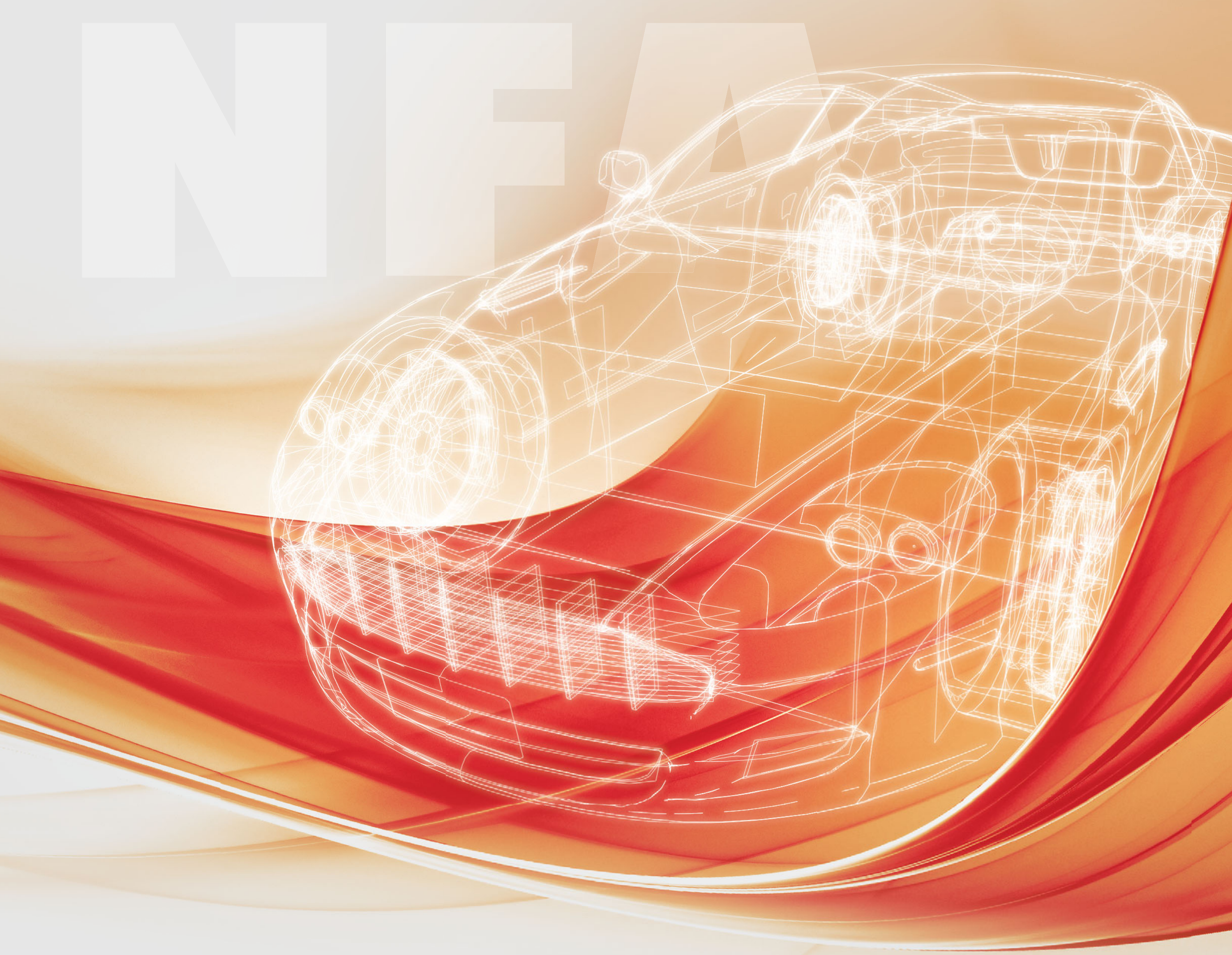
新焦點汽車技術控股有限公司*

New Focus Auto Tech Holdings Limited

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

ANNUAL REPORT 2019



* For identification purpose only

CONTENTS

CORPORATE INFORMATION

Directors

Executive Director

Tong Fei *(appointed with effect from 1 July 2019)*

Non-executive Directors

Wang Zhenyu
Zhang Jianxing *(Acting Chairman with effect from 1 July 2019)*

Independent Non-executive Directors

Hu Yuming
Lin Lei
Zhang Xiaoya

Company Secretary

Liu Xiao Hua

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HLB Hodgson Impey Cheng Limited
Certified Public Accountants
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Legal Advisers

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Hong Kong

Principal Share Registrar and Transfer Office

SMP Partner (Cayman) Limited
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George Town
Grand Cayman KY1-1110
Cayman Islands

Branch Share Registrar and Transfer Office in Hong Kong

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Hong Kong

Stock Code

360

Website

https://www.nfa360.com

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

In 2019, the Group focused on the research and development, manufacturing and sales of automotive electronic products, as well as construction and development of automobile dealership networks, individual automotive service chain networks and automotive product e-commerce platforms. The automotive electronic products that the Group produces mainly include inverters, chargers, multi-functional power packs and cooling and heating boxes, which are mainly sold to the markets of Mainland China, North America and Europe. The Group's automobile dealership and services business is operated mainly in Inner Mongolia Autonomous Region for automobile sales, automotive after-sales service, as well as the distribution of car insurance products and automobile financial products. The retail service stores under the individual automotive service chain networks of the Group, which are primarily urban gas station stores, provide car owners with automotive cleaning, beauty, maintenance, spraying and repair services, as well as the sales of automotive products. The automotive product e-commerce platform of the Group provides customers with the purchase, delivery and warehousing services of automotive repair parts and components and automotive products. The Group's retail service business was discontinued as at 31 December 2019.

Results Highlights

Revenue

During the year ended 31 December 2019 (the "**Year**"), the consolidated revenue from continuing operations of the Group amounted to approximately RMB1,750,632,000 (2018: RMB1,412,883,000), representing an increase of approximately 23.90%. The increase was mainly due to the fact that the Group completed the acquisition of the automobile dealership and services business in September 2018 (the "**Automotive Dealership Business Acquisition**"), and the consolidated revenue consolidated into the Group's financial statements for 2019 has increased by approximately RMB638,343,000 as compared with the consolidated revenue consolidated into the Group's financial statements for the last three months of 2018. Excluding the effect of the above, the consolidated revenue of the Group would have decreased by approximately RMB300,594,000 or approximately 36.22% as compared with 2018.

The consolidated revenue of the wholesale service business of the Group was approximately RMB61,285,000 (2018: RMB234,747,000), representing a decrease of approximately 73.89%. The decrease was primarily due to the business model adjustments during the Year where the tire sales business, which contributed high sales revenue but with low profit margin, was discontinued in order to focus on expanding the asset-light "Auto Make" e-commerce platform business.

The consolidated revenue of the manufacturing business of the Group was approximately RMB468,050,000 (2018: RMB595,182,000), representing a decrease of approximately 21.36%, which was mainly attributable to the impact of the China-US trade war that resulted in a decrease in export sales revenue.

The consolidated revenue of the Group's automobile dealership and services business was approximately RMB1,221,297,000 (2018: RMB582,954,000), representing an increase of approximately 109.50%, which was mainly attributable to an increase in the consolidated revenue consolidated into the Group's financial statements for 2019 as compared with the consolidated revenue consolidated into the Group's financial statements for the last three months of 2018. The diminishing growth of China's macroeconomy and the China-US trade war brought negative impact on consumer confidence and sentiment. In particular, the demand for new automobiles and relevant automotive products and services was generally weakened during the Year as compared to 2018 and thereby leading to worsening results of the automobile dealership and services industry as a whole. As a result, the automotive dealership and services business of the Group experienced a sluggish performance in the Year as compared to 2018.

Gross profit and gross profit margin

The consolidated gross profit from continuing operations for the Year was approximately RMB140,082,000 (2018: RMB160,178,000), representing a decrease of approximately 12.55%. The gross profit margin decreased from 11.34% to 8.00%. The decrease in gross profit was mainly attributable to the decrease in consolidated revenue of the wholesale service business and manufacturing business for the Year as compared with 2018. The decrease in gross profit margin was mainly due to the Automotive Dealership Business Acquisition as the gross profit margin of the Group's automotive dealership and services business was generally lower than the gross profit margin of the Group's other businesses, and therefore resulting in a decline in the gross profit margin of the Group's overall business.

The gross profit of the Group's wholesale service business was approximately RMB10,757,000 (2018: RMB18,990,000), representing a decrease of approximately 43.35%. The gross profit margin increased from approximately 8.09% to approximately 17.55%. The decrease in gross profit was mainly attributable to the decrease in revenue during the Year as compared to 2018. The increase in gross profit margin was mainly attributable to the cessation of the tire sales business which contributed low margin.

The gross profit of the Group's manufacturing business was approximately RMB72,553,000 (2018: RMB94,774,000), representing a decrease of approximately 23.45%. The gross profit margin decreased from approximately 15.92% to approximately 15.50%. The decrease in both the gross profit and gross profit margin was mainly attributable to the decline in revenue from export sales due to the China-US trade war and the increase in raw materials and labor costs.

The gross profit of the Group's automotive dealership and services business was approximately RMB56,772,000 (2018: RMB46,414,000), representing an increase of approximately 22.32%. The gross profit margin decreased from approximately 7.96% to approximately 4.65%. The increase in gross profit was mainly due to the increase in gross profit consolidated into the Group's financial statements for 2019 as compared with the gross profit consolidated into the Group's financial statements for the last three months of 2018. The performance of the Group's automotive dealership and services business during the Year was weakened due to the bearish consumer confidence and sentiment during the Year as compared to 2018. The decrease in gross profit margin was mainly due to the decline in the profit of new automotive sales as a result of the overall downturn in China's automotive sales industry during the Year.

Other revenue and gains and losses

Other gains from continuing operations for the Year was approximately RMB4,153,000 (2018: gain of RMB244,653,000). The decrease was mainly due to the fair value change in the embedded derivative financial instruments in relation to the convertible notes in the principal amount of USD35,000,000 due in 2019 (the "**CCBC Convertible Notes**") of the Company, which was issued to High Inspiring Limited (the "**Investor**", an indirect wholly-owned subsidiary of China Construction Bank Corporation) on 1 September 2017, resulting in a decrease of approximately RMB138,964,000 in the gain due to fair value change in derivative financial instruments recorded during the Year as compared with 2018 (the "**Difference in Fair Value Change in Derivative Financial Instruments**"). Secondly, during the Year, interest income recorded from loans made by the Group to several third-party companies decreased by approximately RMB57,584,000 as compared to 2018 (the "**Interest Income Difference**"). In addition, in 2018, negative goodwill amounting to approximately RMB13,837,000 was recorded as the consideration for the Automotive Dealership Business Acquisition was lower than the fair value of the net assets, while there was no such negative goodwill this Year.

Expenses

The distribution costs from continuing operations for the Year were approximately RMB169,649,000 (2018: RMB122,477,000), representing an increase of approximately 38.51%, which was mainly attributable to the fact that distribution costs consolidated into the Group's financial statements for 2019 incurred by the Group's automotive dealership and services business has increased by approximately RMB57,206,000 as compared with its distribution costs consolidated into the Group's financial statements for the last three months of 2018. Excluding the effect of the Automotive Dealership Business Acquisition, the distribution costs for the Year would have decreased by approximately 13.19%, which was primarily due to the decrease in salaries and bonuses of sales personnel, freight, other sales and marketing expenses as a result of the decline in consolidated revenue for the Year.

The administrative expenses from continuing operations for the Year were approximately RMB118,546,000 (2018: RMB106,858,000), representing an increase of approximately 10.94%. The administrative expenses consolidated into the Group's financial statements for 2019 incurred by the Group's automotive dealership and services business has increased by approximately RMB26,953,000 as compared with its administrative expenses consolidated into the Group's financial statements for the last three months of 2018. Excluding the effect of the Automotive Dealership Business Acquisition, the administrative expenses of the Group for the Year would have decreased by approximately 15.09%, which was primarily due to the control of the number of management personnel and the reduction of administrative expenses during the Year. In addition, legal and professional service fees of approximately RMB13,139,000 were incurred in relation to the Automotive Dealership Business Acquisition in 2018, while there were no such expenses this Year.

Operating (loss)/profit

The operating loss from continuing operations of the Group during the Year was approximately RMB143,960,000 (2018: profit of RMB175,496,000). The turnaround from operating profit to operating loss was mainly attributable to the decrease in the Group's other revenue and gains and losses of approximately RMB240,500,000, the decrease in consolidated gross profit of approximately RMB20,096,000, the increase in distribution costs of approximately RMB47,172,000 as compared with 2018. It was mainly attributable to the general gloom about Chinese automobile sales industry and the impact of the China-US trade war on manufacturing industry.

Finance costs

Finance costs from continuing operations during the Year amounted to approximately RMB63,390,000 (2018: RMB42,655,000), representing an increase of 48.61%, which was mainly attributable to the recognition of interest on lease liabilities of approximately RMB5,487,000 during the Year due to the Group's initial application of IFRS 16 Lease on 1 January 2019 and the interest expenses on bank borrowings consolidated into the Group's financial statements for 2019 incurred by the Group's automotive dealership and services business has increased by approximately RMB15,848,000, as compared with its interest expenses on bank borrowings consolidated into the Group's financial statement for the last three months of 2018.

Taxation

Income tax credit from continuing operations during the Year was approximately RMB33,804,000 (2018: income tax expenses of approximately RMB2,314,000). The decrease in income tax expenses was mainly attributable to the recognition of deferred income tax expenses arisen from operating loss.

(Loss)/profit attributable to equity shareholders of the Company

The loss attributable to equity shareholders of the Company from continuing and discontinued operations during the Year was approximately RMB191,108,000 (2018: profit of RMB107,833,000). Excluding the Difference in Fair Value Change in Derivative Financial Instruments of approximately RMB138,964,000 and the Interest Income Difference of approximately RMB57,584,000 and the negative goodwill of approximately RMB13,837,000 arisen from the Automotive Dealership Business Acquisition in 2018, the loss attributable to equity shareholders of the Company would have increased by approximately RMB88,556,000 as compared with 2018. Loss per share for the Year from continuing and discounted operations was approximately RMB2.82 cents (2018: earnings per share of RMB1.84 cents).

Financial Position and Liquidity

The Group continued to maintain a stable financial position and the liquidity of assets of the Group remained healthy during the Year. The Group had a net cash inflow from operating activities of approximately RMB53,584,000 (2018: net cash outflow of RMB99,251,000).

Non-current assets were approximately RMB365,408,000 as at 31 December 2019 (31 December 2018: RMB494,651,000).

Net current assets were approximately RMB562,676,000 as at 31 December 2019 (31 December 2018: RMB512,783,000).

Gearing ratio (calculated by dividing total liabilities by total assets) was approximately 58.11% as at 31 December 2019 (31 December 2018: 61.66%).

As at 31 December 2019, the total bank and other borrowings of the Group were approximately RMB489,982,000 (31 December 2018: RMB552,309,000), of which approximately 5.77% were made in United States Dollars ("**USD**") and approximately 94.23% were made in Renminbi ("**RMB**"). All of the borrowings are repayable within one year and bear fixed interest rates. The Group's need for borrowings was generally stable during the Year. The Group repaid or renewed the borrowings during the Year when they became due. As at 31 December 2019, the committed borrowing facilities available to the Group but unutilized amounted to approximately RMB65,733,000. The Group maintains strong and sufficient operating cash flow, bank deposits and banking facilities to finance its daily operation.

Capital Structure

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

Upon receipt of the two conversion notices dated 12 September 2017 and 28 September 2017, respectively, from the Investor, each for conversion of part of the CCBC Convertible Notes in the principal amount of USD5,000,000, the Company allotted and issued 126,598,820 conversion shares, respectively, to the Investor at a conversion price of HK$0.306085 per conversion share on 14 September 2017 and 3 October 2017, respectively. In accordance with the relevant terms and conditions of the CCBC Convertible Notes, the conversion price under the CCBC Convertible Notes was adjusted from HK$0.306085 per share to HK$0.280511 per share on 19 June 2018 upon completion of the allotment and issuance of 1,904,761,905 new shares by the Company. Upon receipt of the conversion notice dated 31 August 2018 from the Investor, for conversion of part of the CCBC Convertible Notes in the principal amount of USD800,000, the Company allotted and issued 22,102,520 conversion shares to the Investor at a conversion price of HK$0.280511 per conversion share on 4 September 2018.

On 26 September 2019 (after trading hours), the Company entered into a note exchange agreement with the Investor and CCBI Solar Energy (Holding) Limited (the "**New Investor**", an indirect wholly-owned special purpose vehicle of CCB International (Holdings) Limited) (the "**Note Exchange Agreement**"), pursuant to which the Company, on the one hand, and the Investor and the New Investor, on the other hand, agreed to exchange the CCBC Convertible Notes in the total outstanding principal amount of USD24,200,000, for the notes (the "**Notes**") in the aggregate principal amount of USD24,200,000 to be issued by the Company to the New Investor. Closing was completed on the date of the Note Exchange Agreement and the CCBC Convertible Notes were cancelled simultaneously. Details of the aforementioned transaction were set out in the announcement of the Company dated 26 September 2019.

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

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

Approximately 80% of the revenue from the Group's Manufacturing Business was generated from the export of its products which was settled in USD. Other businesses of the Group took place in Mainland China. As such, the Group's cash and cash equivalents and borrowings were mainly denominated in RMB and USD.

As at 31 December 2019, the total assets of the Group were RMB1,937,231,000 (31 December 2018: RMB2,570,157,000), which included: (1) share capital of RMB556,286,000 (31 December 2018: RMB556,286,000); (2) reserves of RMB255,313,000 (31 December 2018: RMB429,138,000); and (3) debts of RMB1,125,632,000 (31 December 2018: RMB1,584,733,000).

Financial Guarantees and Pledge of Assets

As at 31 December 2019, the net book values of inventory, investment properties, property, plant and equipment, right-of-use assets/leasehold land and land use rights pledged as security for the Group's bank borrowings totaled approximately RMB178,168,000 (31 December 2018: RMB398,065,000).

Acquisition and Disposal of Subsidiaries

Beijing Aiyihang Equity Disposal

On 22 November 2019, New Focus Lighting and Power Technology (Shanghai) Co., Ltd. ("**New Focus Lighting & Power**"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Beijing Aiyihang Auto Service Ltd. ("**Beijing Aiyihang**"), Shanghai Shangzhi Technology Partnership (Limited Partnership) (上海尚摯科技合夥企業(有限合夥)) ("**Shanghai Shangzhi**") and Pingtan Shangzhi Investment Partnership (Limited Partnership) (平潭商智投資合夥企業(有限合夥)) ("**Pingtan Shangzhi**"). Xing Aiyi, the founder and a director of Beijing Aiyihang, who held 38.8% equity interests in Beijing Aiyihang through a company, is a partner of Shanghai Shangzhi, and contributed 1% of its capital contribution. He is also a partner of Pingtan Shangzhi, and contributed 28% of its capital contribution. Pursuant to the equity transfer agreement, New Focus Lighting & Power transferred its 43% and 15.2% equity interest held in Beijing Aiyihang to Shanghai Shangzhi and Pingtan Shangzhi respectively (the "**Beijing Aiyihang Equity Disposal**") each for a consideration of RMB1. The completion of the Beijing Aiyihang Equity Disposal took place on 13 December 2019, and Beijing Aiyihang ceased to be a subsidiary of the Company.

On 22 November 2019, New Focus Lighting & Power, Beijing Aiyihang, another three shareholders of Beijing Aiyihang, Xing Aiyi entered into a capital increase agreement with Huzhou Guojin Zuoyu Equity Investment Partnership (Limited Partnership) (湖州國金佐譽股權投資合夥企業(有限合夥)) ("**Huzhou Zuoyu**"). Pursuant to the capital increase agreement, each party to the agreement agreed to the capital increase of Beijing Aiyihang by Huzhou Zuoyu, and Beijing Aiyihang will repay part of its debts to New Focus Lighting & Power with part of the increased capital as agreed under the capital increase agreement. Besides, according to the capital increase agreement, New Focus Lighting & Power confirmed that its right to repayment against Beijing Aiyihang in the aggregate amount of RMB65 million and the corresponding interests will be discounted to RMB50 million. The performance of the capital increase under the capital increase agreement was conditional on the completion of Beijing Aiyihang Equity Disposal. The completion of the capital increase took place on 17 December 2019. Huzhou Zuoyu is an independent third party of the Company.

Changchun Guangda Equity Disposal

On 12 September 2019, New Focus Lighting & Power and Mr. Wu Yande, a shareholder of Changchun Guangda Automobile Trading Co., Ltd. ("**Changchun Guangda**") entered into an equity transfer contract (the "**Changchun Guangda Equity Transfer Contract**"). Mr. Wu Yande is a director of Changchun Guangda, and held 8.37% equity interests in Changchun Guangda. Pursuant to the Changchun Guangda Equity Transfer Contract, Mr. Wu Yande agreed to purchase and New Focus Lighting & Power agreed to sell its 61% equity interest in Changchun Guangda for a cash consideration of RMB12,000,000 ("**Changchun Guangda Equity Disposal**"). After the completion of the Changchun Guangda Equity Disposal on 19 September 2019, Changchun Guangda ceased to be a subsidiary of the Company.

Significant Investments

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

Exchange Risks

The Group's wholesale service businesses as well as automotive dealership and services business mainly take place in the People's Republic of China (the "**PRC**"), with the settlement currency being RMB. Hence, there is no exchange risk.

Approximately 80% of the revenue from the Group's manufacturing business was generated from the export of its products which was settled in USD. Most of the materials used to produce those exports were purchased in RMB. Therefore, the depreciation of USD against RMB would normally have an adverse effect on the profitability of the Group's manufacturing business. The Group managed its exposure to USD foreign currency risks by making USD borrowings to lower such exchange risks. As at 31 December 2019, the amount of the Group's USD borrowings was approximately USD4,000,000 (31 December 2018: USD4,000,000).

In addition, part of the principal and interest payable under the Notes of approximately USD25,591,500 in 2020 will be paid out of the revenue generated from the export of the Group's manufacturing business. This will help hedge against the exchange risk faced by the Group's manufacturing business.

Other Material Risks and Uncertainties

The Group operates its major business in the PRC and faces other material risks and uncertainties, mainly including the future prospect of the PRC's economy. Should the PRC's economy suffer from downturn, the consumption sentiment of car owners will be affected, which will in turn reduce the revenue of the Group. Having adopted methods of streamlining the personnel structure and reducing other expenses reasonably to cut costs, the Group will pay close attention to the economic trend of the PRC and deal with those risks and uncertainties in a timely manner.

