS BY CATEGORY

The Group's financial assets were categorised into three groups: 1) financial assets at fair value through profit or loss – derivative financial instruments; 2) fair value at amortised cost, including trade receivables, finance lease receivables, financial assets included in prepayments, other receivables and other assets, amounts due from related parties, pledged bank deposits, cash in transit and cash and cash equivalents; and 3) financial assets at fair value through other comprehensive income – unlisted equity investments.

The carrying amounts of financial assets at fair value through profit or loss – derivative financial instruments, fair value at amortised cost and financial assets at fair value through other comprehensive income – unlisted equity investments as at 31 December 2019 were approximately RMB26.1 million, RMB14,479.6 million and nil, respectively. (2018 (restated): RMB27.0 million, RMB14,052.0 million and RMB36.0 million, respectively).

The Group's financial liabilities were categorised into two groups: 1) financial liabilities at fair value through profit or loss – derivative financial instruments; and 2) financial liabilities at amortised cost, including trade and bills payables, financial liabilities included in other payables and accruals, amounts due to related parties, interest-bearing bank loans, other borrowings and lease liabilities.

The carrying amounts of financial liabilities at fair value through profit or loss – derivative financial instruments and financial liabilities at amortised cost as at 31 December 2019 were approximately RMB27.3 million and RMB18,904.8 million, respectively (2018 (restated): RMB3.0 million and RMB18,403.5 million, respectively).

42. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any contingent liabilities.

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43. COMMITMENTS

- (a) The Group had the following capital commitments at the end of the reporting period:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Contracted, but not provided for: Land use rights and buildings	2,214	68,591
Authorised, but not contracted for: Land use rights and buildings	25,189	31,475
	27,403	100,066

- (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 leases falling due as follows:

As lessee:

	Properties RMB'000	Land RMB'000
Within one year	151,076	102,484
In the second to fifth years, inclusive	465,540	346,192
After five years	625,049	507,463
	1,241,665	956,139

44. PLEDGE OF ASSETS

Details of the Group's assets pledged for its bank loans and other borrowings and bills payable are disclosed in note 13, note 18, note 23 and note 26, respectively, to the consolidated financial statements.

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45. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Transactions with related parties

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

	Notes	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)
Purchases of goods:	(i)		
Yanan Grand Star Auto Sales & Service Co., Ltd.		381	–
CGA Tianjin Wuqing Branch		333	–
Guangxi Hongtian Auto Sales & Service Co., Ltd.		201	–
Daqing Zunrong Jielu Auto Sales & Service Co., Ltd.		–	347
Baoji Baodi Automobile Sales Co., Ltd.		–	5
Other subsidiaries controlled by CGA		142	–
		1,057	352
Sales of goods:	(ii)		
Guangxi Hongde Tengrui Auto Sales & Service Co., Ltd.		927	–
Yulin Aosen Automobile Trading Co., Ltd.		379	–
CGA		–	234
Jingdezhen Dehuihang Automobile Sales Service Co., Ltd.		–	137
Shenzhen Chen Feng investment Co., Ltd.		–	55
Other subsidiaries controlled by CGA		163	141
		1,469	567
Rental income:	(iii)		
Shanghai Grand Insurance Agency Co., Ltd.		214	–
CGA		57	1,536
		271	1,536
Lease expenses:	(iv)		
Xinjiang Tian Hui Auto Service Co., Ltd.		2,303	1,754
Xinjiang Kashgar Tian Hui Auto Service Co., Ltd.		206	–
Shenzhen Peng Feng Trading Co., Ltd.		–	1,174
		2,509	2,928

31 December 2019

45. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Transactions with related parties (continued)

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

	Notes	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)
Revenue from financial leasing services:	(v)		
All Trust Leasing		-	11,891
Cost from financial leasing services:	(v)		
All Trust Leasing		14,996	1,350
Service expenses:	(vi)		
Maanshan Aika Shangyun Information & Technology Co., Ltd.		2,776	-
CGA Tianjing Wuqing Branch		101	445
		2,877	445
Interest expenses:	(vii)		
Dalian Baoxin Huiyu Automobile		953	4,556
CGA		3,859	2,936
		4,812	7,492
Repayment of advances to related parties:	(viii)		
Dalian Baoxin Huiyu Automobile		863,819	295,000
CGA		727,000	-
		1,590,819	295,000
Borrowings of advances from related parties:	(ix)		
CGA		1,201,800	400,000
Dividend payments:	(x)		
CGA		-	161,751