Contingent Liabilities

As at 31 December 2019, the Group had no significant contingent liabilities.

Employees and Remuneration Policy

As at 31 December 2019, the Group employed a total of 1,591 full-time employees (31 December 2018: 4,181), of which 284 (31 December 2018: 627) were managerial staff. The Group's remuneration policies are formulated to attract talent and retain quality staff. The remuneration package for the Group's employees includes wages, incentives (such as performance-based bonus) and allowances. The Group also provides social security insurance and benefits to its employees, and formulates and implements share option schemes as a long-term incentive scheme of the Group. Details of the share option scheme are disclosed in the "Report of the Directors" of this annual report. The Group emphasizes the importance of staff development and provides relevant training programs on an ongoing basis with reference to its strategic objectives and the performance of its staff.

Environmental Policies and Performance

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

Compliance with Laws and Regulations

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

Relationship with Employees, Customers and Suppliers

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

Industrial Development, Business Progress and Outlook

Automotive Dealership and Services Business of the Group

According to the statistics of China Association of Automobile Manufacturers, the sales volume of passenger vehicles in the PRC was approximately 21.44 million for the Year, representing a decrease of approximately 9.6% as compared with 2018. Based on the analysis of China Association of Automobile Manufacturers, the domestic automobile industry was under great pressure in 2019, which was mainly due to factors including the diminishing growth of macro economy, the China-US trade war, the change of environmental protection standards and the reduction of purchase subsidies for new energy vehicles.

The Group's automotive dealership and services business network is located in Inner Mongolia Autonomous Region, and its main businesses include automobile sales and after-sales service, as well as the distribution of car insurance products and financial products. In response to the relatively unfavorable macroeconomic environment and industry conditions, the Group implemented the following operating strategies for the automotive dealership and services business:

Firstly, we eliminated part of the automotive brands with low profitability and optimized the structure of automotive brands under the Group's dealership, so as to concentrate its resources on the dealership of automotive brands with better sales performance.

Secondly, we consolidated the management departments of our headquarters to streamline the management. At the same time, we downsized the proportion of management personnel at our stores to improve management efficiency.

Thirdly, we improved the operation method and business model of second-hand automobile business and automotive product business.

It is expected that the automotive dealership industry will remain under considerable pressure in the short run. To improve its operating results, the Group plans to adopt the following operating strategies in 2020:

Firstly, we will continue to optimize the structure of automotive brands under the Group's dealership to align with the trend of consumption upgrade in automobiles, by introducing premium vehicle brands and mid-range automotive brands with market potential.

Secondly, in terms of sales, we will strengthen the design of retail products package and the usage of differentiated marketing strategy. For after-sales service, we will enhance the management and development of existing customer resources, and refine the management and control of the after-sales business process to improve customer satisfaction.

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

Individual Automobile After-sales Service and Automotive Products Wholesale Business of the Group

In respect of expanding individual automobile service chain networks as well as establishing and developing e-commerce platforms for automotive products, our operating conditions for the Year mainly included:

Firstly, the Group operated large-scale chain stores in places such as Beijing to provide car owners with automobile repair and maintenance, tire refitting, sheet-metal spray, environmental-friendly car cleaning and car beauty services. In addition, the Group joined hands with the gas stations under certain branches of Sinopec Sales Co., Ltd. and PetroChina Company Limited to operate automotive after-sales service outlets.

Secondly, the Group operated the automotive product wholesale business based on the e-commerce platform “Auto Make” (美車驛站). Catering to small retail service outlets, the platform provides customers with the purchase, delivery and warehousing services for repair and maintenance parts and components as well as automotive products. At the same time, relevant manufacturers and major wholesalers have also been enticed to set up their stores on the “Auto Make” platform and Auto Make provides sales, payment collection and delivery services for such stores. As such, Auto Make has become an e-commerce platform that integrates self-operated wholesale business and third-party sales of automotive products.

Manufacturing Business of the Group

During the Year, the Group streamlined its manufacturing personnel to enhance efficiency. Meanwhile, the Group integrated research and development resources, established the product manager system and conducted systematic review of the products. For the export business, the Group optimized its current customer portfolio on top of sorting out the existing markets and customers, and successfully launched a series of new products to the market. However, heavily affected by import tariff adjustments by the US and the unfavorable factors of higher manpower and material costs, the orders from the American customers decreased significantly. As a result, the export sales revenue and gross profit fell far short of expectation. For the domestic sales, the Group further adjusted its product structure by enlarging the sales proportion of its own brand products. For the business of supplying pre-installation products to automakers, the Group enhanced its basic research and development and manufacturing capabilities to consolidate the partnership with premium automakers.

The Group’s manufacturing business will be customer-oriented, with optimized product structure, more competitive product cost and stronger supply chain bargain capability. At the same time, the Group will enhance the development of innovative products and the core competitiveness of its products to forge new growth points. In addition, the Group will ramp up its quality control by identifying and solving product quality and service issues to improve profitability. We will continue to optimize the structure of our foreign customers, and actively respond to such unfavorable factors in the export of products to the US, while striving to expand the Southeast Asia market.

Business Optimization, Acquisition and Prospect

In 2020, the Group will assess its existing businesses and consider appropriate disposal of relevant businesses with long-term loss and uncertain prospects, so as to optimize resources allocation and improve the Group's profitability. In addition, the Group will also consider acquiring businesses with high profitability and growth potential as opportunities arise, to improve the operating results of the Group.

The size of the market for the principal business of the Group is substantial and there is still much room for development. However, the outbreak of Coronavirus Disease 2019 (COVID-19) in China in early 2020 has had relatively material and negative impacts on a number of operating entities, including the Group, and the impacts are expected to continue for a certain period. Therefore, there are both opportunities and challenges in the macro-environment for our operation in 2020.

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

Executive Director

Mr. Tong Fei

Mr. Tong, aged 37, obtained his master's degree in MBA from Peking University (北京大學) in 2012. Mr. Tong was appointed as the director of business development department of China Resources Leasing Co., Ltd.* (華潤租賃有限公司), the assistant president of Huazhong Finance Leasing Co., Ltd.* (華中融資租賃有限公司), the managing director of Century Huazhong Capital Management Co., Ltd.* (世紀華中資本管理有限公司) and the general manager of Beijing Senwo Capital Management Co., Ltd." (北京森沃資本管理有限公司). In respect of professional qualifications, Mr. Tong obtained the fund qualification certificate (基金從業資格證) from the Asset Management Association of China (中國證券投資基金業協會) in 2016. He has extensive knowledge and experience in financial management and capital operation. Mr. Tong joined the Group in July 2019.

Non-executive Directors

Mr. Wang Zhenyu

Mr. Wang, aged 56, is a non-executive Director. He graduated from Hefei University of Technology (合肥工業大學) with a bachelor's degree in machinery engineering in 1985 and a master's degree in industrial management engineering in 1988. Mr. Wang has been employed by CDH Investments Management (Hong Kong) Limited ("**CDH Investments**") since 2008, and he is currently its managing director. Since 2002, he has been serving as the vice president and managing director in several affiliates of CDH Investments. Prior to joining CDH Investments, Mr. Wang served as an associate in the investment consultancy department of China International Capital Corporation Limited (中國國際金融有限公司) from 2000 to 2002. Mr. Wang served as a non-executive director of Xiezhong International Holdings Limited (協眾國際控股有限公司) (Stock Code: 3663) from June 2012 to July 2014. Mr. Wang joined the Group in August 2013.

Mr. Zhang Jianxing

Mr. Zhang, aged 53, is a non-executive Director. He graduated from Tongji University (同濟大學) and received a Bachelor of Science degree in civil engineering. He has been employed by CDH Investments since 2011, and he is currently its managing director. Prior to joining CDH Investments, Mr. Zhang served as the managing operation director of China Resources Asset Management Limited (華潤資產管理有限公司) from 2009 to 2011. Mr. Zhang joined the Group in August 2013.

Independent Non-executive Directors

Mr. Hu Yuming

Mr. Hu, aged 54, is an independent non-executive Director. He received a bachelor's degree in economics, a master's degree in economics and a doctor's degree in economics from Xiamen University (廈門大學) in 1986, 1989 and 1995, respectively. He is also a non-practicing member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會). He has been a professor at the School of Management of Jinan University (暨南大學管理學院) since 2000 and held various teaching positions in Xiamen University (廈門大學) from 1989 to 2000. He worked for China Resources Jinhua Co., Ltd. (華潤錦華股份有限公司) (a company listed on the Shenzhen Stock Exchange ("**SZSE**"), Stock Code: 000810, re-named as Skyworth Digital Co., Ltd. (創維數字股份有限公司)) as an independent director from 2004 to 2010. Mr. Hu also worked for Guangzhou Zhujiang Brewery Co., Ltd. (廣州珠江啤酒股份有限公司) (SZSE Stock Code: 002461) and Guangdong HongDa Blasting Co., Ltd. (廣東宏大爆破股份有限公司) (SZSE Stock Code: 002683) as an independent director from 2009 to 2012 and from 2010 to 2013, respectively. Subsequently, he worked for Guangzhou Canudilo Fashion and Accessories Co., Ltd. (廣州卡奴迪路服飾股份有限公司) (SZSE Stock Code: 002656, re-named as Modern Avenue Group Co., Ltd (摩登大道時尚集團股份有限公司)) as an independent director from December 2008 to January 2015. He served as an independent director of Byhealth Co., Ltd. (湯臣倍健股份有限公司) (SZSE Stock Code: 300146) and Guangzhou Shiyuan Electronic Technology Company Limited (廣州視源電子科技股份有限公司) (SZSE Stcok Code: 002841) from 26 September 2011 to 22 September 2017 and from 1 January 2013 to 26 December 2017, respectively. Currently, Mr. Hu is an independent director of Guangdong PAK Corporation Co., Ltd. (廣東三雄極光照明股份有限公司) (SZSE Stock Code: 300625), Guangzhou Securities Co.,Ltd. (now renamed the CITIC Securities South China Company Limited) and Shenzhen Tellus Holding Co., Ltd. (深圳市特力(集團)股份有限公司) (SZSE Stock Code: Tellus A, 000025; Tellus B, 200025). Mr. Hu joined the Group in August 2013.

Mr. Lin Lei

Mr. Lin, aged 52, is an independent non-executive Director. He received a bachelor's degree in applied economic mathematics from Renmin University of China (中國人民大學) in 1990. He is the founder and chairman of the board of Sinotrust International Information & Consulting (Beijing) Co., Ltd. (新華信國際信息諮詢(北京)有限公司) (re-named as TNS Sinotrust Market Research Consulting (Beijing) Co., Ltd. (特恩斯新華信市場諮詢(北京)有限公司, "**Sinotrust**"). Prior to founding Sinotrust in 1992, Mr. Lin worked at the Ministry of Foreign Economic Relations and Trade (對外經濟貿易部) from 1990 to 1992. From 18 August 2014 to 27 February 2018, Mr. Lin is an independent non-executive director of CAR Inc. (神州租車有限公司) (Stock Code: 00699). From 21 April 2017 to 22 January 2020, Mr. Lin is a director of Lepu Medical Technology (Beijing) Co., Ltd. (樂普(北京)醫療器械股份有限公司) (SZSE Stock Code: 300003). Currently, Mr. Lin is an independent non-executive director of Xiezhong International Holdings Limited (協眾國際控股有限公司) (Stock Code: 3663), an independent director of BAIC BluePark New Energy Technology Co., Ltd. (北汽藍穀新能源科技股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600733) and the managing director of Beijing Centurium Management Advisory Co., Ltd. (北京大鉦管理咨詢有限公司). In respect of professional memberships and qualifications, Mr. Lin was the vice president of China Association of Market Information and Research (CAMIR) (中國市場信息調查業協會) and a council member of China Society of Automotive Engineers (SAE) (中國汽車工程學會), and is currently a commissioner of the expert committee of China Automobile Dealers Association (CADA) (中國汽車流通協會). Mr. Lin joined the Group in August 2013.

Mr. Zhang Xiaoya

Mr. Zhang, aged 57, is an independent non-executive Director. He is a graduate of Shangdong University (山東大學) and the School of Management at Beijing University of Aeronautics and Astronautics (北京航空航天大學), and is a senior engineer. Mr. Zhang is the chairman of Zhong Ding United Dairy Farming Co., Ltd. (中鼎聯合牧業股份有限公司), a manager of Beijing Xindajiading Investment Company Limited (北京信達嘉鼎投資有限公司), an independent non-executive director of China Mengniu Dairy Company Limited (中國蒙牛乳業有限公司) (Stock Code: 02319) and an independent director of Guangzhou Digital Media Co., Ltd. (廣州珠江數碼集團股份有限公司), a company listed on NEEQ (Stock Code: 871828). Mr. Zhang was a director and the president of AirMedia Group Inc. (航美傳媒集團) (NASDAQ: AMCN), the chairman of Unibank Media (銀廣通傳媒集團) and an independent director of Syswin Inc. (思源經紀), which was listed on the New York Stock Exchange until April 2013. Mr. Zhang joined the Group in March 2015.

Senior Management

Ms. Hung Ying-Lien

Ms. Hung, aged 54, a vice president and chief operating officer of the Company, is responsible for the operations of the Group.

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

Mr. Zuo Yungui

Mr. Zuo, aged 47, a vice president of the Company, is responsible for the operations and management of the Group's manufacturing industry, IT department and strategic investment department. Mr. Zuo is also a director of certain subsidiaries of the Company.

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

Mr. Li Haidong

Mr. Li, aged 50, is the chairman and executive general manager of Liaoning Xin Tian Cheng Industrial Co., Ltd. ("**Liaoning XTC**"), a subsidiary of the Company, and is responsible for the operation and management of the Group's wholesale service business. He founded Liaoning XTC in 1994. Mr. Li joined the Group in June 2010.

The board of Directors (the "**Board**") hereby presents this Corporate Governance Report in the Company's annual report for the year ended 31 December 2019.

Corporate Governance Practices

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

The Company has applied the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") throughout the year ended 31 December 2019.

In the opinion of the Board, the Company has complied with the code provisions set out in the CG Code throughout the year ended 31 December 2019 save and except for the deviation from code provision E.1.2.

Code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting. The then chairman of the board, Mr. Du Jinglei, didn't attend the Company's annual general meeting held on 28 June 2019 for personal reasons. Mr. Zhang Jianxing acted as the chairman of this annual general meeting and the chairmen of the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**"), the nomination committee (the "**Nomination Committee**") and the strategy committee (the "**Strategy Committee**") of the Company attended this meeting. The Company is of the view that the Directors participated in the annual general meeting were able to answer questions from and effectively communicate with the shareholders at the meeting.

Securities Transactions of Directors

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct for dealings in securities of the Company by the Directors or relevant employees as defined in the Model Code. Having made specific enquiry to all Directors by the Company, all Directors confirmed that they had complied with the requirements set out in the Model Code during the financial year ended 31 December 2019.

Board of Directors

Responsibilities and Delegation

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

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

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

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

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

Board Composition

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

Executive Director
Mr. Tong Fei *(appointed as an executive Director with effect from 1 July 2019)*

Non-executive Directors
Mr. Wang Zhenyu
Mr. Zhang Jianxing *(appointed as the acting Chairman with effect from 1 July 2019)*

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

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

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

Appointment and Re-election of Directors

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

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

Continuous Professional Development of Directors

Under code provision A.6.5, directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

All Directors are encouraged to attend relevant training courses at the Company's expense. During the year ended 31 December 2019, the Company organized briefings conducted by the Company Secretary for the Directors including Mr. Tong Fei, Mr. Wang Zhenyu, Mr. Zhang Jianxing, Mr. Hu Yuming, Mr. Lin Lei and Mr. Zhang Xiaoya, on corporate governance and provided reading materials on regulatory update to them for their reference and studying. Directors are requested to provide their training records to the Company Secretary for record-keeping.

Board Committees & Corporate Governance Functions

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

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

Audit Committee

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

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

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

During the year ended 31 December 2019, the Audit Committee, through its meetings held on 29 March 2019 and 16 August 2019 respectively, has performed, among others, the following:

- review and discussion of the annual financial results and report in respect of the year ended 31 December 2018 and interim financial results and report for the six months ended 30 June 2019 and discussion with the management of the accounting principles and practices adopted by the Group;

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

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

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

Remuneration Committee

The Remuneration Committee comprises a total of three members, being two independent non-executive Directors, namely, Mr. Hu Yuming (Chairman) and Mr. Zhang Xiaoya; and one non-executive Director, namely, Mr. Zhang Jianxing (appointed to replace Mr. Du Jinglei with effect from 1 July 2019).

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

During the year ended 31 December 2019, the Remuneration Committee, through its meetings held on 29 March 2019 and 1 July 2019 respectively has performed, among others, the following:

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

- discussion and determination of the remuneration of the Company's newly appointed executive Director, namely, Mr. Tong Fei.

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

There has been no remuneration paid or payable to the Directors or the five highest paid individuals as inducement to join or upon joining the Group or as a compensation for loss of office in connection with the management of the affairs of any member of the Group in respect of the year ended 31 December 2019.

Details of the remuneration of each Director and the remuneration of the five highest paid individuals for the year ended 31 December 2019 are set out in note 10 to the financial statements in this annual report.

Remuneration paid to senior management staff of the Company in 2019 by band is as follows:

	Number of staff
Nil to HK$1,000,000	2
HK$1,000,000 to HK$1,500,000	4
HK$1,500,001 to HK$2,000,000	–
HK$2,000,001 to HK$2,500,000	–
HK$2,500,001 to HK$3,000,000	–

Nomination Committee

The Nomination Committee comprises a total of three members, being two independent non-executive Directors, namely, Mr. Zhang Xiaoya and Mr. Lin Lei and one non-executive Director, namely, Mr. Zhang Jianxing (Chairman) (appointed to replace Mr. Du Jinglei with effect from 1 July 2019).

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

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

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

During the year ended 31 December 2019, the Nomination Committee, through its meeting held on 29 March 2019 and 1 July 2019 respectively performed the followings:

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

- recommendation of the re-appointment of those Directors standing for re-election at the 2019 annual general meeting of the Company;

- recommendation of appointment of Mr. Tong Fei as an executive Director and an authorized representative of the Company under Rule 3.05 of the Listing Rules; and

- recommendation of appointment of Mr. Zhang Jianxing as the acting chairman of the Board, a member of the Remuneration Committee and the chairman of the Nomination Committee.

Strategy Committee

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

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

Corporate Governance Functions

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

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

Attendance Record of Directors and Committee Members

During the year ended 31 December 2019, the Board held 4 Board meetings. The attendance record of each director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2019 is set out in the table below:

Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Mr. Du Jinglei *(Note 1)*	1/1	–	1/1	1/1	0/1
Mr. Tong Fei *(Note 2)*	2/2	–	–	–	0/0
Mr. Wang Zhenyu	4/4	2/2	–	–	1/1
Mr. Zhang Jianxing	4/4	–	–	–	1/1
Mr. Hu Yuming	4/4	2/2	2/2	–	1/1
Mr. Lin Lei	4/4	2/2	–	2/2	1/1
Mr. Zhang Xiaoya	4/4	–	2/2	2/2	1/1

Notes:

1. Mr. Du Jing has resigned as the chairman of the Board, an executive Director, a member of the Remuneration Committee, the chairman of the Nomination Committee and an authorized representative of the Company under Rule 3.05 of the Listing Rules with effect from 1 July 2019.

2. Mr. Tong Fei has been appointed as an executive Director and an authorized representative of the Company under Rule 3.05 of the Listing Rules with effect from 1 July 2019.

Directors' and Auditors' Responsibilities for the Financial Statements

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2019. The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on pages 57, 58 and 59.

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

Internal Control and Risk Management

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

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

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

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

External Auditors and Auditors' Remuneration

During the Year, the fees paid/payable to HLB Hodgson Impey Cheng Limited (the "**Auditor**") in respect of their audit services for the year 2019 amounted to RMB2,930,000, which is for the annual audit service.

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

Company Secretary

The Company does not engage an external service provider as its Company Secretary. Mr. Liu Xiaohua, being the Company Secretary, has taken no less than 15 hours of relevant professional training during the year ended 31 December 2019.

Communications with Shareholders and Investors Relations

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

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

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

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

Shareholders' Rights

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

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

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

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

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

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

About the Report

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "**ESG Guide**") set out in Appendix 27 to the Listing Rules. This report, which is the fourth one issued by the Company to the public, aims to describe the Company's polices in the year ended 31 December 2019 that were designed to fulfill the Company's obligation with respect to sustainable development and social responsibilities as required by the ESG Guide. The Board is of the view that the Company has complied with the "comply or explain" provision set out in the ESG Guide for the Year.

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

The information disclosed in this report primarily concerns the two production plants, the retail service business (the Group's retail service business was discontinued as at 31 December 2019), the wholesale service business and the automotive dealership and services business of the Group.

1. Environmental Protection

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

1.1 Use of Resources

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

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

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

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

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

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

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

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

By adopting various energy-saving measures, the consumption of water, electricity and paper of the Group decreased significantly in 2019. The total water consumption of the Group amounted to 193,108.9 tonnes in 2019, representing a decrease of 24.73% as compared with 2018. Of which, the Changchun Guangda Equity Disposal resulted in a decrease of 7,416 tonnes in total water consumption as compared with 2018. Excluding the said influence, the water consumption of the Group in 2019 lowered by 56,029.8 tonnes as compared with 2018. The Group's water is mainly from municipal water supply pipelines and there is no difficulty in sourcing water. The total electricity consumption of the Group amounted to 8,324,313 kWh in 2019. Excluding the decrease in total electricity consumption of 223,148 kWh as compared with 2018 resulting from the Changchun Guangda Equity Disposal, the electricity consumption of the Group in 2019 decreased by 346,626 kWh as compared with 2018. The Group consumed a total of 886,677 sheets of office paper in 2019, representing a decrease of 49.20% as compared with 2018. Excluding the decrease in paper consumption of 3,700 sheets resulting from the Changchun Guangda Equity Disposal, the paper consumption of the Group in 2019 saw a decline of 855,220 sheets as compared with 2018. The packaging materials used by the Group are primarily cardboard, paper and plastic, which totaled 3,708 tonnes in 2019 (2018: 3,537.5 tonnes) and represented a decrease of 170.5 tonnes as compared with 2018.

	2018	**2019**	Year-on-year decrease (%)	Intensity of the Year (per employee)
Water (tonnes)	256,554.7	**193,108.9**	24.73	121.38
Electricity (kWh)	8,894,087	**8,324,313**	6.41	5,232.13
Office paper (sheet)	1,745,597	**886,677**	49.20	557.31

1.2 *Emissions*

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

The greenhouse gas emissions of the Group are on one hand generated from the electricity consumed by the Group's office, the two production plants of manufacturing business, operation of retail stores and automotive dealership stores, and on the other hand generated from the vehicle fuel consumption, paper waste and wastewater of the Group. To reduce carbon emissions, other than taking electricity-saving measures, the Group also actively promotes green energy and adopts photovoltaic systems in production plants. In addition, the Group highly advocates green practices among the staff, promotes paper reuse and continuously reuses the wastewater after treatment, which has effective reduced carbon dioxide emission. The Group's emission of carbon dioxide was 9,608.51 tonnes in 2019, representing a decrease of 1,682.49 tonnes as compared with 2018. The intensity of carbon dioxide emission of the Year (calculated per employee) was 6.04 tonnes per person.

The air emissions of the Group (including nitrogen oxides, sulfur oxides and particulate matters) are mainly derived from the use of vehicles. In order to reduce air emissions, the Group regularly repairs and cleans vehicles, uses high-quality gasoline, and encourages employees to use public transportation. The Group's air emissions data in 2019 are as follows:

	2018	**2019**	Year-on-year decrease (%)	Intensity of the Year (per employee)
Nitrogen oxides (tonnes)	0.251	**0.123**	51.00	0.00008
Sulfur dioxide (tonnes)	0.006	**0.003**	50.00	0.000002
Particulate matters (tonnes)	0.019	**0.009**	52.63	0.000006

Among various wastes generated from the operation of the Group, hazardous wastes mainly include office trash (including used toner cartridges and ink cartridges) produced in the office of each of the subsidiaries, and the waste oil generated from vehicle maintenance business; non-hazardous wastes mainly include waste tires, waste batteries and wastewater generated from the operation. The Group conducts waste separation for hazardous waste and non-hazardous waste. For wastes that can be recycled and reprocessed, they would be recycled and sold to relevant suppliers to save energy. As for other wastes, the Group would deliver them to qualified third parties for legal treatment so as to reduce the environmental impact. The Group laid emphasis on wastewater emission management and adopted measures such as recycle and reuse to reduce wastewater emission. The table below sets forth the volume of various wastes generated by the Group in 2019 and 2018 respectively.

Hazardous wastes:

	2018	**2019**	Year-on-year decrease (%)	Intensity of the Year (per employee)
Used toner cartridges (tonnes)	0.41	**0.30**	26.83	0.0002
Used ink cartridges (tonnes)	1.35	**0.81**	40.00	0.0005
Waste oil (tonnes)	59	**51.62**	12.51	0.03

Non-hazardous wastes:

	2018	**2019**	Year-on-year decrease (%)	Intensity of the Year (per employee)
Waste tires (tonnes)	227	**225.98**	0.45	0.14
Waste batteries (tonnes)	43	**17.94**	58.28	0.01
Wastewater (tonnes)	205,243.76	**154,487.12**	24.73	97.10

1.3 The Environment and Natural Resources

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

2. Social Responsibility

2.1 Employment and Labor Practices

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

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

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

To raise employees' sense of belonging and happiness, the Group also organizes a variety of recreational and sports activities to enrich employees' work and life and improve the experience of employees at work. Below are the photos of various cultural and sports activities organized by different subsidiaries of the Group.

2.2 *Health & Safety*

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

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

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

2.3 *Development & Trainings*

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

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

The Group has developed a scientific performance evaluation management system to ensure that the criteria of performance evaluation are open and the processes and results of evaluation are just and fair. Individual performance results are linked with the employee's income and opportunities for promotion within the Group.

2.4 Labor Standard

The Group strictly prohibits child labor and forced labor and has complied with the Labor Contract Law of the People's Republic of China (中華人民共和國勞動合同法). We audit and verify staff identity during the recruitment process to ensure that no child labor is employed. The Group also strictly complies with the relevant PRC labor regulations relating to working hours, rest and holidays to ensure the physical and mental health of all employees. Employees are not forced to work overtime and are entitled to overtime pay in accordance with local regulations.

2.5 Supply Chain Management

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

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

2.6 Product Responsibility

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

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

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

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

2.7 *Anti-corruption*

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

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

2.8 *Community Investment*

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

REPORT OF THE DIRECTORS

The Directors are pleased to present their annual report for the year ended 31 December 2019 and the audited consolidated financial statements (the "**Financial Statements**") of the Group for the Year.

Group Reorganisation, Subsidiaries and Basis of Presentation

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

Principal Activities

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

Details of the principal activities of the subsidiaries of the Company are set out in note 21 to the Financial Statements.

Business Review

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

Dividend Policy

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

Results and Dividends

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

The Directors do not recommend the payment of a final dividend for the Year (2018: Nil).

Property, Plant and Equipment

Details of the movements of property, plant and equipment of the Group during the Year are set out in note 16 to the Financial Statements.

Investment Properties

Details of the movements of investment properties of the Group during the Year are set out in note 18 to the Financial Statements.

Issuance of Notes

On 26 September 2019, the Company has entered into the note exchange agreement (the "**Note Exchange Agreement**")with the Investor and CCBI Solar Energy (Holding) Limited (建銀國際光電(控股)有限公司) (the "**New Investor**", an indirect wholly-owned special purpose vehicle of CCB International (Holdings) Limited), pursuant to which the Company, on the one hand, the Investor and the New Investor, on the other hand, have agreed to exchange the CCBC Convertible Notes in the outstanding aggregate principal amount of US$24,200,000 (the "**Outstanding Convertible Notes**") for the notes in an aggregate principal amount of US$24,200,000 to be issued by the Company to the New Investor (the "**Notes**"). Closing has taken place on the same day as the date of the Note Exchange Agreement (the "**Closing**"). The Outstanding Convertible Notes has been cancelled with effect from Closing.

The Notes comprises three tranches in the principal amounts of US$4,840,000, US$7,260,000 and US$12,100,000, which shall mature on 1 March 2020, 1 June 2020 and 1 September 2020, respectively. Interest shall accrue on the Notes at the rate of 10% per annum.

Issuance of Notes *(Continued)*

CDH Fast Two Limited ("**CDH**"), being the controlling shareholder of the Company, entered into a deed of share charge with the New Investor on 26 September 2019 (the "**Share Charge**"), whereby all 2,889,580,226 Shares held by CDH will be charged by way of first fixed charge in favour of the New Investor as continuing security for the due and punctual payment and discharge of all present and future liabilities of the Company and CDH under or in relation to any one or more of the transaction documents including the Note Exchange Agreement, the Notes and the note certificates (together with the terms and conditions as attached to the note certificates (the "**Note Terms and Conditions**")) and the security documents (the "**Transaction Documents**"). The Note Terms and Conditions imposed specific performance obligations on CDH and breach of such obligations will cause an event of default as defined therein (the "**Event of Default**"). The then outstanding principal amount of the Notes shall become immediately due and payable upon the lodge of a notice of repayment by the New Investor on the Company. Pursuant to the Note Terms and Conditions, an Event of Default occurs if, among other things: (i) the number of Shares legally and beneficially owned by CDH is less than 42.697% of the total issued and outstanding Shares on a fully-diluted basis at any time; (ii) the number of Shares charged under the Share Charge represents less than 42.697% of the total issued and outstanding Shares on a fully-diluted basis; (iii) an event or circumstance the result of which is that (a) CDH fails to maintain the power to control the composition of, or to appoint or remove, a majority of the Board; or (b) CDH fails to remain the largest shareholder of the Company, occurs; and (iv) CDH creates or permits to subsist or arise any lien, other than any lien created under the Transaction Documents, over any of the Shares it presently and may in the future own. Accordingly, the Note Terms and Conditions indirectly impose specific performance obligations on CDH and breach of such obligations will cause an Event of Default which will be significant to the Company's operations.

Further details of the Note Exchange Agreement are set out in the announcements of the Company dated 26 September 2019.

Reserves

Movements of reserves of the Group and the Company are set out in the consolidated statement of changes in equity and note 31 to the Financial Statements.

Share Capital

Details of the issued share capital of the Company and its movements during the Year along with the relevant reasons are set out in note 30 to the Financial Statements.

Distributable Reserves

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

As at 31 December 2019, the reserve available for distribution to shareholders of the Company was nil.

Closure of Register of Members

The register of members will be closed from 23 June 2020 to 30 June 2020 (both days inclusive), during which period no transfer of shares will be registered. In order to be entitled to attend the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 22 June 2020.

Directors

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

Executive Director

Du Jinglei
(resigned as the chairman of the Board, an executive Director, a member of the Remuneration Committee, the chairman of the Nomination Committee and an authorized representative of the Company under Rule 3.05 of the Listing Rules with effect from 1 July 2019.)
Tong Fei *(appointed as an executive Director and an authorized representative of the Company under Rule 3.05 of the Listing Rules with effect from 1 July 2019)*

Non-executive Directors

Wang Zhenyu
Zhang Jianxing *(appointed as the acting chairman of the Board, a member of the Remuneration Committee, the chairman of the Nomination Committee with effect from 1 July 2019)*

Independent Non-executive Directors

Hu Yuming
Lin Lei
Zhang Xiaoya

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

In accordance with Article 87(1) of the Articles, Mr. Zhang Xiaoya and Mr. Zhang Jianxing will retire by rotation at the forthcoming annual general meeting of the Company. In accordance with Article 86(3) of the Articles, Mr. Tong Fei shall hold office only until the next following annual general meeting of the Company. All such Directors being eligible, offer themselves for re-election.

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

Directors' Service Contracts

Mr. Tong Fei has entered into a service agreement with the Company for a term of three years commencing from 1 July 2019, and Mr. Wang Zhenyu has entered into a service agreement with the Company for a term of three years commencing from 28 August 2019, and Mr. Zhang Jianxing has entered into a service agreement with the Company for a term of three years commencing from 15 September 2017, subject to retirement by rotation in accordance with the Articles.

Pursuant to the respective letters of appointment of two independent non-executive Directors, namely, Mr. Hu Yuming and Mr. Lin Lei, each of them was appointed for a term of three years commencing from 28 August 2019, subject to retirement by rotation in accordance with the Articles.

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

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

Changes in Information of Directors and Chief Executives of the Company

Pursuant to Rule 13.51(B)(1) of the Listing Rules, the changes in information of Directors and chief executives of the Company subsequent to the date of the 2018 Annual Report are set out below:

Name	**Details of Changes**
Mr. Lin Ming	– Resigned as the chief executive officer of the company with effect from 31 May 2019.
Mr. Du Jinglei	– Resigned as the chairman of the Board, an executive Director, a member of the Remuneration Committee, the chairman of the Nomination Committee and an authorized representative of the Company under Rule 3.05 of the Listing Rules, with effect from 1 July 2019.
Mr. Tong Fei	– Appointed as an executive Director and an authorized representative of the Company under Rule 3.05 of the Listing Rules, with effect from 1 July 2019.
Mr. Zhang Jianxing	– Appointed as the acting chairman of the Board, a member of the Remuneration Committee and the chairman of the Nomination Committee, with effect from 1 July 2019.

Changes in Information of Directors and Chief Executives of the Company (Continued)

Name	Details of Changes
Mr. Wang Zhenyu	– Entered into a service agreement with the Company, upon expiry of the term of the original service agreement, for a term of three years which commenced from 28 August 2019, subject to retirement by rotation in accordance with the Articles. Pursuant to the service agreement, Mr. Wang Zhenyu is not currently entitled to any remuneration from the Company. In addition, Mr. Wang Zhenyu is entitled to a discretionary bonus payable at or before the year end at the discretion of the Board.
Mr. Hu Yuming	– Entered into a letter of appointment with the Company, upon expiry of the term of the original letter of appointment, for a term of three years which commenced from 28 August 2019, subject to retirement by rotation in accordance with the Articles. Pursuant to the letter of appointment, Mr. Hu Yuming is currently entitled to an annual fee of RMB100,000 which is subject to annual review by the Board and was determined on the basis of his role in the Group, responsibilities and experience and the prevailing market rates.
Mr. Lin Lei	– Entered into a letter of appointment with the Company, upon expiry of the term of the original letter of appointment, for a term of three years which commenced from 28 August 2019, subject to retirement by rotation in accordance with the Articles. Pursuant to the letter of appointment, Mr. Lin Lei is currently entitled to an annual fee of RMB100,000 which is subject to annual review by the Board and was determined on the basis of his role in the Group, responsibilities and experience and the prevailing market rates. – Ceased to be a director of Lepu Medical Technology (Beijing) Co., Ltd. (樂普(北京)醫療器械股份有限公司) (SZSE Stock Code: 300003) with effect from 23 January 2020 due to the expiration of his term.

Directors' Interests in Contracts

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

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the Year.

Share Option Scheme

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

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

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

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

Share Option Scheme *(Continued)*

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

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

As at 31 December 2019, no options had been granted by the Company under the Scheme remained outstanding and no shares were available for issue under the Scheme. The total number of shares available for issue under the Scheme is 363,215,310 shares, representing approximately 5.37% of the total issued share capital of the Company as at that date.

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

As at 31 December 2019, to the best knowledge of the Directors and chief executives of the Company, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were required to be recorded in the register maintained by the Company under Section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) and the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

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

So far as is known to the Directors and chief executives of the Company, as at 31 December 2019, the following persons (other than Directors and chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company, which are required to be notified to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity/ Nature of interest	Number of shares interested other than under equity derivatives *(Note 1)*	Number of shares interested under equity derivatives *(Note 1)*	Total number of shares and underlying shares under equity derivatives *(Note 1)*	Percentage of issued shares
CDH Fast Two Limited *(Note 2)*	Beneficial Owner	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
CDH Fast One Limited *(Note 3)*	Interest in a controlled corporation	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
Fast Point Limited *(Note 3)*	Interest in a controlled corporation	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
CDH Fund IV, L.P. *(Note 3)*	Interest in a controlled corporation	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
CDV IV Holdings Company Limited *(Note 3)*	Interest in a controlled corporation	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
China Diamond Holdings IV, L.P. *(Note 3)*	Interest in a controlled corporation	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
China Diamond Holdings Company Limited *(Note 3)*	Interest in a controlled corporation	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
CCBI Solar Energy (Holding) Limited	Person having a security interest in shares *(Note 4)*	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%

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

Name	Capacity/ Nature of interest	Number of shares interested other than under equity derivatives *(Note 1)*	Number of shares interested under equity derivatives *(Note 1)*	Total number of shares and underlying shares under equity derivatives *(Note 1)*	Percentage of issued shares
High Inspiring Limited	Beneficial Owner *(Note 5)*	266,900,160 (L)	–	266,900,160 (L)	3.94%
CCBI Investments Limited *(Note 6)*	Person having a security interest in shares	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
	Interest in a controlled corporation	266,900,160 (L)	–	266,900,160 (L)	3.94%
CCB International (Holdings) Limited *(Note 6)*	Person having a security interest in shares	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
	Interest in a controlled corporation	266,900,160 (L)	–	266,900,160 (L)	3.94%
CCB Financial Holdings Limited *(Note 6)*	Person having a security interest in shares	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
	Interest in a controlled corporation	266,900,160 (L)	–	266,900,160 (L)	3.94%
CCB International Group Holdings Limited *(Note 6)*	Person having a security interest in shares	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
	Interest in a controlled corporation	266,900,160 (L)	–	266,900,160 (L)	3.94%

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

Name	Capacity/ Nature of interest	Number of shares interested other than under equity derivatives *(Note 1)*	Number of shares interested under equity derivatives *(Note 1)*	Total number of shares and underlying shares under equity derivatives *(Note 1)*	Percentage of issued shares
China Construction Bank Corporation *(Note 6)*	Person having a security interest in shares	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
	Interest in a controlled corporation	266,900,160 (L)	–	266,900,160 (L)	3.94%
Central Huijin Investment Ltd. *(Note 6)*	Person having a security interest in shares	2,889,580,226 (L)	–	2,889,580,226 (L)	42.70%
	Interest in a controlled corporation	266,900,160 (L)	–	266,900,160 (L)	3.94%
Fame Mountain Limited *(Note 7)*	Beneficial owner	1,904,761,905 (L)	–	1,904,761,905 (L)	28.15%
Mo Keung *(Note 8)*	Interest in a controlled corporation	1,904,761,905 (L)	–	1,904,761,905 (L)	28.15%

Notes:

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

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

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

Notes: (Continued)

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

4. As disclosed in the announcement of the Company dated 26 September 2019, the Company has entered into the Note Exchange Agreement with High Inspiring Limited and CCBI Solar Energy (Holding) Limited, pursuant to which the Company, on the one hand, High Inspiring Limited and CCBI Solar Energy (Holding) Limited, on the other hand, have agreed to exchange the Outstanding Convertible Notes for the Notes. Pursuant to the Note Exchange Agreement, CDH Fast Two Limited entered into a share charge with CCBI Solar Energy (Holding) Limited, pursuant to which CDH Fast Two Limited, being the controlling shareholder of the Company, charged 2,889,580,226 shares held by it to CCBI Solar Energy (Holding) Limited. Closing has taken place on the same day as the date of the Note Exchange Agreement (the "**Closing**"). The Outstanding Convertible Notes has been cancelled with effect from Closing.

   According to the terms of the Notes, unless waived by CCBI Solar Energy (Holding) Limited, the Company may be required to redeem the whole or part of the outstanding principal amount of the Notes at the redemption amount as stated in the Notes in the event that CDH Fast Two Limited fails to maintain the power to control the composition of, or to appoint or remove, a majority of the directors of the Company or to remain the largest shareholder of the Company during the term of the Notes which will mature on 1 September 2020. As at 31 December 2019, the outstanding principal amount of the Notes was US$19,360,000.

5. As disclosed in the announcement of the Company dated 21 August 2017, the Company entered into a convertible note purchase agreement (the "**Convertible Note Purchase Agreement**") with High Inspiring Limited, pursuant to which the Company has conditionally agreed to issue and High Inspiring Limited has conditionally agreed to purchase the convertible notes in an aggregate principal amount of US$35,000,000 due in 2019 (the "**CCBC Convertible Notes**").

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

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

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

   Upon the receipt of the conversion notice dated 31 August 2018 from High Inspiring Limited, for conversion of part of the CCBC Convertible Notes in the principal amount of US$800,000, the Company allotted and issued 22,102,520 conversion Shares to High Inspiring Limited at the conversion price of HK$0.280511 per conversion Share on 4 September 2018.

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

Notes: (Continued)

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

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

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

Save as disclosed above, as at 31 December 2019, the Directors are not aware of any person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Arrangements to Purchase Shares or Debentures

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

Equity-linked Agreements

Save for the CCBC Convertible Notes disclosed in this Report of the Directors, the Management Discussion and Analysis of this annual report and note 27 to the Financial Statements, and the Scheme as disclosed in section "Share Option Schemes" of this Report of the Directors, no equity-linked agreement was entered into or subsisted during the year ended 31 December 2019.

Pre-emptive Rights

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

Connected Transactions

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

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

In 2019, Mr. Li Haidong ("**Mr. Li**") provided a guarantee to a supplier of Liaoning XTC, a subsidiary of the Company, to secure the debt up to RMB18,013,000 owed to such supplier by Liaoning XTC by using the properties owned by Mr. Li as mortgage ("**Financial Assistance from Mr. Li**"). Mr. Li is a director of and holds approximately 27.63% equity interests in Liaoning XTC. Accordingly, Mr. Li is a connected person of the Company at its subsidiary level. The Financial Assistance from Mr. Li constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. The Financial Assistance from Mr. Li was conducted on normal commercial terms and it was not secured by the assets of the Group. As such, it was fully exempt from shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.90. The debt was repaid in June 2019.

(ii) Financial assistance received by Beijing Aiyihang from Mr. Xing Aiyi

In 2019, Mr. Xing Aiyi ("**Mr. Xing**") provided a guarantee to secure the loan of RMB20,000,000 issued by a bank to Beijing Aiyihang, a subsidiary of the Company prior to completion of Beijing Aiyihang Equity Disposal in December 2019 ("**Financial Assistance from Mr. Xing**"). Mr. Xing is a director of Beijing Aiyihang. In addition, Mr. Xing and his spouse indirectly hold 38.8% equity interests in Beijing Aiyihang. Accordingly, Mr. Xing was a connected person of the Company at its subsidiary level. The financial assistance from Mr. Xing constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. The Financial Assistance from Mr. Xing was conducted on normal commercial terms and it was not secured by the assets of the Group. As such, the Financial Assistance from Mr. Xing was fully exempt from shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.90.

(iii) Beijing Aiyihang Equity Disposal

On 22 November 2019, (1) New Focus Lighting & Power, Beijing Aiyihang, Shanghai Shangzhi and Pingtan Shangzhi entered into the equity transfer agreement pursuant to which, New Focus Lighting & Power agreed to transfer 43% and 15.2% equity interest in Beijing Aiyihang to Shanghai Shangzhi and Pingtan Shangzhi, respectively each for a consideration of RMB1 (the "**Beijing Aiyihang Equity Disposal**"); and (2) New Focus Lighting & Power, Beijing Aiyihang, the other three shareholders of Beijing Aiyihang, Mr. Xing and Huzhou Zuoyu (an independent third party of the Company), entered into the capital increase agreement, in relation to, among other things, the capital increase in Beijing Aiyihang by Huzhou Zuoyu (the "**Capital Increase**") and confirmation by New Focus Lighting & Power that its right to repayment against Beijing Aiyihang in the aggregate amount of RMB65 million and the corresponding interests will be discounted to RMB50 million.

It was the overall commercial agreement between the parties that (1) New Focus Lighting & Power would transfer 43% and 15.2% equity interest in Beijing Aiyihang to Shanghai Shangzhi and Pingtan Shangzhi, respectively, each for a nominal consideration of RMB1; (2) New Focus Lighting & Power would confirm that its right to repayment against Beijing Aiyihang in respect of its shareholder's loan in the aggregate amount of RMB65 million and the corresponding interests will be discounted to RMB50 million; (3) Huzhou Zuoyu would subscribe for the new registered capital of Beijing Aiyihang for RMB60 million; and (4) Beijing Aiyihang will repay part of the shareholder's loan owed to New Focus Lighting & Power following completion of the Capital Increase.

Accordingly, the parties entered into the Equity Transfer Agreement and the Capital Increase Agreement. Pursuant to the Capital Increase Agreement, completion of the Beijing Aiyihang Equity Disposal is a condition precedent to the performance by Huzhou Zuoyu of its obligations under the Capital Increase Agreement.