NOTES TO FINANCIAL STATEMENTS

31 December 2019

45. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Transactions with related parties (continued)

- (i) The purchases of goods were made according to the published prices and conditions offered by related parties to their major customers.
- (ii) The sales of goods were made according to the published prices and conditions offered to the major customers of the Group.
- (iii) The charge of the lease fee arose from rental of the Group's office building.
- (iv) The lease expenses were charged by Xinjiang Tian Hui Auto Service Co., Ltd. and Xinjiang Kashgar Tian Hui Auto Service Co., Ltd.
- (v) Details of revenue and cost from financial leasing services are given in notes 18 and 32.
- (vi) Services expenses were charged by Maanshan Aika Shangyun Information & Technology Co., Ltd. and CGA Tianjing Wuqing Branch for information systems services.
- (vii) Interest expenses were recognised with reference to the benchmark interest rate prescribed by the People's Bank of China.
- (viii) Advances from Dalian Baoxin Huiyu Automobile, amounting to RMB863,819,000 has been repaid in 2019. Advanced from CGA, amounting to RMB727,000,000 has been repaid in 2019.
- (ix) The Company borrowed RMB1,201,800,000 from CGA with reference to the benchmark interest rate prescribed by the People's Bank of China for replenishing working capital in 2019.
- (x) The Company paid no dividends to its ultimate holding company this year.

In the opinion of the Directors, the transactions listed above between the Group and the aforementioned related parties were conducted in the ordinary and usual course of business and on terms and conditions.

(b) Other transactions with related parties:

The Company's ultimate holding company has guaranteed certain bank loans made to the Group of up to RMB8,672,546,000 as at the end of the reporting period, as further detailed in note 29 to the financial statements.

31 December 2019

45. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(c) Balances with related parties

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

Amounts due from related parties:

	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)
Wuxi Kailong Real Estate Co., Ltd.	10,287	8,890
Xinjiang Grand Real Estate Development Co., Ltd.	8,815	8,815
Xinjiang Guanghui Coal Clean Refining & Chemical Co., Ltd.	4,365	4,365
All Trust Leasing	2,708	26,729
Maanshan Aika Shangyun Information & Technology Co., Ltd.	246	–
All Trust Leasing Chengdu Branch	43	–
Sainade (Beijing) Information & Technology Co., Ltd.	10	–
	26,474	48,799

Amounts due to related parties:

	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)
CGA	875,782	413,552
Hebei Guanghui Investment co., Ltd.	6,600	–
Baoxin Auto Finance I Limited	3,385	3,330
Shandong Guanghui Auto Service Co., Ltd.	3,180	–
Dalian Baoxin Huiyu Automobile	–	864,850
All Trust Leasing	–	8,010
Guangxi Hongde Tengrui Auto Sales & Service Co., Ltd.	–	3,623
Guanghui Automobile Service Co., Ltd. Tianjin Wuqing Branch	–	23
Baoji Baodi Automobile Sales Co., Ltd.	–	6
Xinjiang Longze Automobile Services Management Co., Ltd.	–	1
	888,947	1,293,395

NOTES TO FINANCIAL STATEMENTS

31 December 2019

45. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(c) Balances with related parties (continued)

Finance lease payables:

	31 December 2019 RMB'000	31 December 2018 RMB'000
All Trust Leasing	-	240,909

For details of finance lease payables, please refer to note 15(c).

As at 31 December 2019, except for finance lease payables to CGA, balances with related parties were unsecured and non-interest-bearing, and had fixed repayment terms.