The consideration of Beijing Aiyihang Equity Disposal, being RMB2, was determined between the parties with reference to (1) the deteriorating financial performance and condition of Beijing Aiyihang in light of its net losses and net liabilities; (2) the prospects of Beijing Aiyihang; and (3) the overall transactions contemplated under the Equity Transfer Agreement and the Capital Increase Agreement, including recovery of part of the shareholder's loan by the Group.

As the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Beijing Aiyihang Equity Disposal exceed 25% but are less than 75%, the Beijing Aiyihang Equity Disposal constituted a major transaction of the Company which is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. Xing Aiyi is a director and a substantial shareholder of Beijing Aiyihang and therefore, Xing Aiyi a connected person at the subsidiary level of the Company. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Xing Aiyi is the executive partner of Shanghai Shangzhi and Pingtan Shangzhi and is responsible for the daily operation and management of Shanghai Shangzhi and Pingtan Shangzhi pursuant to the respective partnership agreement. As such, each of Shanghai Shangzhi and Pingtan Shangzhi is an associate of Xing Aiyi and is therefore a connected person at the subsidiary level of the Company. The Beijing Aiyihang Equity Disposal constituted a connected transaction of the Company which was subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Permitted Indemnity

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

Directors' Interests in Competing Business

As at 31 December 2019 and up to the date of this annual report, none of the Directors are considered to be in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

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

During the Year, the Company did not repurchase any ordinary shares of the Company on the Stock Exchange under the general mandate granted at the annual general meeting held on 28 June 2019, and, there were no purchases, sales or redemption of the Company's listed securities by the Company or any of its subsidiaries during the Year.

Major Customers and Suppliers

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

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

Basis of Determining the Emolument Payable to the Directors

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

Tax Relief

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

Public Float

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

Auditor

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

On behalf of the Board
Tong Fei
Executive Director

Hong Kong, 14 May 2020

INDEPENDENT AUDITORS' REPORT

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

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

Opinion

We have audited the consolidated financial statements of New Focus Auto Tech Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 60 to 175, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Boards ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters *(Continued)*

Key audit matter	How the matter was addressed in our audit
Impairment assessment of property, plant and equipment and right-of-use assets	
Refer to notes 16 and 17 to the consolidated financial statements The Group has property, plant and equipment and right-of-use assets of approximately RMB104,762,000 and RMB130,262,000 respectively relating to the manufacture and sale of electronic and power-related automotive parts and accessories in the People's Republic of China as at 31 December 2019. Management has engaged an independent external valuer to assist in the determination of the value in use of the cash-generating units ("CGUs"). The impairment assessment is a judgmental process, requiring significant estimates and judgements in respect of the forecast future cash flows associated with the CGUs, including the growth rate for revenues and costs, and the discount rate. We focused on this area because the balance of property, plant and equipment and right-of-use asset was significant and these assessment process involved significant estimates and judgements and highly subjective which based on the selection of appropriate comparable and assumptions such as the growth rate of future revenue and costs and discount rate. Independent external valuation was obtained in order to support the management's estimation.	Our procedures in relation to the management's impairment assessment included: • Evaluating of the independent professional external valuer's competence, capabilities and objectivity; • Assessing the appropriateness of the valuation, methodologies, key assumptions and estimates used based on our knowledge of the relevant industry, and using our valuation experts; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and • Checking, on sampling basis, the accuracy and relevance of the input data used. We found the assumptions made by the management in relation to the value in use calculations and the impairment assessment to be reasonable based on available evidence.

Key audit matters *(Continued)*

Key audit matter	How the matter was addressed in our audit
Impairment assessment of goodwill Refer to note 19 to the consolidated financial statements The impairment loss of goodwill of RMB19,967,000 was recognized during the year and the certain goodwill is derecognised upon disposal of subsidiary in relating to the restyling services and retail distribution of merchandise goods through its service chain stores network in the People's Republic of China as at 31 December 2019. Management performed impairment assessment of goodwill based on value-in-use models. We focused on these areas as the assessment made by management involved. Significant estimates and judgement with respect to the discount rate and the underlying cashflows, in particular future revenue growth and capital expenditure. Independent external valuation was obtained in order to support management's estimates.	Our procedures in relation to management's impairment assessment included: • Evaluating of the independent professional external valuer's competence, capabilities and objectivity; • Assessing the appropriateness of valuation methodologies, key assumption and estimate used based on our knowledge of the relevant industry, and using our valuation experts; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and • Checking, on sampling basis, the accuracy and relevance of the input data used. We found the assumptions made by the management in relation to the value in use calculations and the impairment assessment to be reasonable based on available evidence.

Key audit matters *(Continued)*

Key audit matter	How the matter was addressed in our audit
Allowance for expected credit losses recognised in respect for the financial assets Refer to notes 23(a), 23(b), 34(b) and 40(a) to the consolidated financial statements As at 31 December 2019, the Group recorded the trade receivables, other receivables, loan receivables, deposit and prepayment and amounts due from related parties of approximately RMB147,932,000, RMB719,763,000, RMB200,585,000, RMB150,701,000 and RMB37,809,000 respectively before the loss allowance amounting to approximately RMB1,391,000, RMB23,351,000, RMB2,675,000, RMB1,277,000 and RMB749,000 has been made on trade receivables, other receivables, loan receivables, deposit and prepayment and amounts due from related parties respectively. Loss allowances for trade receivables, other receivables, loan receivables, deposit and prepayment and amounts due from related parties are based on management's estimate of the lifetime or 12-month expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' and debtors' repayment history, collaterals and financial position and the assessment of both the current and forecast general economic conditions, all of which involve significant degree of management judgement and estimation. We focused on this area due to the impairment assessment of trade receivables, other receivables, loan receivables, deposit and prepayment and amounts due from related parties under the expected credit losses model involved the use of significant management judgements and estimates.	Our procedures in relation to the management's ECL assessment on trade receivables, other receivables, loan receivables, deposit and prepayment and amounts due from related parties included: • Assessing whether items in the trade receivables ageing report were classified within the appropriate ageing bracket by comparing, on a sample basis, individual items in the report with the relevant sales invoices and credit terms; • Assessing the reasonableness of management's loss allowance estimates on trade receivables, other receivables, loan receivables, deposit and prepayment and related parties by examining the information used by management to form such judgements, including on a sample basis, testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current conditions and forward-looking information and examining the actual losses recorded during the current financial year and assessing whether there was an indication of management bias when recognising loss allowances; and • Assessing the reasonableness of recoverability of trade receivables, other receivables, loan receivables, deposit and prepayment and amounts due from related parties with reference to historical utilisation pattern and credit history of trade debtors including default or delay in payments, settlement records, subsequent settlements and ageing analysis. We found that the management judgment and estimates used to assess the recoverability of the trade receivables, other receivables, loan receivables, deposits and prepayment and amounts due from related parties and determine the impairment provision to be supportable by available evidence.

Other Information

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

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

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

Responsibilities of the directors and the audit committee for the consolidated financial statements

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

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

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

Auditors' responsibility for the audit of the consolidated financial statements

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

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

Auditors' responsibility for the audit of the consolidated financial statements *(Continued)*
As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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

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

The engagement director on the audit resulting in this independent auditors' report is Tien Sun Kit, Jack.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Tien Sun Kit, Jack
Practising Certificate Number: P07364

Hong Kong, 14 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019 *(Expressed in Renminbi)*

	Notes	**2019 RMB$'000**	2018 RMB$'000 (Restated)
Continuing operations:			
Revenue	*6*	**1,750,632**	1,412,883
Cost of sales and services		**(1,610,550)**	(1,252,705)
Gross profit		**140,082**	160,178
Other revenue and gains and losses, net	*7*	**4,153**	244,653
Distribution costs		**(169,649)**	(122,477)
Administrative expenses		**(118,546)**	(106,858)
Finance costs	*8*	**(63,390)**	(42,655)
Share of loss of an associate		**–**	(159)
(Loss)/profit before taxation from continuing operations	*9*	**(207,350)**	132,682
Income tax credit/(expense)	*11*	**33,804**	(2,314)
(Loss)/profit for the year from continuing operations		**(173,546)**	130,368
Discontinued operation			
Loss for the year from discontinued operations, net of income tax	*12*	**(35,667)**	(76,563)
(Loss)/profit for the year		**(209,213)**	53,805
Other comprehensive (loss)/income for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	*15*	**(4,427)**	20,190
Items that will not be reclassified to profit or loss:			
Financial assets at fair value through other comprehensive income: net movement in the fair value reserve	*15*	**(8,016)**	30,933
Other comprehensive (loss)/income for the year, net of tax		**(12,443)**	51,123
Total comprehensive (loss)/income for the year		**(221,656)**	104,928

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019 *(Expressed in Renminbi)*

	Notes	2019 RMB$'000	2018 RMB$'000 (Restated)
(Loss)/profit for the year attributable to			
Equity shareholders of the Company			
– from continuing operations		**(159,947)**	146,038
– from discontinued operations		**(31,161)**	(38,205)
		(191,108)	107,833
Non-controlling interests			
– from continuing operations		**(13,599)**	(15,670)
– from discontinued operations		**(4,506)**	(38,358)
		(18,105)	(54,028)
		(209,213)	53,805
Total comprehensive (loss)/income attributable to			
Equity shareholders of the Company			
– from continuing operations		**(172,390)**	197,161
– from discontinued operations		**(31,161)**	(38,205)
		(203,551)	158,956
Non-controlling interests			
– from continuing operations		**(13,599)**	(15,670)
– from discontinued operations		**(4,506)**	(38,358)
		(18,105)	(54,028)
		(221,656)	104,928
(Loss)/earnings per share:			
Basic and diluted (RMB cents)	*14*		
– from continuing operations		**(2.36)**	2.49
– from discontinued operations		**(0.46)**	(0.65)
– from continuing and discontinued operations		**(2.82)**	1.84

The notes on pages 67 to 175 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 13.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019 *(Expressed in Renminbi)*

	Notes	**31 December 2019 RMB$'000**	31 December 2018 RMB$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*16*	**104,762**	234,588
Right-of-use assets	*17*	**130,262**	–
Leasehold land and land use rights	*17*	**–**	28,083
Investment properties	*18*	**48,639**	46,481
Goodwill	*19*	**–**	43,919
Other intangible assets	*20*	**2,663**	48,578
Amounts due from related parties	*34(b)*	**–**	24,262
Deferred tax assets	*28*	**42,866**	18,498
Financial assets at fair value through other comprehensive income	*29*	**36,216**	44,232
Other non-current assets		**–**	6,010
		365,408	494,651
Current assets			
Inventories	*22*	**202,808**	516,886
Tax recoverable		**1,479**	2,400
Trade receivables	*23(a)*	**146,541**	221,238
Deposits, prepayments and other receivables	*23(b)*	**1,119,238**	517,206
Amounts due from related parties	*34(b)*	**37,060**	678,816
Pledged time deposits	*32*	**–**	4,500
Cash and cash equivalents	*32*	**64,697**	134,460
		1,571,823	2,075,506
Current liabilities			
Bank and other borrowings, secured	*24*	**489,982**	552,309
Trade payables	*25(a)*	**238,927**	316,168
Accruals and other payables	*25(b)*	**181,787**	218,444
Contract liabilities	*25(c)*	**82,016**	214,320
Amount due to related parties	*34(c)*	**–**	66,523
Lease liabilities	*26*	**12,329**	–
Tax payable		**4,106**	12,439
Convertible bonds	*27*	**–**	182,520
		1,009,147	1,562,723
Net current assets		**562,676**	512,783
Total assets less current liabilities		**928,084**	1,007,434

	Notes	**31 December 2019 RMB$'000**	31 December 2018 RMB$'000
Non-current liabilities			
Lease liabilities	*26*	**105,630**	–
Deferred tax liabilities	*28*	**10,855**	22,010
		116,485	22,010
NET ASSETS		**811,599**	985,424
CAPITAL AND RESERVES			
Share capital	*30*	**556,286**	556,286
Reserves	*31*	**239,611**	443,162
Total equity attributable to equity shareholders of the Company		**795,897**	999,448
Non-controlling interests		**15,702**	(14,024)
TOTAL EQUITY		**811,599**	985,424

Approved and authorised for issue by the board of directors on 14 May 2020.

Tong Fei
Director

Zhang Jianxing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital RMB'000 *(Note 30)*	Share premium RMB'000 *(Note 31(i)(a)*	Statutory reserve fund RMB'000 *(Note 31(i)(b))*	Enterprise expansion fund RMB'000 *Note 31(i)(c))*	Capital redemption reserve RMB'000 *(Note 31(i)(d))*	Exchange reserve RMB'000 *(Note 31(i)(e))*	Others RMB'000 *(Note 31(i)(f))*	Accumulated losses RMB'000	Attributable to equity shareholders of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2019	556,286	1,482,219	61,750	2,756	1,545	(7,872)	75,228	(1,172,464)	999,448	(14,024)	985,424
Loss for the year	–	–	–	–	–	–	–	(191,108)	(191,108)	(18,105)	(209,213)
Other comprehensive loss	–	–	–	–	–	(4,427)	(8,016)	–	(12,443)	–	(12,443)
Total comprehensive loss for the year, net of tax	–	–	–	–	–	(4,427)	(8,016)	(191,108)	(203,551)	(18,105)	(221,656)
Forfeited share options *(Note 37)*	–	–	–	–	–	–	(16,530)	16,530	–	–	–
Disposal of subsidiaries *(Note 12)*	–	–	–	–	–	–	–	–	–	47,831	47,831
Deregistration of a subsidiary	–	–	(2,871)	–	–	–	–	2,871	–	–	–
At 31 December 2019	556,286	1,482,219	58,879	2,756	1,545	(12,299)	50,682	(1,344,171)	795,897	15,702	811,599
Balance at 1 January 2018	398,481	1,002,899	56,873	2,756	1,545	(28,062)	34,133	(1,272,204)	196,421	21,506	217,927
Impact on initial application of IFRS 9	–	–	–	–	–	–	–	(3,863)	(3,863)	(249)	(4,112)
Adjusted balance at 1 January 2018	398,481	1,002,899	56,873	2,756	1,545	(28,062)	34,133	(1,276,067)	192,558	21,257	213,815
Profit for the year	–	–	–	–	–	–	–	107,833	107,833	(54,028)	53,805
Other comprehensive income	–	–	–	–	–	20,190	30,933	–	51,123	–	51,123
Total comprehensive income/ (loss) for the year, net of tax	–	–	–	–	–	20,190	30,933	107,833	158,956	(54,028)	104,928
Transfer of reserves	–	–	4,877	–	–	–	–	(4,877)	–	–	–
Conversion of convertible bonds *(Note 27)*	1,919	5,673	–	–	–	–	–	–	7,592	–	7,592
Shares issued under share subscription agreement	155,886	473,647	–	–	–	–	–	–	629,533	–	629,533
Capital injection from non-controlling shareholders	–	–	–	–	–	–	10,809	–	10,809	1,190	11,999
Forfeited share options *(Note 37)*	–	–	–	–	–	–	(647)	647	–	–	–
Acquisition of subsidiary *(Note 44)*	–	–	–	–	–	–	–	–	–	18,028	18,028
Disposal of subsidiary	–	–	–	–	–	–	–	–	–	(471)	(471)
At 31 December 2018	556,286	1,482,219	61,750	2,756	1,545	(7,872)	75,228	(1,172,464)	999,448	(14,024)	985,424

The notes on pages 67 to 175 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 RMB$'000	2018 RMB$'000
Operating activities			
(Loss)/profit before taxation			
– From continuing operations		**(207,350)**	132,682
– From discontinued operation		**(35,278)**	(50,913)
		(242,628)	81,769
Adjustments for:			
– Write-down of inventories	*9*	**579**	439
– Recoverable of inventory impairment		**–**	(1,558)
– Amortisation of other intangible assets	*20*	**1,082**	1,082
– Depreciation of property, plant and equipment	*9,12,16*	**43,657**	44,857
– Depreciation of right-of-use assets	*17*	**43,957**	–
– Allowance for expected credit losses	*9,12*	**16.044**	9,228
– Impairment of goodwill	*19*	**19,967**	–
– Interest income	*7,12*	**(3,836)**	(62,140)
– Interest expenses	*8,12*	**69,997**	43,508
– (Gain)/loss on disposal of property, plant and equipment	*7,12*	**(259)**	1,703
– Fair value change on investment properties	*18*	**(2,158)**	(83)
– Gain on disposal of subsidiaries and an associate	*12*	**(1,165)**	(178)
– Gain on bargain purchase	*7*	**–**	(13,837)
– Fair value change of conversion option	*27*	**(13,624)**	(152,588)
Operating cash flows before working capital changes		**(68,387)**	(47,798)
Decrease in inventories		**280,075**	23,995
Decrease in trade receivables		**61,783**	34,671
Decrease in deposits, prepayments and other receivables		**29,230**	125,047
Increase in trade payables		**35,987**	25,198
Decrease in accruals and other payables, and contract liabilities		**(7,851)**	(214,238)
Decrease in amounts due to related parties		**(66,523)**	(45,423)
Decrease in other non-current asset		**1,008**	–
Decrease in loans and other borrowings for automobile dealership and service		**(206,056)**	–
Cash generated from/(used in) operations		**59,266**	(98,548)
Income tax paid		**(5,682)**	(703)
Net cash generated from/(used in) operating activities		**53,584**	(99,251)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 RMB$'000	2018 RMB$'000
Investing activities:			
Purchase of property, plant and equipment	*16*	**(37,394)**	(54,578)
Investment in financial assets at fair value through other comprehensive income		**–**	(13,299)
Proceeds from disposal of property, plant and equipment and investment properties		**19,268**	10,236
Loans to third parties		**(134,370)**	(154,430)
Loans repaid by third parties		**131,430**	123,500
Net cash outflow for acquiring of subsidiaries	*44*	**–**	(349,801)
Net cash inflow for disposal of subsidiaries	*12*	**3,815**	4,192
Interest received		**2,751**	59,202
Withdrawal of pledged bank deposits		**4,000**	–
Net cash used in investing activities		**(10,500)**	(374,978)
Financing activities			
Capital received from non-controlling owners of a subsidiary		**–**	11,999
Proceeds from new bank loans		**189,080**	630,340
Repayment of bank loans		**(196,177)**	(614,985)
Repayment of lease liabilities		**(40,383)**	–
Interest paid		**(66,517)**	(17,034)
Proceeds from issue of share under subscription agreements, net		**–**	450,121
Net cash (used in)/generated from financing activities		**(113,997)**	460,441
Net decrease in cash and cash equivalents		**(70,913)**	(13,788)
Cash and cash equivalents at the beginning of the year		**134,460**	132,944
Effect of foreign exchange rate changes		**1,150**	15,304
Cash and cash equivalents at the end of the year		**64,697**	134,460
Analysis of the balances of cash and cash equivalents			
Cash at bank and in hand		**64,697**	134,460

The notes on pages 67 to 175 form part of these financial statements.

1. ORGANISATION AND PRINCIPAL ACTIVITIES

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

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture and sale of electronic and power-related automotive parts and accessories; and trading of automobile accessories and operating the 4S dealership stores and related business. The Company and its subsidiaries are collectively referred to as the Group.

The directors of the Company (the "Directors") regard CDH Fast Two Limited, a company incorporates in the British Virgin Islands (the "BVI") as the immediate holding company, and China Diamond Holdings Company Limited, a company incorporated in BVI as the ultimate holding company.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

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

– Investment properties;

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

– Derivative financial instruments included in convertible bonds.

2. BASIS OF PREPARATION *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

(c) Functional and presentation currency

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

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

New and amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("ISAB") for the first time in the current year:

IAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
IFRSs (Amendments)	Annual Improvements to IFRSs 2015–2017 Cycle
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation
IFRS 16	Leases
IFRIC – Int 23	Uncertainty over Income Tax Treatment

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 Leases ("IAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessor

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact on leases where the Group is the lessor. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

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

IFRS 16 Leases *(Continued)*

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

(i) excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

(ii) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment.

(iii) relied on the assessment of whether leases are onerous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review.

(iv) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination option.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities range from 4.61% to 4.83%.

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

IFRS 16 Leases *(Continued)*

The following table reconciles the operating lease commitment as disclosed in annual report as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	As at 1 January 2019 RMB'000
Operating lease commitment disclosed as at 31 December 2018	569,163
Lease liabilities discounted at relevant incremental borrowing rates	438,067
Less: Lease cancelation	(204,269)
Less: Recognition exemption – short-term leases	(3,877)
Lease liabilities as at 1 January 2019	229,921
Analysed as:	
Current	46,708
Non-current	183,213
Lease liabilities as at 1 January 2019	229,921

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of consolidated financial position at 1 January 2019.

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

IFRS 16 Leases *(Continued)*

The carrying amount of right-of-use assets as at 1 January 2019 comprise the following:

	As at 1 January 2019 RMB'000
Right-of-use assets relating to operation lease recognised upon application of IFRS 16	229,921
Add: reclassification from leasehold land and land use rights	28,083
	258,004
By class:	
Rental premises	229,921
Leasehold land and land use right	28,083
	258,004

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position as at 1 January 2019. Line items that were not affected by the charges have not been included.

Consolidated Statement of Financial Position (extracted)	**Carrying amount previously reported at 31 December 2018** RMB'000	**Reclassification** RMB'000	**Adjustments** RMB'000	**Carrying amount under IFRS 16 at 1 January 2019** RMB'000
Non-current assets				
Right-of-use assets *(note 1)*	–	28,083	229,921	258,004
Leasehold land and land use rights *(note 2)*	28,083	(28,083)	–	–
Current liabilities				
Lease liabilities	–	–	46,708	46,708
Non-current liabilities				
Lease liabilities	–	–	183,213	183,213

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

IFRS 16 Leases *(Continued)*

Note:

(1) The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets of RMB229,921,000 and lease liabilities of RMB229,921,000 at the initial adoption of IFRS 16.

(2) Upfront payments for leasehold land and land use rights in the PRC own used properties were classified as prepaid land lease payments as at 31 December 2018. Upon application of IFRS 16, the prepaid land lease payments amounting of RMB28,083,000 were classified to right-of-use assets.

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

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

IAS 1 and IAS 8 (Amendments)	Definition of Material[1]
IFRS 3 (Amendments)	Definition of a Business[2]
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of Assets between an Investor and it Associate or Joint Venture[4]
IFRS 17	Insurance Contracts[3]
IFRS 9, IAS 39 and IFRS 7 (Amendments)	Interest Rate Benchmark Reform[1]

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

In addition to the above new and amendments to IFRSs, a revised "Conceptual Framework for Financial Reporting" was issued in 2018. Its consequential amendments, the "Amendments to References to the Conceptual Framework" in IFRS Standards, will be effective for annual periods beginning on or after 1 January 2020. The directors of the Company anticipate that the application of the new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

4. PRINCIPAL ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affects its returns.

The Company 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 listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Business combination and basis of consolidation *(Continued)*

Basis of consolidation (Continued)

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 and IAS 19 respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see below); and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 are measured in accordance with that Standard.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Business combination and basis of consolidation *(Continued)*

Business combinations (Continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held interests (including joint operations) in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

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

(b) Discontinued operations

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(c) Goodwill

Goodwill arising on the acquisition of a business is carried at cost as established at the date of acquisition of business (see accounting policy above) less any accumulated impairment losses, if any.

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

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. Depreciation of these assets commences when the assets are ready for their intended use. The historical cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Freehold lands are not depreciated and are measured at cost less subsequent accumulated impairment losses.

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “right-of-use assets” (upon application of IFRS 16) or “prepaid lease payments / (other to specify)” (before application of IFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(e) Leasehold land and land use rights

Payment for obtaining leasehold land and land use rights is considered as prepaid operating lease payment. Leasehold land and land use rights are stated at cost less accumulated amortisation and any accumulated impairment losses, amortisation is charged to profit or loss over the period of the rights or the term of the respective enterprise to which the land use rights are granted, whichever is the shorter, using the straight-line method.

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

(f) Investment properties

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Other intangible assets

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

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

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

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

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

(h) Impairment of other assets

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

– property, plant and equipment (other than properties carried at revalued amounts);

– pre-paid interests in leasehold land classified as being held under an operating lease;

– intangible assets; and

– right-of-use assets.

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, leasehold land and land use rights, right-of-use assets, intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

– Calculation of recoverable amount

The recoverable amount of property, plant and equipment, leasehold land and land use rights, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Government grants

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

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

(j) Inventories

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

(k) Trade and other receivables

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

(l) Convertible bonds

(i) Convertible bonds that contain an equity component

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

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Convertible bonds *(Continued)*

(i) Convertible bonds that contain an equity component (Continued)

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

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

(ii) Other convertible bonds

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

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

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

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Convertible bonds *(Continued)*

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

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

– the passage of time;

– the action of a party; or

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

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

(m) Derivative financial instruments

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

(n) Interest-bearing borrowings

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

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

(o) Trade and other payables

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

(p) Cash and cash equivalents

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

(q) Operating leases (prior to 1 January 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight line basis over the lease term. Where the Group is the lessee, operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) Provisions

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

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

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

(s) Taxation

The income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit or loss before tax because of income or expense that are taxable or deductible in other years that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) Taxation *(Continued)*

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(t) Leases

The Group as a lessee (applicable from 1 January 2019)

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(t) Leases *(Continued)*

The Group as a lessee (applicable from 1 January 2019) (Continued)

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(t) Leases *(Continued)*

The Group as a lessee (applicable from 1 January 2019) (Continued)

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position. The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the "Right-of-use assets" policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other expenses" in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(t) Leases *(Continued)*

The Group as a lessor (applicable from 1 January 2019)

The Group enters into lease agreements as a lessor with respect to some of its investment properties. The Group also rents equipment to retailers necessary for the presentation and customer fitting and testing of footwear and equipment manufactured by the Group.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

When a contract includes both lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

(u) Foreign currencies

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

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(v) Employees' benefits

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

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

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

(i) Short-term benefits

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

(ii) Defined contribution pension obligations

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

(iii) Termination benefits

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(w) Equity-settled share-based payment transactions

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

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

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

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

(x) Borrowing costs

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

(y) Related parties

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

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

(ii) has significant influence over the Group; or

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(y) Related parties *(Continued)*

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

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

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

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

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

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

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

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

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

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(z) Revenue and other income

Revenue from contracts with customers

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

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

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

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

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

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

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

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

(i) Sale of goods

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

4. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

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

(ii) Service income

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

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

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

(iii) Interest income

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

(iv) Government grants

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

(v) Dividends income from equity instruments

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

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

(aa) Contingent liabilities

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

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(bb) Segment reporting

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

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

(cc) Financial instruments

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

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

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

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(cc) Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

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

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

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

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of IFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(cc) Financial instruments *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

Amortised cost and interest income

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

Financial assets at FVTPL

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

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

Impairment of financial assets

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

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

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(cc) Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

Significant increase in credit risk

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

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

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

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

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(cc) Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

Definition of default

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

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

Credit-impaired financial assets

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

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

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

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

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

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

Write-off policy

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

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

(cc) **Financial instruments** *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

Measurement and recognition of ECL

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

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

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

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

- Past-due status;

- Nature, size and industry of debtors; and

- External credit ratings where available.

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

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

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(cc) Financial instruments *(Continued)*

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at amortised cost

Financial liabilities including trade payables, accruals and other payables, amount due to related parties, lease liabilities, bank and other borrowings and convertible bonds, are subsequently measured at amortised cost, using the effective interest method.

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(cc) Financial instruments *(Continued)*

Financial guarantee contract liabilities

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9 (see financial assets above); and

- the amount recognised initially less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognised in profit or loss as the modification gain or loss within other gains and losses.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

(a) Critical judgments in applying accounting policies

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

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

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

(ii) Other intangible assets and amortization

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

(b) Key sources of estimation uncertainty

Information about assumption and estimation uncertainties that has a significant risk of resulting in a material adjustment in the year ended 31 December 2019 includes the following:

(i) Impairment assessment of plant and equipment and right-of-use assets

The Group reviews its plant and equipment and right-of-use assets for indications of impairment at each reporting period. In analysing potential impairments identified, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(ii) Impairment assessment of goodwill

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

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

(b) Key sources of estimation uncertainty *(Continued)*

(iii) Impairment of non-financial assets (other than goodwill)

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

(iv) Allowance for expected credit losses recognised in respect for the financial assets

The loss allowances for financial assets are based on assumption about risk of default and expected loss rates. The Group use judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period.

Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables, other receivables, loan receivables, deposit and prepayment and amounts due from related parties is disclosed in notes 23(a), 23(b), 34(b) and 40(a) to the financial statements, respectively.

(v) PRC corporate income taxes and deferred taxation

The Company's subsidiaries that operate in the PRC are subject to income tax in the PRC. Management judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

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

(b) Key sources of estimation uncertainty *(Continued)*

(vi) Fair value measurement of financial asset at FVTOCI

The fair value measurement of financial asset at FVTOCI were categorised within Level 3 of the fair value hierarchy, which required significant judgments and estimates by considering factors including market conditions. The fair value of the financial asset at FVTOCI will be revised upward or downward where future performance are different from previous forecast. The fair value of the financial asset at FVTOCI and corresponding significant unobservable input of the valuation are disclosed in note 41(b).

(vii) Provision for inventories

The Group reviews the carrying amounts of the inventories at the respective balance sheet dates to determine whether the inventories are carried at lower of cost and net realisable value. Management estimates the net realisable value based on current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories writedown or the related reversals of write-down and affect the Group's net asset value.

6. REVENUE AND SEGMENT INFORMATION

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

Continuing operations:

	2019 **RMB'000**	2018 RMB'000 (Restated)
Recognised at a point in time:		
Sales of goods	**1,528,631**	1,322,195
Services income	**222,001**	90,688
	1,750,632	1,412,883

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(a) Reportable segment

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

Continuing operations

The Group operates in three reportable segments: (i) the manufacture and sale of automobile accessories (the "Manufacturing Business"); (ii) trading of automobile accessories (the "Wholesale Business"); and (iii) operating the 4S dealership stores and related business (the "Automobile Dealership and Service Business").

During the year ended 31 December 2019, the segment of provision of automobile repair maintenance and restyling services (the "Retail Service Business") was discontinued.

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

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(a) Reportable segment

Set out below is an analysis of segment information:

	Continuing operations								Discontinued operation			
	The Manufacturing Business		The Wholesale Business		Automobile Dealership and Service Business		Sub-total		The Retail Service Business		Total	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
External revenue	468,050	595,182	61,285	234,747	1,221,297	582,954	1,750,632	1,412,883	195,815	379,665	1,946,447	1,792,548
Inter-segment revenue	–	77	–	4	–	–	–	81	–	–	–	81
Segment revenue	468,050	595,259	61,285	234,751	1,221,297	582,954	1,750,632	1,412,964	195,815	379,665	1,946,447	1,792,629
Reportable segment results	(34,091)	3,860	(15,020)	(29,218)	(112,684)	5,206	(161,795)	(20,152)	(35,279)	(52,431)	(197,074)	(72,583)
Interest income	1,995	740	32	137	604	168	2,631	1,045	95	451	2,726	1,496
Unallocated interest income							1,110	60,644			1,110	60,644
Total interest income							3,741	61,689	95	451	3,836	62,140
Interest expenses	(1,142)	(1,097)	(102)	–	(23,835)	(2,947)	(25,079)	(4,044)	(6,607)	(853)	(31,686)	(4,897)
Unallocated interest expenses							(38,311)	(38,611)			(38,311)	(38,611)
Total interest expenses							(63,390)	(42,655)			(69,997)	(43,508)
Impairment loss on goodwill	–	–	–	–	–	–	–	–	(19,967)	–	(19,967)	–
Depreciation and amortisation charges	(15,037)	(11,578)	(2,788)	(1,864)	(13,234)	(4,039)	(31,059)	(17,481)	(54,960)	(26,985)	(86,019)	(44,466)
Unallocated depreciation and amortisation charges							(2,677)	(1,473)			(2,677)	(1,473)
Total depreciation and amortisation charges							(33,736)	(18,954)	(54,960)	(26,985)	(88,696)	(45,939)
Reportable segment assets	322,070	424,736	41,026	85,600	1,164,724	1,351,099	1,527,820	1,861,435	–	361,459	1,527,820	2,222,894
Additions to non-current assets	17,044	11,751	592	871	15,738	15,161	33,374	27,783	4,013	26,083	37,387	53,866
Unallocated additions to non-current assets							7	712			7	712
Total additions to non-current assets							33,381	28,495			37,394	54,578
Reportable segment liabilities	350,332	352,558	25,142	54,230	562,566	671,177	938,040	1,077,965	–	304,113	938,040	1,382,078

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

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

Continuing operations:

	2019 RMB'000	2018 RMB'000 (Restated)
Loss before taxation		
Reportable segment loss	**(161,795)**	(20,152)
Unallocated other revenue and gains and losses, net	**17,210**	222,003
Unallocated corporate expenses	**(24,454)**	(30,558)
Unallocated finance costs	**(38,311)**	(38,611)
Consolidated (loss)/profit before taxation	**(207,350)**	132,682

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Assets:		
Reportable segment assets	**1,527,820**	2,222,894
Unallocated corporate assets	**409,411**	347,263
Consolidated total assets	**1,937,231**	2,570,157
Liabilities:		
Reportable segment liabilities	**938,040**	1,382,078
Unallocated corporate liabilities	**187,592**	202,655
Consolidated total liabilities	**1,125,632**	1,584,733

For the purposes of resource allocation and performance assessment between segments:

- all expenses are allocated to reportable segments, other than partial administrative expense and partial other operating expenses; and
- all assets are allocated to reportable segments, other than partial deposit, prepayment and other receivables, partial cash and bank balance, partial property, plant and equipment, amount due from related parties, partial right-of-use assets and financial assets at FVTOCI; and
- all liabilities are allocated to reportable segments, other than partial bank and other borrowings, partial accruals and other payables and partial lease liabilities and non-current lease liabilities.

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

(c) Geographical information

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

	Revenue from external customers		Specified non-current assets	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
PRC (Place of domicile)	**1,400,043**	956,453	**286,326**	401,649
America	**299,446**	402,623	**–**	–
Europe	**17,381**	19,772	**–**	–
Asia Pacific	**33,762**	34,035	**–**	–
	1,750,632	1,412,883	**286,326**	401,649

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

(d) Major customers

During the year, the Group's customer base is diversified and there was no customer (2018: Nil) with whom transactions exceeded 10% of the Group's revenue.

7. OTHER REVENUE AND GAINS AND LOSSES, NET

	2019 RMB'000	2018 RMB'000 (Restated)
Continuing operations:		
Fair value change of conversion option *(Note 27)*	**13,624**	152,588
Gain on bargain purchase	**–**	13,837
Exchange gain, net	**2,021**	12,098
Interest income	**3,741**	61,689
Fair value gains on investment properties *(Note 18)*	**2,158**	83
Gross rentals from investment properties and other rental income *(Note 18)*	**3,072**	2,455
Gain/(loss) on disposal of property, plant and equipment	**573**	(777)
Government subsidies	**3,486**	1,122
Written-off of other receivable	**(15,000)**	–
Provision of financial guarantee	**(10,171)**	–
Others	**649**	1,558
	4,153	244,653

8. FINANCE COSTS

	2019 RMB'000	2018 RMB'000 (Restated)
Continuing operations:		
Interests on convertible bonds *(Note 27)*	**24,298**	33,006
Interests on bank and other borrowings within five years	**33,605**	9,649
Interests on lease liabilities	**5,487**	–
	63,390	42,655

9. (LOSS)/PROFIT BEFORE TAXATION

Continuing operations:

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

	2019 RMB'000	2018 RMB'000 (Restated)
Cost of inventories*	**1,609,971**	1,252,266
Write-down of inventories	**579**	439
	1,610,550	1,252,705
Depreciation of property, plant and equipment	**22,812**	18,460
Depreciation of right-of-use assets	**10,924**	–
Amortisation of leasehold land and land use rights	**–**	494
Allowance for credit losses on trade receivables, other receivables and amounts due from related parties	**16,044**	9,131
Written-off of other receivable *(Note 12)*	**15,000**	–
Provision of financial guarantee	**10,171**	–
Auditors' remuneration		
– audit services	**2,930**	2,930
– other services	**–**	3,750
Operating lease charges	**–**	12,839
Employee benefit expenses (including directors' remuneration)		
Salaries and allowances	**152,645**	128,999
Retirement scheme contributions	**19,057**	19,268
Other benefits	**2,363**	12,250
Total employee benefit expenses	**174,065**	160,517

* Costs of inventories includes RMB46,422,000 (2018: RMB61,208,000) relating to employee benefit expenses, depreciation and amortisation charges, which are also included in the respective total amounts disclosed separately above.

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

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

	2019					
	Directors' fees RMB'000	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Retirement Scheme contributions RMB'000	Share-based payments RMB'000	Total RMB'000
Executive director:						
Tong Fei *(Note 1)*	–	1,345	–	–	–	1,345
Du Jinglei *(Note 2)*	–	–	–	–	–	–
Non-executive directors:						
Wang Zhenyu	–	–	–	–	–	–
Zhang Jianxing (Acting Chairman) *(Note 3)*	–	–	–	–	–	–
Independent non-executive directors:						
Hu Yuming	100	–	–	–	–	100
Lin Lei	100	–	–	–	–	100
Zhang Xiaoya	100	–	–	–	–	100
	300	1,345	–	–	–	1,645

Notes:

(1) Tong Fei was appointed as executive director on 1 July 2019.

(2) Du Jinglei resigned as the chairman of the Board and the executive director on 1 July 2019.

(3) Zhang Jianxing was appointed as acting Chairman on 1 July 2019.

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

(a) Directors' remuneration *(Continued)*

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

No discretionary bonus, inducement fee, employer's contribution to retirement scheme or compensation for loss of office as directors was given to any of the directors during the year (2018: Nil).

No director has waived or agreed to waive any emolument paid by the Group during the year (2018: Nil).

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2019 included one director (2018: Nil) whose emolument is reflected in the analysis presented in Note 10(a) above.

The emoluments paid or payment to the four non-director (2018: five) highest paid employees who are not directors of the Company are as follows:

	2019 **RMB'000**	2018 RMB'000
Salaries and other allowances	**3,693**	4,625
Retirement scheme contributions	**55**	142
Share-based payments	**–**	–
Total	**3,748**	4,767

The emoluments of the four (2018: five) individuals with the highest emoluments who are not directors of the Company are within the following bands:

	2019	2018
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**3**	4
Total	**4**	5

11. INCOME TAX

(a) Income tax (credit)/expenses in the consolidated statement of profit or loss and other comprehensive income represents:

	2019 RMB'000	2018 RMB'000
Current Tax		
Provision for the year	**10,506**	8,923
Over-provision in respect of prior year	**(12,236)**	(4,375)
	(1,730)	4,548
Deferred tax		
Origination and reversal of temporary differences, net	**(31,685)**	23,416
	(33,415)	27,964
Continuing operations	**(33,804)**	2,314
Discontinuing operations	**389**	25,650
	(33,415)	27,964

(b) No provision for Hong Kong profits tax has been made as the Group had no taxable profits arising in Hong Kong for the years ended 31 December 2019 and 2018. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

The applicable PRC income tax rate is 25% (2018: 25%) for the year. One major PRC subsidiary of the Company, renewed the qualification of high and new technology enterprise in the PRC, is entitled to a preferential income tax rate of 15% (2018: 15%) for three years from 1 January 2018.

11. INCOME TAX *(Continued)*

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

	2019 RMB'000	2018 RMB'000
(Loss)/profit before taxation		
– Continued operations	**(207,350)**	132,682
– Discontinued operations	**(35,278)**	(50,913)
	(242,628)	81,769
Tax calculated at applicable tax rate of 25% (2018:25%)	**(60,657)**	20,442
Tax effect of non-deductible expenses	**4,975**	903
Unrecognised tax losses	**25,277**	48,314
Effect of preferential tax treatments and tax exemptions	**(1,457)**	(1,643)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**10,683**	(35,677)
Over provision in respect of prior year	**(12,236)**	(4,375)
Tax (credit)/expense	**(33,415)**	27,964

12. DISCONTINUED OPERATION

On 4 September 2019, New Focus Lighting and Power Technology (Shanghai) Co., Ltd ("NFLP"), a subsidiary indirectly controlled by the Company and a shareholder holding 61% equity interests in Changchun Guangda Automobile Trading Co., Ltd ("Changchun Guangda"), entered into a share purchase agreement with Mr. Wu Yande, a director and shareholder of Changchun Guangda, and his spousal, pursuant to the sale and purchase agreement which Mr. Wu Yande agreed to purchase all equity interests held by NFLP in Changchun Guangda. The disposal of 61% equity interests in Changchun Guangda and its subsidiaries completed on 12 September 2019 and Changchun Guangda is no longer a subsidiary of the Company.

	From 1 January 2019 to 12 September 2019 (Completion date) RMB'000	Year ended 31 December 2018 RMB'000
Loss from the retail services business for the period/year	**(21,421)**	(9,486)
Loss on disposal	**(17,837)**	–
Loss for the period/year from Changchun Guangda	**(39,258)**	(9,486)

12. DISCONTINUED OPERATION *(Continued)*

Analysis of the results of the Changchun Guangda are set out below:

	From 1 January 2019 to 12 September 2019 (Completion date) RMB'000	Year ended 31 December 2018 RMB'000
Revenue	**18,299**	54,921
Cost of sales	**(20,177)**	(44,247)
Gross profit	**(1,878)**	10,674
Other revenue and gains and losses, net	**12**	416
Distribution costs	**(9,130)**	(15,655)
Administrative expenses	**(10,704)**	(4,938)
Finance costs	**(9)**	–
Loss before operations	**(21,709)**	(9,503)
Taxation	**288**	17
Loss for the period/year	**(21,421)**	(9,486)
Loss for the period/year attributable to:		
Owners of the Company	**(21,425)**	(4,078)
Non-controlling interest	**4**	(5,408)
	(21,421)	(9,486)

12. DISCONTINUED OPERATION *(Continued)*

Loss for the period/year from Changchun Guangda has been arrived at after (crediting)/charging:

	From 1 January 2019 to 12 September 2019 (Completion date) RMB'000	Year ended 31 December 2018 RMB'000
Cost of inventories	**9,906**	24,135
Depreciation of property, plant and equipment	**2,876**	2,330
Depreciation of right-of-use assets	**529**	–
Amortisation of leasehold land and land use rights	**–**	575
Allowance for credit losses on trade receivables and other receivables	**–**	(23)
Operating lease charges	**–**	7,035
Interest income	**(57)**	(422)
Interest expenses	**9**	–
Loss on disposal of property, plant and equipment	**181**	–
Employee benefit expenses		
Salaries and allowances	**10,901**	19,621
Retirement scheme contributions	**298**	2,466
Other benefits	**33**	769
Total employee benefit expenses	**11,232**	22,856

12. DISCONTINUED OPERATION *(Continued)*

	RMB'000
Consideration received	12,000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	11,671
Right-of-use assets	13,170
Other intangible assets	37,892
Deferred tax assets	1,498
Inventories	4,107
Trade receivables	2,653
Deposits, prepayments and other receivables	14,376
Pledged time deposits	500
Cash and cash equivalents	6,419
Trade payables	(2,739)
Accruals and other payables	(20,481)
Lease liabilities – Current	(287)
Deferred tax liabilities	(9,473)
Net assets disposed of	59,306
Loss on disposal of subsidiaries:	
Consideration receivable	12,000
Net assets disposed of	(59,306)
Non-controlling interest	29,469
Loss on disposal	(17,837)
Net cash inflow arising on disposal:	
Consideration received	12,000
Less: cash and cash equivalents balance disposed	(6,419)
	5,581

Cash flows for the period/year from discontinued operation were as follows:

Net cash flows used in operating activities	(15,048)
Net cash flows used in investing activities	(86)
Net cash flows used in financing activities	–
Net cash outflows from discontinued operation	(15,134)

12. DISCONTINUED OPERATION *(Continued)*

On 22 November 2019, New Focus Lighting and Power Technology (Shanghai) Co., Ltd. ("New Focus Lighting & Power"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Beijing Aiyihang Auto Service Ltd. ("Beijing Aiyihang"), Shanghai Shangzhi Technology Partnership (Limited Partnership) ("Shanghai Shangzhi") and Pingtan Shangzhi Investment Partnership (Limited Partnership) ("Pingtan Shangzhi"). Xing Aiyi, the founder and a director of Beijing Aiyihang, who held 38.8% equity interests in Beijing Aiyihang through a company, is a partner of Shanghai Shangzhi, and contributed 1% of its capital contribution. He is also a partner of Pingtan Shangzhi, and contributed 28% of its capital contribution. Pursuant to the equity transfer agreement, New Focus Lighting & Power transferred its 43% and 15.2% equity interest held in Beijing Aiyihang to Shanghai Shangzhi and Pingtan Shangzhi respectively (the "Beijing Aiyihang Equity Disposal") each for a consideration of RMB1. The completion of the Beijing Aiyihang Equity Disposal took place on 13 December 2019, and Beijing Aiyihang ceased to be a subsidiary of the Company.