(d) Compensation of key management personnel of the Group:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Short term employee benefits	4,701	4,799
Equity-settled share option expense	6,060	9,623
Total compensation paid to key management personnel	10,761	14,422

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

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances, cash in transit, pledged bank deposits, trade receivables, financial assets included in prepayments, other receivables and other assets, amounts due from related parties, the current portion of finance lease receivables, trade and bills payables, financial liabilities included in other payables and accruals, amounts due to related parties, the current portion of bank and other borrowings and the current portion of lease liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's treasury department headed by the treasury manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The treasury manager reports directly to the chief financial officer and the audit committee. At each reporting date, the treasury department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

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46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of prepayments and deposits, finance lease receivables, interest-bearing bank and other borrowings, lease liabilities and other payables have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for finance lease receivables, and interest-bearing bank and other borrowings and lease liabilities as 31 December, 2019 was assessed to be insignificant. Management has assessed that the fair values of the non-current portion of bank loans and other borrowings with floating interest rates approximate to their carrying amounts because the interest rates are adjusted periodically by reference to the fair market interest rates.

Fair value hierarchy

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

Asset measured at fair value:

As at 31 December 2019

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments	–	26,127	–	26,127

NOTES TO FINANCIAL STATEMENTS

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46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

As at 31 December 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments	–	27,008	–	27,008
Financial asset at fair value through other comprehensive income	–	–	36,000	36,000
	–	27,008	36,000	63,008

Liabilities measured at fair value:

As at 31 December 2019

	Fair value measurement using			Unaudited total RMB'000
	Unaudited Quoted prices in active markets (Level 1) RMB'000	Unaudited Significant observable inputs (Level 2) RMB'000	Unaudited Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments	–	27,342	–	27,342

As at 31 December 2018

	Fair value measurement using			Audited total RMB'000
	Audited Quoted prices in active markets (Level 1) RMB'000	Audited Significant observable inputs (Level 2) RMB'000	Audited Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments	–	2,995	–	2,995

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.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, other interest-bearing loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, trade and bills payables, other payables, finance lease receivables and lease liabilities, which arise directly from its operations.

The Group also enters into derivative transactions, including forward currency contracts and interest rate swaps. The purpose is to manage currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and foreign currency risk. The board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group has no significant interest-bearing assets other than pledged bank deposits (note 26) and cash and bank balances (note 28).

The Group's interest rate risk arises from its interest-bearing bank and other borrowings, details of which are set out in note 29. Borrowings at variable rates expose the Group to the risk of changes in market interest rates.

As at 31 December 2019, the Group has entered into an interest swap contract to manage its interest rate exposures. The interest swap contract is designated for hedge purposes and is measured at fair value through profit or loss. As at 31 December 2019, a liability measured at fair value of RMB27,342,000 was recognised by the Group on the interest rate swap.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2019		
US\$	50	(24,682)
US\$	(50)	24,682
HK\$	50	(1,099)
HK\$	(50)	1,099

NOTES TO FINANCIAL STATEMENTS

31 December 2019

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

	Increase/ (decrease) in basis points	(Decrease)/ increase in profit before tax RMB'000
2018		
US\$	50	(26,583)
US\$	(50)	26,583
HK\$	50	(464)
HK\$	(50)	464

Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of bank deposits, cash and cash equivalents, trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

Maximum exposure and year-end staging as at 31 December 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.

	<u>12-month ECLs</u>		<u>Lifetime ECLs</u>		<u>Total</u> RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	simplified approach RMB'000	
Trade receivables	–	–	–	617,686	617,686
Finance lease receivables	317,728	1,714	3,322	–	322,764
Financial assets included in prepayments, other receivables and other assets	8,359,657	–	–	–	8,359,657
	8,677,385	1,714	3,322	617,686	9,300,107

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix at 31 December 2019 was set as below:

	Ageing		
	Within 3 months	3 months to 1 year	Over 1 year
Expected credit loss rate	–	3%	11%
Gross carrying amount (RMB'000)	544,161	49,662	23,863
Expected credit losses (RMB'000)	–	1,488	2,654

For finance lease receivables to which the Group applies 3-stage for impairment, information based on the provision matrix at 31 December 2019 was set as below:

	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3
Expected credit loss rate	0.8%	2.7%	22.0%
Gross carrying amount (RMB'000)	317,728	1,714	3,322
Expected credit losses (RMB'000)	2,612	47	732

For the financial assets included in prepayments, other receivables and other assets to which the Group applies the general approach for impairment, there was no recent history of default. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate was 0.2% 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.

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31 December 2019

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

	12-months ECLs	Lifetime ECLs	Total RMB'000
	Stage 1 RMB'000	Simplified Approach RMB'000	
Trade receivables	–	561,681	561,681
Finance lease receivables	–	324,051	324,051
Financial assets included in prepayments, other receivables and other assets	6,925,796	–	6,925,796
	6,925,796	885,732	7,811,528

For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix at 31 December 2018 was set as below:

	Ageing		
	Within 3 months (Restated)	3 months to 1 year (Restated)	over 1 year (Restated)
Expected credit loss rate	–	3%	8%
Gross carrying amount (RMB'000)	485,416	62,339	16,471
Expected credit losses (RMB'000)	–	2,305	1,410

For finance lease receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix at 31 December 2018 was set as below:

	Ageing		
	Within 3 months	3 months to 1 year	over 1 year
Expected credit loss rate	0.3%	0.3%	0.3%
Gross carrying amount (RMB'000)	11,791	180,154	132,106
Expected credit losses (RMB'000)	35	572	396

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging as at 31 December 2018 (continued)

For the financial assets included in prepayments, other receivables and other assets to which the Group applies the general approach for impairment, there was no recent history of default. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate was 0.0% because management estimated that the expected credit losses as at 31 December 2018 were not significant.

As at 31 December 2018, all pledged bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

As at 31 December 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
Interest-bearing bank and other borrowings	29,000	2,261,660	5,641,023	1,819,938	304,912	10,056,533
Trade and bills payables	348,363	5,550,538	703,373	-	-	6,602,274
Financial liabilities in other payables and accruals	1,253,566	-	-	-	-	1,253,566
Lease liabilities	-	81,741	221,005	757,757	848,134	1,908,637
	1,630,929	7,893,939	6,565,401	2,577,695	1,153,046	19,821,010

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47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

As at 31 December 2018

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	29,000	1,572,042	2,731,291	5,656,234	530,496	10,519,063
Trade and bills payables (restated)	351,696	6,586,079	582,546	–	–	7,520,321
Financial liabilities in other payables and accruals (restated)	1,212,737	–	–	–	–	1,212,737
	1,593,433	8,158,121	3,313,837	5,656,234	530,496	19,252,121

Foreign currency risk

The Group conducts its business primarily in Renminbi. Certain bank deposits and bank loans were denominated in foreign currencies. However, the Group's operating cash flows and liquidity have not been subject to significant influence from fluctuations in exchange rates. The Group has entered into forward currency contracts to manage its exchange rate exposures.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the equity attributable to owners of the parent plus net debt. Net debt includes bank loans and other borrowings, trade, bills and other payables and accruals less cash and bank balances. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)
Interest-bearing bank and other borrowings	9,628,089	9,670,476
Trade and bills payables	6,586,920	7,520,321
Other payables and accruals	1,380,553	1,310,483
Less: Cash and bank balances	(1,663,106)	(2,562,269)
Net debt	15,932,456	15,939,011
Equity attributable to owners of the parent	7,669,584	7,071,745
Gearing ratio	67.5%	69.3%

48. COMPARATIVE FIGURE

As further explained in note 39, the Group obtained 100% equity interests in Shanghai Huibaohang, Shijiazhuang Mingzhibao and Xuzhou Mingzhibao from CGA during the year. Since these acquired entities and the Group are subsidiaries of CGA before and after the acquisitions, they were accounted for business combinations under common control. The comparative information which includes the consolidated statement of financial position, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows, and notes to the consolidated financial statements for the comparative period is re-presented as if Shanghai Huibaohang, Shijiazhuang Mingzhibao, Xuzhou Mingzhibao and the Group had been combined at the beginning of the comparative period.