Besides, according to the capital increase agreement, New Focus Lighting & Power confirmed that its right to repayment against Beijing Aiyihang in the aggregate amount of RMB65,000,000 and the corresponding interests will be discounted to RMB50,000,000. As the management considers that Beijing Aiyihang is not able to satisfy the qualifications within 3 years, the impairment for debts amounted to RMB15,000,000 has been recognised. For more details, please refer to Note 7.

	From 1 January 2019 to 13 December 2019 (Completion date) RMB'000	Year ended 31 December 2018 RMB'000
Loss from the retail services business for the period/year	**(15,411)**	(67,077)
Gain on disposal	**19,002**	–
Profit/(loss) for the period/year from Beijing Aiyihang	**3,591**	(67,077)

12. *DISCONTINUED OPERATION (Continued)*

Analysis of the results of Beijing Aiyihang are set out below:

	Note	**From 1 January 2019 to 13 December 2019 (Completion date) RMB'000**	Year ended 31 December 2018 RMB'000
Revenue		**177,516**	324,744
Cost of sales		**(140,780)**	(245,293)
Gross profit		**36,736**	79,451
Other revenue and gains and losses, net		**40,775**	(1,066)
Impairment loss on goodwill	*19*	**(19,967)**	–
Distribution costs		**(43,748)**	(70,569)
Administrative expenses		**(21,932)**	(48,373)
Finance costs		**(6,598)**	(853)
Loss before operations		**(14,734)**	(41,410)
Taxation		**(677)**	(25,667)
Loss for the period/year		**(15,411)**	(67,077)
Loss for the period/year attributable to:			
Owners of the Company		**(10,901)**	(34,127)
Non-controlling interest		**(4,510)**	(32,950)
		(15,411)	(67,077)

12. DISCONTINUED OPERATION *(Continued)*

Loss for the period/year from Beijing Aiyihang has been arrived at after (crediting)/charging:

	From 1 January 2019 to 13 December 2019 (Completion date) RMB'000	Year ended 31 December 2018 RMB'000
Cost of inventories	**62,356**	129,288
Depreciation of property, plant and equipment	**17,969**	22,998
Depreciation of right-of-use assets	**32,504**	–
Amortisation of other intangible assets	**1,082**	1,082
Allowance for credit losses on trade receivables, other receivables	**–**	120
Operating lease charges	**–**	37,785
Interest income	**(38)**	(29)
Interest expense	**6,598**	853
Loss on disposal of property, plant and equipment	**133**	926
Employee benefit expenses		
Salaries and allowances	**80,194**	122,139
Retirement scheme contributions	**2,638**	13,556
Other benefits	**673**	7,672
Total employee benefit expenses	**83,505**	143,367

12. DISCONTINUED OPERATION *(Continued)*

	RMB'000
Consideration	–*
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	92,883
Right-of-use assets	77,623
Goodwill	23,952
Other intangible assets	6,941
Deferred tax assets	5,872
Inventories	29,316
Trade receivables	22,024
Deposits, prepayments and other receivables	30,000
Cash and cash equivalents	1,766
Bank borrowings, secured	(16,228)
Trade payables	(98,489)
Accruals and other payables	(177,337)
Lease liabilities – Current	(42,075)
Long-term payables	(30,000)
Deferred tax liabilities	(1,735)
Lease liabilities -non current	(45,765)
Net liabilities disposed of	(121,252)
Gain on disposal of subsidiaries:	
Waiver of amount due to New Focus Lighting and Power Technology (Shanghai) Co. Ltd	(24,950)
Net liabilities disposed of	121,252
Non-controlling interest	(77,300)
Gain on disposal	19,002
Net cash outflow arising on disposal:	
Consideration received	–*
Less: cash and cash equivalents balance disposed	(1,766)
	(1,766)

Cash flows for the period/year from discontinued operation were as follows:

Net cash flows generated from operating activities	27,431
Net cash flows used in investing activities	(3,460)
Net cash flows used in financing activities	(30,102)
Net cash outflows from discontinued operation	(6,131)

* Pursuant to the equity transfer agreement, a consideration of RMB2.

13. DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil). No interim dividend was declared in respect of the year ended 31 December 2019 (2018: Nil).

14. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

Continuing and discontinued operations

The computation of the basic loss per share amount from continuing and discontinued operations are based on the loss for the year attributable to ordinary equity holders of the Company from continuing and discontinued operations of RMB191,108,000 (2018: profit attributable to ordinary equity shareholder of the Company RMB107,833,000) and the weighted average number of ordinary shares of 6,767,636,000 (2018: 5,870,809,000) during the year.

For the years ended 31 December 2019 and 2018, basic and diluted (loss)/earnings per share from continuing and discontinued operations were the same as the effect of the potential ordinary shares including the Company's share options and convertible bonds are anti-dilutive.

Continuing operations

The computation of the basic loss per share amount from continuing operations are based on the loss for the year attributable to ordinary equity holders of the Company from continuing operations of RMB159,947,000 (2018: profit attributable to ordinary equity shareholder of the Company RMB146,038,000) and the weighted average number of ordinary shares of 6,767,636,000 (2018: 5,870,809,000) during the year.

For the years ended 31 December 2019 and 2018, basic and diluted (loss)/earnings per share from continuing operations were the same as the effect of the potential ordinary shares including the Company's share options and convertible bonds are anti-dilutive.

Discontinued operation

The computation of the basic loss per share amount from discontinued operation are based on loss for the period attributable to ordinary equity holders of the Company from discontinued operations of RMB31,161,000 (2018: RMB38,205,000) and the weighted average number of ordinary shares of 6,767,636,000 (2018: 5,870,890,000) during the year.

For the years ended 31 December 2019 and 2018, basic and diluted (loss)/earnings per share from discontinued operation were the same as the effect of the potential ordinary shares including the Company's share options and convertible bonds are anti-dilutive.

15. OTHER COMPREHENSIVE INCOME, NET OF TAX

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

	2019			2018		
	Before tax amount RMB'000	**Tax expense RMB'000**	**Net of tax amount RMB'000**	Before tax amount RMB'000	Tax expense RMB'000	Net of tax amount RMB'000
Exchange differences on translating foreign operations	**(4,427)**	**–**	**(4,427)**	20,190	–	20,190
Financial assets at fair value through other comprehensive income	**(8,016)**	**–**	**(8,016)**	30,933	–	30,933
	(12,443)	**–**	**(12,443)**	51,123	–	51,123

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

	2019 RMB'000	2018 RMB'000
Exchange differences on translating foreign operations:		
Exchange differences recognised during the period	**(4,427)**	20,190

	2019 RMB'000	2018 RMB'000
Financial assets at fair value through other comprehensive income:		
Changes in fair value recognised during the period	**(8,016)**	30,933

16. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RMB'000	Freehold land and buildings RMB'000	Leasehold improvement RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment furniture and fixtures RMB'000	Total RMB'000
Opening net carrying amount as at 1 January 2018	3,515	56,786	69,920	47,332	4,782	23,698	206,033
Additions	26,536	393	–	14,530	8,868	4,251	54,578
Transfers upon completion	(23,737)	–	22,457	1,280	–	–	–
Disposals	–	(33)	(115)	(720)	(9,465)	(1,792)	(12,125)
Depreciation charge for the year	–	(3,896)	(18,512)	(11,099)	(3,389)	(6,892)	(43,788)
Acquisition of a subsidiary *(Note 44)*	–	–	2,490	2,894	22,232	2,274	29,890
Net carrying amount as at 31 December 2018 and 1 January 2019	6,314	53,250	76,240	54,217	23,028	21,539	234,588
Additions	–	127	9,169	17,570	7,197	3,331	37,394
Transfers upon completion	(672)	–	474	198	–	–	–
Disposals	–	–	(537)	(371)	(17,661)	(440)	(19,009)
Depreciation charge for the year	–	(6,116)	(15,529)	(13,016)	(4,710)	(4,286)	(43,657)
Disposal of subsidiaries *(Note 12)*	(5,642)	(4,476)	(58,556)	(27,600)	(938)	(7,342)	(104,554)
Closing net carrying amount as at 31 December 2019	**–**	**42,785**	**11,261**	**30,998**	**6,916**	**12,802**	**104,762**
At 31 December 2018:							
Cost	6,314	92,408	152,425	190,134	47,720	91,055	580,056
Accumulated depreciation and impairment	–	(39,158)	(76,185)	(135,917)	(24,692)	(69,516)	(345,468)
	6,314	53,250	76,240	54,217	23,028	21,539	234,588
At 31 December 2019:							
Cost	–	83,376	21,325	153,788	22,743	63,163	344,395
Accumulated depreciation and impairment	–	(40,591)	(10,064)	(122,790)	(15,827)	(50,361)	(239,633)
	–	42,785	11,261	30,998	6,916	12,802	104,762

17. RIGHT-OF-USE ASSETS/LEASEHOLD LAND AND LAND USE RIGHTS

Right-of-use assets:

	Leasehold land and land use rights RMB'000	Leased properties RMB'000	Total RMB'000
Cost			
At 1 January 2019 *(Note 3)*	37,801	229,921	267,722
Additions	–	7,008	7,008
Disposal of subsidiary *(Note 12)*	(17,254)	(110,405)	(127,659)
At 31 December 2019	20,547	126,524	147,071
Accumulated depreciation			
At 1 January 2019 *(Note 3)*	9,718	–	9,718
Charge provided for the year	877	43,080	43,957
Disposal of subsidiary *(Note 12)*	(4,217)	(32,649)	(36,866)
At 31 December 2019	6,378	10,431	16,809
Net carrying amount			
At 31 December 2019	14,169	116,093	130,262
At 1 January 2019 (restated)	28,083	229,921	258,004

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

Certain leasehold land and land use rights of the Group were pledged to secure the bank borrowings of the Group as detailed in Note 24.

Upon initial application of IFRS 16, the leasehold land and land use rights were classified as right-of-use assets.

17. RIGHT-OF-USE ASSETS/LEASEHOLD LAND AND LAND USE RIGHTS *(Continued)*

Leasehold land and land use rights:

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

18. INVESTMENT PROPERTIES

	Note	**2019 RMB'000**	2018 RMB'000
At 1 January		**46,481**	46,398
Change in fair value	*7*	**2,158**	83
At 31 December		**48,639**	46,481

All investment properties of the Group are located outside Hong Kong, of which investment properties of RMB24,000,000 (2018: RMB21,870,000) and RMB24,639,000 (2018: RMB24,611,000) are held under long and medium terms respectively.

As at 31 December 2019, the fair value of investment properties was RMB48,639,000 (2018: RMB46,481,000) by Shanghai Jiace Real Estate Appraisal Co., Ltd., an independent firm of professionally qualified valuers recognised by the relevant PRC association of valuers with recent experience in the location and category of property being valued, on the following basis.

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

Details of the property rental income earned by the Group from its investment properties, all of which are leased out under operating leases, are set out in Notes 7 and 33.

Certain investment properties were pledged to secure the bank borrowings of the Group as detailed in Note 24.

As at 31 December 2019, the gross rentals from investment properties and other rental income at RMB3,072,000 (2018: RMB2,455,000).

18. INVESTMENT PROPERTIES *(Continued)*

Information about fair value measurements using significant unobservable input

The following table shows the valuation techniques used in the determination of fair values for investment properties and unobservable inputs used in the valuation models.

As at 31 December 2019

	Fair value Hierarchy	Valuation techniques	Fair Value RMB'000	Significant unobservable Inputs	Relationship of unobservable inputs to fair value
1)	Level 3	Income approach	24,000	Monthly market rent, taking into account the differences in location, and individual factors, such as frontage and size, between the comparable and the property, at an average of RMB36.17 per sqm per month.	A significant increase in the market rent used would result in a significant increase in fair value, and vice versa.
2)	Level 3	Income approach	24,639	Monthly market rent, taking into account the differences in location, and individual factors, such as frontage and size, between the comparable and the property, at an average of RMB173.60 per sqm per month.	A significant increase in the market rent used would result in a significant increase in fair value, and vice versa.

As at 31 December 2018

	Fair value Hierarchy	Valuation techniques	Fair Value RMB'000	Range of Unobservable inputs	Relationship of unobservable inputs to fair value
1)	Level 3	Income approach	21,870	Monthly market rent, taking into account the differences in location, and individual factors, such as frontage and size, between the comparable and the property, at an average of RMB32.55 per sqm per month.	A significant increase in the market rent used would result in a significant increase in fair value, and vice versa.
2)	Level 3	Income approach	24,611	Monthly market rent, taking into account the differences in location, and individual factors, such as frontage and size, between the comparable and the property, at an average of RMB170.42 per sqm per month.	A significant increase in the market rent used would result in a significant increase in fair value, and vice versa.

There were no transfers between levels 1, 2 and 3 in both year.

19. GOODWILL

	Note	2019 RMB'000	2018 RMB'000
As at 1 January		**43,919**	43,919
Impairment during the year		**(19,967)**	–
Disposal of subsidiary	12	**(23,952)**	–
As at 31 December		**–**	43,919

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

The carrying amount of goodwill is allocated as follows:

	2019 RMB'000	2018 RMB'000
Provision of automobile repair, maintenance and restyling services:		
Beijing Aiyihang Auto Services Ltd.	**–**	43,919
At 31 December	**–**	43,919

The recoverable amounts of the CGU were determined by the directors of the Company with the reference to professional valuation reports issued by Vincorn Consulting and Appraisal Limited (2018: RHL Appraisal Limited), independent firm of professionally qualified valuers, which were based on value-in-use calculations. All the calculations of recoverable amounts use cash flow projections based on financial budgets approved by the directors covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rates of 3% (2018: 3%). The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The impairment losses of goodwill for the year amounted to RMB19,967,000 (2018: nil).

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

	31 December 2019 %	31 December 2018 %
Gross margin	**21**	19-24
Growth rate within the forecast period	**0-9**	3-7
Discount rate	**19.34**	20.03-21.12

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

20. OTHER INTANGIBLE ASSETS

	Trademarks RMB'000	Cooperation agreement RMB'000	Total RMB'000
At 1 January 2018	40,555	9,105	49,660
Amortisation charge for the year	–	(1,082)	(1,082)
At 31 December 2018 and 1 January 2019	40,555	8,023	48,578
Amortisation charge for the year	–	(1,082)	(1,082)
Disposal of subsidiary *(Note 12)*	(37,892)	(6,941)	(44,833)
At 31 December 2019	**2,663**	**–**	**2,663**
At 31 December 2019:			
Cost	274,843	10,816	285,659
Accumulated amortisation and impairment	(234,288)	(3,875)	(238,163)
Disposal of subsidiary	(37,892)	(6,941)	(44,833)
Net carrying amount	2,663	–	2,663
At 31 December 2018:			
Cost	274,843	10,816	285,659
Accumulated amortisation and impairment	(234,288)	(2,793)	(237,081)
Net carrying amount	40,555	8,023	48,578

Included in the above intangible assets as at 31 December 2019 are certain trademarks, in relation to the acquisition of a subsidiary. Details of the impairment assessment of the CGUs are set out in Note 19.

As at end of reporting period, trademarks with cost of RMB231,649,000 (2018: RMB274,843,000) have indefinite useful lives as they are considered renewable at minimal costs. The directors of the Group are of the opinion that the Group would renew the trademarks continuously and has the ability to do so.

21. INTERESTS IN SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2019 are as follows:

Company name	Country/place and date of incorporation/ establishment	Legal form of entities for those established in the PRC	Registered capital/share capital	Issued and fully paid up capital	Percentage of attributable equity interest	Principal activities/place of operation
Interests directly held:						
Perfect Progress Investments Limited ("Perfect Progress")	The British Virgin Islands 8 April 2002	–	US$50,000 Ordinary shares	US$500	100%	Investment Holding/ Hong Kong
New Focus Auto Tech International Limited	The British Virgin Islands 2 April 2007	–	US$1 Registered capital	US$1	100%	Sale of automobile accessories/ Hong Kong
New Focus Auto Autolife Holdings Limited	Hong Kong 16 November 2010	–	HK$10,000 Registered capital	HK$1	100%	Investment/ Hong Kong
Interests indirectly held:						
New Focus Lighting and Power Technology (Shanghai) Co., Ltd. ("New Focus Lighting & Power")	The PRC 24 April 2001	Wholly-owned foreign enterprise	US$67,800,000 Registered capital	US$67,800,000	100%	Manufacture and sale of autombile Accessories/The PRC
Liaoning Xin Tian Cheng Industrial Co., Limited ("Liaoning XTC")	The PRC 24 April 2001	Limited liability company	RMB20,000,000 Registered capital	RMB20,000,000	50.098%	Trading of automobile
Shandong New Focus Longsheng Auto Parts Co. Ltd.	The PRC 26 April 2006	Limited liability company	US4,012,700 Registered Capital	US$4,012,700	59%	Manufacture and sale of automobile accessories/ The PRC

21. INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Country/place and date of incorporation/ establishment	Legal form of entities for those established in the PRC	Registered capital/share capital	Issued and fully paid up capital	Percentage of attributable equity interest	Principal activities/place of operation
Zhejiang Autoboom Industrial Co., Limited ("Zhejiang Autoboom")	The PRC December 2008	Limited liability company	RMB28,000,000 Registered capital	RMB28,000,000	50.098%	Trading of automobile products/the PRC
Ningbo Meishan Bonded Port Area Chifeng Investment Management Co., Ltd.	The PRC 29 August 2016	Limited liability company	Registered capital RMB10,000,000	RMB50,000	100%	Investment Holdings/ The PRC
Inner Mongolia Chuangying Automobile Co., Ltd.	The PRC 9 February 2018	Limited liability company	RMB627,339,666 Registered capital	RMB627,339,666	100%	Distribution of automobile insurance and financial products; sales of automobile products/ The PRC

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

21. INTERESTS IN SUBSIDIARIES *(Continued)*

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

Liaoning XTC

	2019 RMB'000	2018 RMB'000
NCI percentage	**49.902%**	49.902%
Current assets	**34,754**	79,272
Non-current assets	**5,911**	6,534
Current liabilities	**(59,477)**	(88,207)
Non-current liabilities	**(1,112)**	(692)
Net liabilities	**(19,924)**	(3,093)
Carrying amount of NCI	**(9,442)**	(1,543)
Revenue	**61,535**	236,195
Loss for the year	**(16,830)**	(29,461)
Total comprehensive loss	**(16,830)**	(29,461)
Loss attributable to NCI	**(8,399)**	(14,701)
Cash flows (used in)/generated from operating activities	**(9,653)**	28,834
Cash flows generated from/(used in) investing activities	**34,720**	(518)
Cash flows used in financing activities	**–**	(30,000)

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

21. INTERESTS IN SUBSIDIARIES *(Continued)*

Beijing Aiyihang

	2018
	RMB'000
NCI percentage (effective)	47.05%
Current assets	90,729
Non-current assets	132,452
Current liabilities	(357,934)
Non-current liabilities	(2,005)
Net liabilities	(136,758)
Carrying amount of NCI	(72,792)
Revenue	324,744
Loss for the year	(70,023)
Total comprehensive income	(70,023)
Loss attributable to NCI	(32,950)
Cash flows generated from operating activities	71,937
Cash flows used in investing activities	(22,637)
Cash flows used in financing activities	(51,799)

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

Beijing Aiyihang was disposed of on 13 December 2019, for the details, please refer to Note 12.

21. INTERESTS IN SUBSIDIARIES *(Continued)*

Changchun Guangda

	2018 RMB'000
NCI percentage	39%
Current assets	37,554
Non-current assets	72,466
Current liabilities	(14,518)
Non-current liabilities	(10,798)
Net assets	84,704
Carrying amount of NCI	29,466
Revenue	54,921
Loss for the year	(9,485)
Total comprehensive loss	(9,485)
Loss attributable to NCI	(5,409)
Cash flows used in operating activities	(2,122)
Cash flows used in investing activities	(1,183)
Cash flows used in financing activities	–

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

Changchun Guangda was disposed of on 12 September 2019, for the details, please refer to Note 12.

22. INVENTORIES

	31 December 2019 RMB'000	31 December 2018 RMB'000
Raw materials	**30,078**	41,994
Work-in-progress	**18,448**	33,020
Finished goods	**52,645**	62,608
Merchandise goods	**101,637**	379,264
	202,808	516,886

23. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

(a) Trade receivables

	31 December 2019 RMB'000	31 December 2018 RMB'000
Trade receivables	**147,932**	238,805
Less: allowance for credit losses	**(1,391)**	(17,567)
	146,541	221,238

(i) The credit period to the Group's customers ranged from 0 to 360 days (2018: 0 to 360 days).

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

	31 December 2019 RMB'000	31 December 2018 RMB'000
Current to 30 days	**52,102**	75,828
31 to 60 days	**33,439**	76,308
61 to 90 days	**12,278**	18,051
Over 90 days	**50,113**	68,618
	147,932	238,805
Less: allowance for credit losses	**(1,391)**	(17,567)
	146,541	221,238

(iii) Details of ECL assessment are set out in Note 40(a).

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

(b) Deposits, prepayments and other receivables

	31 December 2019 RMB'000	31 December 2018 RMB'000
Loan receivables *(Note (i))*	**200,585**	196,495
Deposits and prepayments	**121,927**	120,018
Deposits and prepayments for 4S dealership business	**28,774**	45,518
Advances to employees	**109**	3,563
Value-added tax recoverable	**11,364**	18,603
Rebate receivables from suppliers	**64,019**	85,843
Others *(Note (ii))*	**719,763**	53,429
	1,146,541	523,469
Less: allowance for credit losses *(iii)*	**(27,303)**	(6,263)
	1,119,238	517,206

(i) *Loan receivables*

The Group's loan receivables which arise from providing unsecured corporate loans with the interest rate range of 5% to 6% (2018: 5%) per annum and the loan period were from 5 months to 2 years (2018: 3 months to 1 year). As at 31 December 2019 and 2018, all borrowers were independent third parties.

(ii) *Other*

As at 31 December 2019, the other receivables mainly present the amount due from former related parties of amount RMB636,199,000 which were unsecured, interest-free and recoverable on demand. For the details please to Note 34(b).

(iii) As at 31 December 2019, the Group recorded the other receivables, loan receivables and deposits and prepayments of approximately RMB719,763,000, RMB200,585,000 and RMB150,701,000 respectively before the loss allowance amounting to approximately RMB23,351,000, RMB2,675,000 and RMB1,277,000 has been made on other receivables, loan receivables and deposits and prepayments respectively.

(iv) Details of ECL assessment are set out in Note 40(a).

24. BANK AND OTHER BORROWINGS, SECURED

	31 December 2019 RMB'000	31 December 2018 RMB'000
Bank loans	**155,971**	552,309
Other borrowings	**334,011**	–
Bank borrowings are repayable as follows:		
On demand or within one year	**489,982**	552,309

As at 31 December 2019 and 2018, the banking facilities are secured by (i) the Group's certain buildings with an aggregate net carrying amount of RMB42,785,000 (2018: RMB46,480,000); (ii) the Group's certain right-of-use asset/land use rights of RMB14,169,000 (2018: RMB14,663,000); (iii) the Group's certain investment properties of RMB48,639,000 (2018: RMB46,481,000); (iv) the Group's certain inventory of RMB71,888,000 (2018: RMB287,619,000); (v) the Group's certain property, plant and equipment of RMB687,000 (2018: RMB2,822,000); (vi) personal guarantee from a senior management of the Company as well as a director of a subsidiary, and his spouses; (vii) corporate guarantees provided by the Company and its subsidiaries.

On 25 September 2019, a bank ("Assignor") signed the debt assignment with a third party ("Assignee") and agreed to transfer the debt included the interest payable of the Group to the Assignee. As at 31 December 2019, the principal and the interest payable of amount RMB63,843,000 are secured by the pledged of the properties and land, repayable on demand and bear fixed interest rates of 6.09% per annum.

On 26 September 2019, the Group has entered into the note exchange agreement with the CCBI and the CCBI Solar Energy (Holding) Limited ("New Investor"). Pursuant to the note exchange agreement, the host contract of the CCBI CBs amounted to RMB171,537,000 was transferred to other borrowings. Interest shall accrue on the Notes at the rate of 10% per annum. For the details please refer to Note 27.

As at 31 December 2019, secured borrowings from other financial institutions mainly represent loans obtained from the auto finance companies of the respective automobile manufacturers for purchase of motor vehicles, which are secured, interest-bearing with annual rates ranging from 3.48% to 13.80%.

Most of the bank and other borrowing bear fixed interest rates ranging from 4.00% to 13.80% per annum (2018: 4.00% to 10.80% per annum).

	31 December 2019 RMB'000	31 December 2018 RMB'000
Bank and other borrowings of the Group were denominated in		
RMB	**462,123**	524,799
United States dollars ("USD")	**27,859**	27,510
	489,982	552,309

25. TRADE PAYABLES, ACCRUALS AND OTHER PAYABLES

(a) Trade payables

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

	31 December 2019 RMB'000	31 December 2018 RMB'000
Current to 30 days	**135,245**	140,018
31 to 60 days	**18,268**	39,870
61 to 90 days	**13,474**	38,656
Over 90 days	**71,940**	97,624
	238,927	316,168

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

(b) Accruals and other payables

	31 December 2019 RMB'000	31 December 2018 RMB'000
Payroll payable	**20,111**	34,835
Other taxes payable	**12,595**	7,766
Others	**113,493**	141,393
Deposit received for 4S dealership business	**17,312**	34,144
Interest payable	**8,105**	306
Financial guarantee liabilities *(note)*	**10,171**	–
	181,787	218,444

note: As at 31 December 2019, there was a financial guarantee provided by a subsidiary of the Company to an independent third party for borrowing of approximately RMB16,000,000 to Mr. Du Jinglei, the former chairman and executive director of the Company. The said subsidiary would be required to repay the borrowing accordingly if the creditor chooses to exercise the guarantee entirely or in part. As at 31 December 2019, the fair value of the financial guarantees was approximately RMB10,171,000.

25. TRADE PAYABLES, ACCRUALS AND OTHER PAYABLES *(Continued)*

(c) Contract liabilities

	31 December 2019 RMB'000	31 December 2018 RMB'000
Contract liabilities	**82,016**	214,320

Revenue recognised during the year that was included in the contract liabilities balance at the beginning of the year was approximately RMB214,320,000 (2018: RMB135,210,000). The contract liabilities will be recognised as revenue when the group fulfil the contract's obligation. The contract liabilities would be recognised as revenue within one year.

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

Movement in contract liabilities:

	2019 RMB'000	2018 RMB'000
At 1 January	**214,320**	140,413
Consideration received	**82,016**	209,117
Revenue recognised	**(214,320)**	(135,210)
At 31 December	**82,016**	214,320

26. LEASE LIABILITIES

	2019 RMB'000
Analysed as	
– Current	12,329
– Non-current	105,630
	117,959
Minimum lease payments due	
– Within one year	12,554
– More than one year but not more than two years	11,034
– More than two years but not later than five years	27,921
– More than five years	116,071
	167,580
Less: Future finance charges	(49,621)
Present value of lease liabilities	117,959

	2019 RMB'000
Present value of minimum lease payment	
– Within one year	12,329
– More than one year but not more than two years	10,367
– More than two years but not later than five years	24,059
– More than five years	71,204
	117,959

27. CONVERTIBLE BONDS

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

	CCBI CBs		
	Host contract	**Conversion option**	**Total**
	RMB'000	RMB'000	RMB'000
As at 1 January 2018	145,287	159,973	305,260
Imputed interest expenses *(Note 8)*	33,006	–	33,006
Interest paid	(11,720)	–	(11,720)
Fair value change of conversion option *(Note 41(b))*	–	(152,588)	(152,588)
Conversion of CCBI CBs	(5,379)	(2,213)	(7,592)
Exchange realignment	8,134	8,020	16,154
As at 31 December 2018 and 1 January 2019	169,328	13,192	182,520
Imputed interest expenses *(Note 8)*	24,298	–	24,298
Interest paid	(29,174)	–	(29,174)
Fair value change of conversion option *(Note 41(b))*	–	(13,624)	(13,624)
Cancellation of CCBI CBs	(171,537)	–	(171,537)
Exchange realignment	7,085	432	7,517
As at 31 December 2019	**–**	**–**	**–**

27. CONVERTIBLE BONDS *(Continued)*

CCBI CBs

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

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

As a security to CCBI, CDH Fast Two Limited, the controlling shareholder of the Company, charged all its owned shares in the Company in favour of CCBI.

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

On 26 September 2019, the Company has entered into the note exchange agreement with the CCBI and the CCBI Solar Energy (Holding) Limited (“New Investor”), pursuant to which the Company, on the one hand, and the CCBI and the New Investor, on the other hand, have agreed to exchange the outstanding CCBI CBs in the aggregate principal amount of US$24,200,000 to be issued by the Company to the New Investor which is designated by the CCBI to be the holder of the notes (“Notes”). The outstanding CCBI CBs shall be cancelled with effect from the consummation of the note exchange and the issue of the Notes pursuant to the note exchange agreement. The Notes shall comprise three tranches in the principal amounts of US$4,840,000, US$7,260,000 and US$12,100,000, which shall mature on 1 March 2020, 1 June 2020 and 1 September 2020, respectively (unless accelerated upon the occurrence of an event of default or a redemption event under the Note terms and conditions). Interest shall accrue on the Notes at the rate of 10% per annum. On 26 September 2019, the convertible bonds were cancelled and the remaining balance RMB171,537,000 is transferred to other borrowing. For more details, please refer to the announcement dated 26 September 2019.

28. *DEFERRED TAX*

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

Deferred tax assets

	Tax losses RMB'000	Accrued expenses RMB'000	Deferred income RMB'000	Allowances and provisions RMB'000	Total RMB'000
At 1 January 2018	2,125	4,051	27,639	3,812	37,627
Impact of initial application of IFRS 9	–	–	–	407	407
Recognised in profit of loss *(Note 11)*	1,672	489	(25,912)	77	(23,674)
Acquisition of subsidiaries	4,138	–	–	–	4,138
At 31 December 2018 and 1 January 2019	7,935	4,540	1,727	4,296	18,498
Recognised in profit of loss *(Note 11)*	32,686	–	(948)	–	31,738
Disposal of subsidiaries *(Note 12)*	(7,370)	–	–	–	(7,370)
At 31 December 2019	33,251	4,540	779	4,296	42,866

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

At the end of the reporting period, the Group has unused tax losses of RMB261,689,000 million (2018: RMB160,580,000 million) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB133,004,000 million (2018: RMB31,740,000 million) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB128,685,000 million (2018: RMB128,840,000 million) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB128,685,000 million (2018: RMB128,840,000 million) that will fully expire in 2024. The years of expiry of the tax losses unrecognized is as below:

	2019 RMB'000	2018 RMB'000
Year of expiry of PRC entities		
2019	**–**	19,582
2020	**24,211**	24,211
2021	**9,223**	9,223
2022	**27,510**	27,510
2023	**48,314**	48,314
2024	**19,427**	–
	128,685	128,840

28. DEFERRED TAX *(Continued)*

Deferred tax liabilities

	Other intangible assets RMB'000	Fair value gain on investment properties RMB'000	Accrued subsidy income RMB'000	Total RMB'000
1 January 2018	(12,439)	(9,637)	(192)	(22,268)
Recognised in profit or loss *(Note 11)*	270	(12)	–	258
At 31 December 2018 and 1 January 2019	(12,169)	(9,649)	(192)	(22,010)
Recognised in profit or loss *(Note 11)*	487	(540)	–	(53)
Disposal of subsidiaries *(Note 12)*	11,208	–	–	11,208
31 December 2019	(474)	(10,189)	(192)	(10,855)

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

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

No deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised was approximately RMB23,437,000 as at 31 December 2019 (2018: RMB23,116,000).

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 **RMB'000**	2018 RMB'000
Financial assets at FVTOCI		
Unlisted equity securities, at fair value *(Note (i))*	**36,216**	44,232

Note:

(i) During the year ended 31 December 2018, the Group invested unlisted equity securities at cost of RMB13,299,000. As at 31 December 2019, the fair value loss of unlisted equity securities, amounting to approximately RMB8,016,000 (2018: Gain: RMB30,933,000) was recognised to other comprehensive income. Details of fair value measurements of unlisted equity securities are set out in Note 41(b).

30. SHARE CAPITAL

	2019		2018	
	Number of shares '000	**Amount HK'000**	Number of shares '000	Amount HK$'000
Authorised				
Ordinary shares of HK$0.1 each	**10,000,000**	**10,000,000**	10,000,000	10,000,000

	Note	**2019**			2018		
		Number of shares '000	**Amount HK$'000**	**Amount RMB'000**	Number of shares '000	Amount HK$'000	Amount RMB'000
Issued and fully paid:							
At beginning of the year		**6,767,636**	**676,764**	**556,286**	4,840,772	484,078	398,481
Conversion of convertible bonds	*27*	**–**	**–**	**–**	22,102	2,210	1,919
Share issued under subscription agreement *(Note)*		**–**	**–**	**–**	1,904,762	190,476	155,886
At end of the year		**6,767,636**	**676,764**	**556,286**	6,767,636	676,764	556,286

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

31. RESERVES

(i) Reserves of the Group

(a) *Share premium*

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

(b) *Statutory reserve fund*

The Group's subsidiaries established in the PRC are required to transfer no less than 10% of the profit after taxation, as determined in accordance with the applicable PRC accounting standards, to statutory reserve fund until the fund aggregates to 50% of their respective registered capital. The statutory reserve fund can only be used, upon approval by the respective board of directors, to offset accumulated losses or increase capital

(c) *Enterprise expansion fund*

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

(d) *Capital redemption reserve*

Capital redemption reserve occurs when shares of a company are redeemed or purchased wholly out of the Company's profits, the amount by which the Company's issued share capital is diminished on cancellation of the shares redeemed or purchased, shall be transferred to the capital redemption reserve. If the shares are redeemed or purchased wholly or partly out of the proceeds of a fresh issue, and the aggregate amount of those proceeds is less than the aggregate nominal value, the amount of the difference shall be transferred to the capital redemption reserve.

(e) *Exchange reserve*

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

(f) *Others*

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

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

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

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

31. RESERVES *(Continued)*

(ii) Reserves of the Company

	Note	Share premium RMB'000	Contributed surplus RMB'000	Exchange reserve RMB'000	Others RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2018		1,002,899	84,242	(14,587)	17,485	(1,158,041)	(68,002)
Impact on initial application of IFRS9		–	–	–	–	(2,108)	(2,108)
Total comprehensive income for the year		–	–	24,171	–	(135,440)	(111,269)
Forfeited share options transfer		–	–	–	(647)	647	–
Conversion of convertible bonds		5,673	–	–	–	–	5,673
Share issued under share subscription agreement		473,647	–	–	–	–	473,647
At 31 December 2018 and 1 January 2019		1,482,219	84,242	9,584	16,838	(1,294,942)	297,941
Total comprehensive income for the year		–	–	(4,224)	–	17,481	13,257
Forfeited share options transfer		–	–	–	(16,530)	16,530	–
At 31 December 2019		1,482,219	84,242	5,360	308	(1,260,931)	311,198

32. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

(a) Cash and cash equivalents

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

(b) Pledged time deposits

Pledged time deposits can be analysed as follows:

	2019 RMB'000	2018 RMB'000
Guarantee deposits for issuance of bank acceptance	**–**	4,500

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

(c) Reconciliation of liabilities arising from financing activities:

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

	Bank and other borrowings RMB'000	Convertible bonds RMB'000	Lease liabilities RMB'000	Total RMB'000
Balance at 1 January 2019	552,309	182,520	–	734,829
Cash used in operations:				
Decrease in loans and other borrowings for retail services	(206,056)	–	–	(206,056)
Total cash used in operation	(206,056)	–	–	(206,056)
Changes from financing cash flows:				
Proceeds from loans and borrowings	189,080	–	–	189,080
Repayment of borrowings	(196,177)	–	–	(196,177)
Interest paid	(37,343)	(29,174)	–	(66,517)
Payment of lease liabilities	–	–	(40,383)	(40,383)
Total changes from financing cash flows	(44,440)	(29,174)	(40,383)	(113,997)
Exchange adjustments	(2,689)	7,517	2	4,830
Changes in fair value	–	(13,624)	–	(13,624)
Other non-cash changes:				
Conversion of exchange note	171,537	(171,537)	–	–
Interest expense	35,549	24,298	10,150	69,997
Addition of lease liabilities	–	–	6,396	6,396
Recognisation of lease liabilities	–	–	229,921	229,921
Disposal of subsidiaries	(16,228)	–	(88,127)	(104,355)
Total other changes	190,858	(147,239)	158,340	201,959
Balance at 31 December 2019	489,982	–	117,959	607,941

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

(c) Reconciliation of liabilities arising from financing activities: *(Continued)*

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

(d) Major non-cash transaction

During the year ended 31 December 2019, the host contract of the CCBI CBs amounted to RMB171,537,000 was transferred to other borrowings. Further details are set out in note 24. During the year ended 31 December 2018, part of the consideration for the purchase of subsidiaries that occurred during the year was settled by the offsetting the other borrowing to the vendors. Further details of the acquisitions are set out in note 44.

33. COMMITMENTS

(a) Capital commitments

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

	2019 RMB'000	2018 RMB'000
Contracted for	–	12,841
Authorised but not contracted for	16,308	50,576
	16,308	63,417

(b) Operating lease commitments

As at 31 December 2018, the total future minimum lease payments under non-cancelable operating leases are payables as follows:

As lessee

	2018 RMB'000
Within 1 year	149,318
Over 1 year but within 5 years	302,704
Over 5 years	117,141
	569,163

As lessor

As at 31 December 2019 and 2018, the Group leased out its investment property under operating leases. As at the end of the reporting period, the total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	1,254	1,979
Over 1 year but within 5 years	3,075	2,646
Over 5 years	–	–
	4,329	4,625

34. RELATED PARTIES TRANSACTIONS

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

(a) Transaction with related parties

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

	2019 RMB'000	2018 RMB'000
Sales of goods to the companies with common director:		
Xilinguolemeng Lifeng Taiyu Automobile Service Co., Ltd.* (錫林郭勒盟利豐泰裕汽車服務有限公司)	–#	2,039
Inner Mongolia Lifeng Qingyu Automobile Service Co., Ltd.* (內蒙古利豐慶宇汽車服務有限公司)	–#	1,882
Inner Mongolia Lifeng Taiyu Automobile Service Co., Ltd.* (內蒙古利豐泰宇汽車服務有限公司)	–#	811
Others	–#	519
Purchase of goods from the companies with common director:		
Inner Mongolia Yusheng Automobile Service Co., Ltd.* (內蒙古鈺盛汽車服務有限公司)	–#	1,944
Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.* (內蒙古利豐鼎盛汽車有限公司)	–#	1,742
Bayannur Lifeng Taidi Automobile Sales & Service Co., Ltd.* (巴彥淖爾市利豐泰迪汽車銷售服務有限公司)	–#	774
Inner Mongolia Lifeng Qingyu Automobile Service Co., Ltd.* (內蒙古利豐慶宇汽車服務有限公司)	–#	497
Others	–#	599
Rental expenses paid to the companies with common director:		
Inner Mongolia Lifeng Automobile Co., Ltd.* (內蒙古利豐汽車有限公司)	–#	2,896
Huhhot Lifeng Holding Co., Ltd.* (呼和浩特市利豐實業有限公司)	–#	970
Hulun Buir Lifeng Vehicle Store Co., Ltd.* (呼倫貝爾市利豐汽車行有限公司)	–#	738
Hinggan Lifeng Hengtai Automobile Sales Co., Ltd.* (興安盟利豐恒泰汽車銷售有限責任公司)	–#	621
Tongliao Tonghua Investment Co., Ltd* (通遼市通華投資有限責任公司)	–#	590
Others	–#	815

* *For identification purposes only*

\# *Due to the resignation of the chairman and executive director, Mr. Du Jinglei, on 1 July 2019, these companies were no longer classified as related parties.*

34. RELATED PARTIES TRANSACTIONS *(Continued)*

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

(ii) As at 31 December 2019, a non-controlling owner of a subsidiary granted the subsidiary collateral of creditor amounting to RMBnil (2018: RMB18,013,000) with his own properties.

(iii) As at 31 December 2019, a senior management member of the Company who is also a non-controlling owner of a subsidiary of the Group provided a guarantee, together with other guarantees, for a bank loan of RMBnil (2018: RMB20,000,000) of the subsidiary.

(iv) *Transaction with key management personnel*

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

	2019 **RMB'000**	2018 RMB'000
Salaries and other allowances	**4,285**	4,110
Retirement scheme contributions	**254**	115
	4,539	4,225

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

(v) The Company has entered into the Note Exchange Agreement with High Inspiring Limited and CCBI Solar Energy (Holding) Limited, High Inspiring Limited and CCBI Solar Energy (Holding) Limited have agreed to exchange the Outstanding Convertible Notes for the Notes in the aggregate principal amount of US$24,200,000 to be issued by the Company to the New Investor. The Outstanding Convertible Notes shall be cancelled with effect from closing.

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

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

34. RELATED PARTIES TRANSACTIONS *(Continued)*

(b) Amounts due from related parties

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

	2019 RMB'000	2018 RMB'000
Car House	**24,262**	24,262
New Focus Richahaus	**13,547**	12,679
Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.* (內蒙古利豐鼎盛汽車有限公司)	**–#**	443,992
Tongliao Tonghua Investment Co., Ltd* (通遼市通華投資有限責公司)	**–#**	49,036
Chifeng Lifeng Automobile Service Co., Ltd.* (赤峰市利豐汽車行有限公司)	**–#**	44,132
Hinggan Lifeng Hengtai Automobile Sales Co., Ltd.* (興安盟利豐恒泰汽車銷售有限責任公司)	**–#**	42,222
Hulun Buir Vehicle Store Co., Ltd.* (呼倫貝爾市利豐汽車行有限公司)	**–#**	25,295
Baotou Lifeng Automobile Trading Co., Ltd.* (包頭市利豐汽車貿易服務有限公司)	**–#**	20,860
Ningbo Beilun Huidong Business Service Co., Ltd. * (寧波北輪慧東商務服務有限公司)	**–#**	10,800
Xilinguolemeng Lifeng Vehicle Store Co., Ltd* (錫林郭勒盟利豐汽車行有限公司)	**–#**	8,581
Inner Mongolia Lifeng Wuling Automobile Sales & Service Co., Ltd.* (內蒙古利豐五菱汽車銷售服務有限公司)	**–#**	7,898
Ningbo Shenglan Finance Service Co., Ltd.* (寧波勝藍財務服務有限公司)	**–#**	4,280
Erdos Tianyi Automobile Sale Co., Ltd.* (鄂爾多斯市天意汽車銷售有限公司)	**–#**	3,382
Hohhot Lifeng Vehicle Store Co., Ltd.* (呼和浩特市利豐汽車行有限公司)	**–#**	1,395
Others	**–#**	8,709
	37,809	707,523
Less: allowance for credit losses (i)	**(749)**	(4,445)
	37,060	703,078

* *For identification purposes only*

\# *Due to the resignation of the chairman and executive director, Mr Du Jinglei, on 1 July 2019, these companies were no longer classified as related parties. The amount due from former related parties of amount RMB636,199,000 was reclassified as other receivables as at year ended 31 December 2019.*

(i) Details of ECL assessment are set out in Note 40(a).

34. RELATED PARTIES TRANSACTIONS *(Continued)*

(c) Amounts due to related parties

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

	2019 RMB'000	2018 RMB'000
Beijing Yuyang Century Trading Co., Ltd.	–	1,211
Chifeng Lifeng Vehicle Store Co., Ltd.* (赤峰市利豐汽車行有限公司)	–#	19,514
Tongliao Tonghua Investment Co., Ltd* (通遼市通華投資有限責任公司)	–#	17,794
Inner Mongolia Yusheng Automobile Service Co., Ltd.* (內蒙古鈺盛汽車服務有限公司)	–#	6,389
Inner Mongolia Lifeng Automobile Co., Ltd.* (內蒙古利豐汽車有限公司)	–#	3,935
Huhhot Lifeng Holding Co., Ltd.* (呼和浩特市利豐實業有限公司)	–#	1,766
Inner Mongolia Lifeng Taiqi Automobile Service Co., Ltd.* (內蒙古利豐泰奇汽車服務有限公司)	–#	1,754
Xilinguolemeng Lifeng Vehicle Store Co., Ltd* (錫林郭勒盟利豐汽車行有限公司)	–#	1,698
Inner Mongolia Lifeng Wuling Automobile Sales & Service Co., Ltd.* (內蒙古利豐五菱汽車銷售服務有限公司)	–#	1,524
Baotou Lifeng Automobile Trading Co., Ltd.* (包頭市利豐汽車貿易服務有限公司)	–#	1,024
Others	–#	9,914
	–	66,523

* *For identification purposes only*

\# *Due to the resignation of the chairman and executive director, Mr Du Jinglei, on 1 July 2019, these companies were no longer as related parties.*

35. SUBSEQUENT EVENTS

The ECL at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. Since early January 2020, the coronavirus outbreak has spread across mainland China and beyond, causing disruption to business and economic activity. The impact on GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL under IFRS 9 in 2020.