49. EVENT 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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:

	31 December 2019 RMB'000	31 December 2018 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	1,714,614	1,677,828
Derivative financial instruments – non-current	–	10,359
Total non-current assets	1,714,614	1,688,187
CURRENT ASSETS		
Prepayments, other receivables and other assets	759	1,192
Amounts due from subsidiaries	6,300,836	5,527,025
Derivative financial instruments	26,127	16,649
Cash and cash equivalents	116,831	114,336
Total current assets	6,444,553	5,659,202
CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	4,059,427	1,030,009
Trade and bills payables	–	570
Other payables and accruals	102,892	108,223
Amounts due to subsidiaries	1,529,423	3,368
Derivative financial instruments	–	2,995
Total current liabilities	5,691,742	1,145,165
NET CURRENT ASSETS	752,811	4,514,037
TOTAL ASSETS LESS CURRENT LIABILITIES	2,467,425	6,202,224
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	1,300,543	5,072,204
Derivative financial instruments	27,342	–
Total non-current liabilities	1,327,885	5,072,204
NET ASSETS	1,139,540	1,130,020
EQUITY		
Share capital	23,277	23,275
Reserves (note)	1,116,263	1,106,745
Total equity	1,139,540	1,130,020

31 December 2019

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1 January 2018	2,611,625	29,019	(200,752)	2,651	(1,096,533)	–	1,346,010
Total comprehensive income for the year	–	–	39,668	–	(87,698)	–	(48,030)
Equity-settled share option arrangements	–	47,979	–	–	–	–	47,979
Final 2017 dividend declared	(239,214)	–	–	–	–	–	(239,214)
As at 31 December 2018 and 1 January 2019	2,372,411	76,998	(161,084)	2,651	(1,184,231)	–	1,106,745
Total comprehensive income for the year	–	–	(2,154)	–	(47,314)	–	(49,468)
Equity-settled share option exercised	571	(274)	–	–	–	274	571
Equity-settled share option forfeited	–	(7,049)	–	–	–	7,049	–
Equity-settled share option arrangements	–	30,621	–	–	–	–	30,621
Cash flow hedges	–	–	–	(26,876)	–	–	(26,876)
Time value component of fair value hedges	–	–	–	54,670	–	–	54,670
As at 31 December 2019 and 1 January 2020	2,372,982	100,296	(163,238)	30,445	(1,231,545)	7,323	1,116,263

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of Directors on 30 March 2020.

FIVE-YEAR FINANCIAL SUMMARY

Year ended 31 December 2019

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as applicable, is set out below:

	2019 RMB'000	Year ended December 31,			
		2018* RMB'000 (Restated)	2017* RMB'000 (Restated)	2016* RMB'000 (Restated)	2015 RMB'000
REVENUE	36,463,878	36,790,736	34,557,985	25,708,800	23,776,461
Cost of sales and services provided	(33,617,970)	(34,003,949)	(31,622,151)	(23,675,264)	(21,587,955)
Gross profit	2,845,908	2,786,787	2,935,834	2,033,536	2,188,506
Other income and gains, net	869,641	834,147	601,145	524,034	357,311
Selling and distribution expenses	(1,210,639)	(1,251,045)	(1,091,154)	(878,775)	(977,024)
Administrative expenses	(727,135)	(747,465)	(557,014)	(608,355)	(643,434)
Profit from operations	1,777,775	1,622,424	1,888,811	1,070,440	925,359
Finance costs	(822,183)	(706,522)	(730,513)	(486,616)	(540,111)
Share of profit of a joint venture	1,988	1,978	542	5,795	5,830
Share of profit/(loss) of associates	59,229	(14,550)	4,919	(137)	(16,151)
Profit before tax	1,016,809	903,330	1,163,759	589,482	374,927
Income tax expense	(394,052)	(346,226)	(357,423)	(172,583)	(150,656)
Profit for the year	622,757	557,104	806,336	416,899	224,271
Attributable to:					
Owners of the parent	629,202	556,282	807,923	414,226	220,094
Non-controlling interests	(6,445)	822	(1,587)	2,673	4,177
	622,757	557,104	806,336	416,899	224,271
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	28,777,820	28,157,804	25,741,972	21,803,552	18,811,426
TOTAL LIABILITIES	21,080,641	21,051,019	18,792,796	16,761,232	13,838,970
NON-CONTROLLING INTEREST	27,595	35,040	39,362	39,731	37,526
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	7,669,584	7,071,745	6,909,814	5,002,589	4,934,930

* The amounts of 2018, 2017 and 2016 were restated because of business combination under common control.



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