Litigation case:

Payments owed to the creditor Du Zhiqiang ("Plaintiff 1")

On 17 April 2020, the Plaintiff 1 submitted an application for enforcement to the People's Court of Kundulun District, Baotou City, in which it was claimed that the respondent only repaid the loan of RMB3,000,000 according to the mediation letter, while the remaining loan principal and interest were not repaid. The People's Court of Kundulun District, Baotou City issued the Execution Notice (2020) Nei 0203 Zhi No.827 on 29 April 2020, which the defendant and Inner Mongolia Chuangying, as one of the guarantors, were ordered to perform the following obligations:

(i) paying approximately RMB14,946,000 together with the interest to the Plaintiff 1

(ii) paying twice of the debt interest during the delayed performance period to the Plaintiff 1

(iii) paying the case acceptance fee and security fee of RMB600,000 as well as execution fee of RMB82,000

35. SUBSEQUENT EVENTS *(Continued)*

Litigation case: (Continued)

Payments owed to the creditor Yi Teng ("Plaintiff 2")

On 14 April 2020, the Plaintiff 2 submitted an application for enforcement to the People's Court of Huimin District, Hohhot City. The People's Court of of Huimin District, Hohhot City issued the Execution Ruling under (2020) Nei 0103 Zhi No.591-1 on 27 April 2020 with the following rulings:

(i) freezing the equity interests in Inner Mongolia Lifeng Taidi Automobile Service Co., Ltd.* (內蒙古利豐泰迪汽車服務有限公司) held by Inner Mongolia Chuangying Automobile Co., Ltd. (capped at RMB2,834,000).

(ii) freezing the equity interests in Inner Mongolia Lifeng Taixiang Automobile Service Co., Ltd.* (內蒙古利豐泰祥汽車服務有限公司) held by Inner Mongolia Chuangying Automobile Co., Ltd. (capped at RMB2,834,000).

36. EMPLOYEE RETIREMENT BENEFITS

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Company participate in defined contribution retirement schemes (the "Schemes") organised by the PRC municipal government authorities where the subsidiaries are registered whereby these PRC subsidiaries are required to make a contribution at the respective local rates of the eligible employees' salaries to the Schemes. The Group has accrued for the required pension fund contributions which are remitted to the respective social security offices when the contributions become due. The social security offices are responsible for making the benefit payments to the retired employee covered under the Schemes.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

37. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The Company adopted a new share option scheme ("New Scheme") by a resolution of the shareholders passed on 25 June 2014 and terminated on the same date the share option scheme ("Old Scheme") adopted by the Company on 13 February 2005. The principal purpose of the New Scheme is to provide incentives and rewards to eligible participants for their contribution or potential contribution to the Group.

On 14 October 2014, the Company granted share options to eligible persons under the New Scheme to subscribe for a total of 149,500,000 ordinary shares of HK$0.1 of the Company. The exercise price of the granted options is HK$0.5 per share, which is equal to the closing price of the shares on the date of grant. The options granted to each grantee are valid for a period of five years (i.e. valid until 14 October 2019) commencing from the day after the date of grant. Each of the three tranches of the options, representing one third of the options equally, will be excisable on 14 October 2015, 14 October 2016 and 14 October 2017 respectively and shall be vested upon the fulfilment of certain performance targets and other vesting conditions as described in the grant letter issued by the Company to each grantee.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binominal lattice model.

During the year ended 31 December 2019, Nil shares options had been exercised by the grantees to the terms of the share option scheme (2018: Nil shares), and 88,659,720 share options had been forfeited (2018: 4,051,003 share options).

The number of share options exercisable under the New Scheme as at 31 December 2019 is Nil (2018: 88,659,720).

37. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Share options outstanding as at 31 December 2019 and 2018 have the following expiry dates and exercise prices:

2019

On 14 October 2019, the remaining 88,659,720 share options had lapsed.

2018

		Share options		
Expiry date	Exercise price HK$ per share	granted to directors '000	granted to employees '000	Total '000
14 October 2019	0.5	–	88,660	88,660
Weighted average exercise price (HK$)	–	0.5	0.5	0.5

38. LITIGATION

(a) Payments owed to the creditor Du Zhiqiang

Du Jinglei, the former executive director of the Company ("Defendant 1") borrowed RMB16,000,000 from Du Zhiqiang ("Plaintiff 1"), with interest rate of 1% per month. In the litigation on the disputes over the loan contract, on 27 December 2019, the parties voluntarily reached a settlement agreement and made the Civil Mediation Letter (2019) Nei 0203 Minchu No.7246, confirming the matters including the debt principal and interest amount, repayment proposal and guarantee method of both parties as of 21 December 2019. Inner Mongolia Chuangying Automobile Co., Ltd. ("Inner Mongolia Chuangying"), a subsidiary of the Group, is one of the guarantors for the loan

On 17 April 2020, the Plaintiff 1 submitted an application for enforcement to the People's Court of Kundulun District, Baotou City, in which it was claimed that the respondent only repaid the loan of RMB3,000,000 according to the mediation letter, while the remaining loan principal and interest were not repaid. The People's Court of Kundulun District, Baotou City issued the Execution Notice (2020) Nei 0203 Zhi No.827 on 29 April 2020, which the defendant and Inner Mongolia Chuangying, as one of the guarantors, were ordered to perform the following obligations:

(i) paying approximately RMB14,946,000 together with the interest to the Plaintiff 1

(ii) paying twice of the debt interest during the delayed performance period to the Plaintiff 1

(iii) paying the case acceptance fee and security fee of RMB600,000 as well as execution fee of RMB82,000

Regarding this litigation, the Company was recognised RMB10,171,000 Financial guarantee liabilities as at 31 December 2019.

38. LITIGATION *(Continued)*

(b) Payments owed to the creditor Yi Teng

On 13 March 2019, Yi Teng ("Plaintiff 2") provided a loan of RMB3,000,000 to Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.* (內蒙古利豐鼎盛汽車有限公司), with an interest rate of 2% per month. On 29 August 2019, Inner Mongolia Lifeng Dingsheng Automobile Co., Ltd.* entered into a debt transfer agreement with the plaintiff 2 and Inner Mongolia Chuangying to transfer the debt to Inner Mongolia Chuangying, pursuant to which, the debt owed to plaintiff 2 would be assumed by Inner Mongolia Chuangying. In the litigation on the disputes over the loan contract, the parties voluntarily reached a settlement agreement and made the Civil Mediation Letter (2020) Nei 0103 Minchu No.24 on 29 December 2019, confirming the matters including debt principal and interest amount and repayment proposal as of 15 January 2020.

On 14 April 2020, the Plaintiff 2 submitted an application for enforcement to the People's Court of Huimin District, Hohhot City. The People's Court of of Huimin District, Hohhot City issued the Execution Ruling under (2020) Nei 0103 Zhi No.591-1 on 27 April 2020 with the following rulings:

(i) freezing the equity interests in Inner Mongolia Lifeng Taidi Automobile Service Co., Ltd.* (內蒙古利豐泰迪汽車服務有限公司) held by Inner Mongolia Chuangying Automobile Co., Ltd. (capped at RMB2,834,000).

(ii) freezing the equity interests in Inner Mongolia Lifeng Taixiang Automobile Service Co., Ltd.* (內蒙古利豐泰祥汽車服務有限公司) held by Inner Mongolia Chuangying Automobile Co., Ltd. (capped at RMB2,834,000).

39. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of (i) debts, which includes the bank and other borrowings and the convertible bonds as disclosed in Notes 24 and 27, respectively; (ii) cash and cash equivalents and pledged time deposits in Note 32; (iii) equity attributable to equity shareholders of the Company, comprising share capital disclosed in Note 30 and reserves as disclosed in consolidated statement of changes in equity.

The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group manages the capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

39. *CAPITAL RISK MANAGEMENT (Continued)*

The net debt to equity ratio at end of the reporting period was as follows:

	2019 RMB'000	2018 RMB'000
Debts	**489,982**	734,829
Cash and cash equivalents and pledged time deposits	**(64,697)**	(138,960)
Net debt position	**425,285**	595,869
Equity attributable to equity shareholders of the Company	**795,897**	999,448
Net debt to equity ratio	**53.4%**	59.6%

40. *FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES*

The Group's major financial instruments include equity and debt investments, bank and other borrowings, trade and other receivables, amounts due from related parties, pledged time deposit, cash and cash equivalents, trade and other payables, lease liabilities, amount due to related parties and convertible bonds. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

The credit risk of the Group mainly arises from cash and cash equivalents, trade receivables, deposit and other receivables and amounts due from related parties. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate of cash at bank is assessed to be close to zero and no provision was made as of 31 December 2019 and 2018.

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. It considers available reasonable and supportive forwarding-looking information.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

(a) Credit risk *(Continued)*

As at 31 December 2019 and 2018, trade receivables, deposits and other receivables and amounts due from related parties that are individually significant have been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

Majority of the Group's revenue is received from individual customers in relation to sale of electronic and power-related automotive parts and accessories and retail distribution of merchandise goods. As at the end of the year, the top three debtors and the largest debtor accounted for approximately 16.40% and 5.57% (2018: 36.88% and 15.83%), of the Group's trade receivables balance. In view of the history of business dealings with the debtors and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these debtors saved for the debtor related to the impaired trade receivable disclosed in the below. Management makes periodic assessment on the recoverability of the trade and other receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the debtors.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 0 to 360 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

(a) Credit risk *(Continued)*

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivable	Other financial assets/other items (including other receivables and amounts due from related parties)
Low risk	The counterparty has a low risk of default and does not have any past due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant Increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

As at 31 December 2019

	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	
			RMB'000	RMB'000
Financial assets at amortised costs				
Trade receivables *(note 23(a))*	Low risk *(note (a))*	Lifetime ECL (not credit impaired)	1,165	
	Doubtful	Lifetime ECL (not credit impaired)	140	
	Loss	Credit-impaired	86	1,391
Other financial assets/other items (including other receivables and amounts due from related parties) *(note 23(b), 34(b))*	Low risk	12-month ECL	4,210	
	Doubtful	Lifetime ECL (not credit impaired)	20,840	
	Loss	Credit-impaired	3,002	28,052

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

(a) Credit risk *(Continued)*

As at 31 December 2018

	Internal credit rating	12-month or lifetime ECL	Gross carrying amount RMB'000	RMB'000
Financial assets at amortised costs				
Trade receivables *(note 23(a))*	Low risk *(note (a))*	Lifetime ECL (not credit impaired)	1,799	
	Doubtful	Lifetime ECL (not credit impaired)	428	
	Loss	Credit-impaired	348	
	Write-off	Amount is written off	14,992	17,567
Other financial assets/other items (including other receivables and amounts due from related parties) *(note 23(b), 34(b))*	Low risk	12-month ECL	9,663	
	Doubtful	Lifetime ECL (not credit impaired)	–	
	Loss	Credit-impaired	95	
	Write-off	Amount is written off	950	10,708

Note: (a) For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items on an individual balance basis.

The closing loss allowances for including trade receivables, deposits and other receivables and amounts due from related parties as at 31 December 2019 and 2018 reconcile to the opening loss allowances as follows:

	Trade receivables RMB'000	Other financial assets/ other items (including other receivables and amounts due from related parties) RMB'000
At 1 January 2018 – IFRS 9	14,761	4,286
Allowance for ECL recognized in profit or loss during the year	2,806	6,422
At 31 December 2018 – IFRS 9	17,567	10,708
(Reversal of)/allowance for ECL recognized in profit or loss during the year	(2,250)	18,294
Written off during the year	(5,749)	(800)
Disposal of subsidiaries	(8,177)	(150)
At 31 December 2019 – IFRS 9	1,391	28,052

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

(a) Credit risk *(Continued)*

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 60-90 days past due.

Allowance for ECL on trade receivables are presented as allowance for ECL within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The credit quality of the amounts due from related parties and deposits and other receivables excluding prepayments has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. The directors are of the opinion that the credit risk of deposits and other receivables and the amounts due from related parties is low due to the sound collection history of the receivables due from them. Therefore, expected credit loss rate of the amounts due from related parties and deposits and other receivables excluding prepayments is assessed to be insignificant and provision for expected credit loss of RMB18,294,000 was made as of 31 December 2019 (2018: RMB6,422,000).

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

As at 31 December 2019, the Group entered into a note exchange agreement with the New Investor. The Investor and the New Investor agreed to exchange the CCBC Convertible Notes in the total outstanding principal amount of USD24,200,000, for the notes in the aggregate principal amount of USD24,200,000 to be issued by the Company to the New Investor. Closing was completed on the date of the Note Exchange Agreement and the CCBC Convertible Notes were cancelled simultaneously. The remaining balance of the CCBC CB is transferred to other borrowings.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

(b) Liquidity risk *(Continued)*

The following table details the remaining contractual maturities of the Group's financial liabilities at the end of reporting period, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of reporting period) and the earliest date the Group can be required to pay:

	Weighted average effective interest rate	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 year but less than 5 years	More than 5 years
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2019							
Bank and other borrowings, secured	**6.87**	**489,982**	**526,361**	**526,361**	**–**	**–**	**–**
Trade payables	**–**	**238,927**	**238,927**	**238,927**	**–**	**–**	**–**
Other payables	**–**	**181,787**	**181,787**	**181,787**	**–**	**–**	**–**
Lease liabilities	**4.83**	**117,959**	**167,580**	**12,554**	**11,034**	**27,921**	**116,071**
Total		**1,028,655**	**1,114,655**	**959,629**	**11,034**	**27,921**	**116,071**
2018							
Bank and other borrowings, secured	7.27	552,309	586,344	586,344	–	–	–
Trade payables	–	316,168	316,168	316,168	–	–	–
Other payables	–	218,444	218,444	218,444	–	–	–
Convertible bonds	23.83	169,328	194,603	194,603	–	–	–
Amount due to related parties	–	66,523	66,523	66,523	–	–	–
Total		1,322,722	1,382,082	1,382,082	–	–	–

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

(c) Interest rate risk

The Group's fair value interest-rate risk mainly arises from liability component of convertible bonds as disclosed in Note 27. Most of bank borrowings were issued at fixed rates which expose the Group to fair value interest rate risk.

It is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's loss for the year and accumulated losses as at 31 December 2019 by RMB2,247,000 (2018: by RMB2,214,000). The Group has not used any financial instrument to hedge potential fluctuations in interest rate. The interest rates and terms of repayment of the Group's borrowings are disclosed in Note 24.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily US$.

The Group is also exposed to foreign currency exchange risk arising from the cash and cash equivalents denominated in US$.

The following table details the Group's exposure at the end of reporting period to currency risk arising from transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	2019			2018		
	US$'000	**HK$'000**	**NTD'000**	US$'000	HK$'000	NTD'000
Trade and other receivables	**9,272**	**151,000**	**58,240**	16,188	151,000	166,757
Trade and other payables	**(380)**	**–**	**(26)**	(407)	(500)	(4)
Cash and cash equivalents and pledged time deposits	**4,629**	**689**	**–**	5,657	2,771	1,458
Bank borrowings	**(4,000)**	**–**	**–**	(4,000)	–	–
Overall net exposure	**9,521**	**151,689**	**58,214**	17,438	153,271	168,211

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

(d) Currency risk *(Continued)*

The following table indicates the approximate change in the Group's loss for the year and accumulated losses and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower. A positive number below indicates a decrease in loss or an increase in profit and other equity where the RMB weakens against the relevant currency. For a strengthening of the RMB against the relevant currency, there would be an equal and opposite impact on the profit or loss and other equity, and the balances below would be negative.

	2019			2018		
	Increase in foreign exchange rate	**Effect on loss for the year and accumulated losses RMB'000**	**Effect on other components of equity RMB'000**	Increase in foreign exchange rate	Effect on profit for the year and accumulated losses RMB'000	Effect on other components of equity RMB'000
US$	**5%**	**3,318**	**–**	5%	(5,993)	–
HK$	**5%**	**6,794**	**–**	5%	(6,715)	–
NTD	**5%**	**677**	**–**	5%	(1,251)	–
		10,789	**–**		(13,959)	–

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of reporting period and had been applied to each of the Group entities; exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rate over the period until the end of the next reporting period. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' results for the year and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of reporting period for presentation purposes. The analysis is performed on the same basis for 2018.

41. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts and fair values of the Group's financial assets and financial liabilities as recognized at 31 December 2019 and 2018 may be categorised as follows:

	2019		2018	
	Carrying value RMB'000	**Fair value RMB'000**	Carrying value RMB'000	Fair value RMB'000
Financial assets				
– At amortised cost (including cash and cash equivalents and pledged time deposits)	**1,356,172**	**1,356,172**	1,561,879	1,561,879
Financial liabilities				
– Financial liabilities, at amortised cost	**1,028,655**	**1,028,655**	1,494,876	1,494,876
– Conversion option embedded in convertible bonds, at fair value	**–**	**–**	13,192	13,192

(a) The fair values of financial assets and liabilities are determined as follows:

– The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

– The fair value of other financial assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments and forecast on the financial performance and other measures of the acquirees under the contingent consideration arrangements. The directors are of the opinion that there are no reasonably possible alternative assumptions to the inputs in the fair value measurement.

(b) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

41. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY *(Continued)*

(b) Fair value hierarchy *(Continued)*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2019				
Financial assets at FVTOCI	–	–	36,216	36,216
As at 31 December 2018				
Financial assets at FVTOCI	–	44,232	–	44,232
Financial liabilities				
Conversion option embedded in convertible bonds	–	–	(13,192)	(13,192)

The financial assets at FVTOCI with carrying amount of RMB36,216,000 (2018: RMB44,232,000) which was transferred from level 2 to level 3 during the year ended 31 December 2019 (2018: level 2).

The following table analysed the financial instruments which are measured at fair value at the end of the reporting period into the three-level hierarchy.

Sensitivity analysis

For the year ended 31 December 2019, if the unobservable inputs of the respective unlisted equity instrument had been 10% higher/lower, loss for the year would decrease/increase by RMB4,479,000 while total equity would increase/decrease by approximately RMB4,479,000 as a result of the changes in fair value of financial assets at FVTOCI.

41. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY *(Continued)*

(b) Fair value hierarchy *(Continued)*

Reconciliation of Level 3 fair value measurements

	Financial assets at FVTOCI RMB'000	Conversion option embedded in convertible bonds RMB'000	Total RMB'000
At 1 January 2018	–	(159,973)	(159,973)
Change in fair value recognised in profit or loss during the year	–	152,588	152,588
Conversion of CCBI CBs	–	2,213	2,213
Exchange realignment	–	(8,020)	(8,020)
At 31 December 2018	–	(13,192)	(13,192)
Change in fair value recognised in profit or loss during the year	–	13,624	13,624
Exchange realignment	–	(432)	(432)
Transfers from level 2	44,232	–	44,232
Net unrealised losses recognised in other comprehensive income during the year	(8,016)	–	(8,016)
At 31 December 2019	36,216	–	36,216

Included in other comprehensive income is an amount of RMB8,016,000 loss (2018:gain RMB30,933,000) relating to financial assets at fair value through other comprehensive income held at the end of the current reporting period and is reported as other reserve.

41. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY *(Continued)*

(b) Fair value hierarchy *(Continued)*

	Fair value 2019 RMB'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
Financial assets				
Financial assets at fair value through other comprehensive income	36,216	Level 3	Market Comparison	compound annual growth rate: –18%

	Fair value 2018 RMB'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	
Financial assets					
Financial assets at fair value through other comprehensive income	44,232	Level 2	Market comparison	N/A	
Financial liabilities					
Conversion options embedded in convertible bonds	(13,192)	Level 3	Binomial Option Pricing Model	Discount rate	16.43%
				Risk free rate (HK)	1.75%
				Risk free rate (US)	2.584%
				Volatility	54.908%

The fair value of conversion option embedded in convertible bonds is determined using binomial option pricing model and the significant unobservable input used in the fair value measurement is expected volatility.

During the year ended 31 December 2019, all the conversion option was lapsed. The details were disclosed in Note 27 to the financial statements.

As at 31 December 2018, the fair value of the FVTOCI is determined by the Guideline Transactions Method under the market approach, primarily based on the valuation of the latest round of investment by independent investors in January 2019 (the "Transaction"). The Transaction is representative of the fair market value of FVTOCI.

The Transaction was completed in January 2019, yet the cryptocurrency market experienced significant fluctuations in 2019 which reduced the total turnover of cryptocurrencies. As the FVTOCI's value is related to the trades it handles, the activity level of cryptocurrency has a direct relevance to the value of the FVTOCI. Therefore, the Group changed the valuation methodology of the financial assets at fair value through other comprehensive income from the Transaction according to the changes in total turnover of the major cryptocurrencies in the world in 2018 and 2019 which presents a more balanced picture of the market operates in and the fair value hierarchy was transfer from level 2 to level 3.

The major cryptocurrencies considered in this valuation include Bitcoin, Bitcoin cash, Dash, EOS, Ethereum, Ethereum classic, Litcoin, Monero, XRP and Zcash. Based on public data gathered by Bloomberg, their total turnover in 2017, 2018 and 2019 were approximately US$294,284 million, approximately US$362,303 million and approximately US$198,376 million respectively. The compound annual growth rate from 2017 to 2019 is approximately –18%.

42. CONTINGENT LIABILITIES

At the end of 31 December 2018 and 2019, the Group had no significant contingent liability.

43. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	31 December 2019 RMB'000	31 December 2018 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Interest in subsidiaries		**810,387**	804,501
Amounts due from related parties	*34(b)*	**–**	24,262
		810,387	828,763
Current assets			
Deposits, prepayments and other receivables		**195,246**	211,060
Amount due from related parties	*34(b)*	**37,060**	–
Cash and cash equivalents		**15**	13,569
		232,321	224,629
Current liabilities			
Accruals and other payables		**8,169**	11,030
Convertible bonds	*27*	**–**	182,520
Amount due to related parties		**–**	5,615
Bank and other borrowings		**167,055**	–
		175,224	199,165
Net current assets		**57,097**	25,464
Total assets less current liabilities		**867,484**	854,227
NET ASSETS		**867,484**	854,227
CAPITAL AND RESERVES			
Share capital	*30*	**556,286**	556,286
Reserves	*31(ii)*	**311,198**	297,941
TOTAL EQUITY		**867,484**	854,227

44. ACQUISITION OF SUBSIDIARIES

On 30 September 2018, the wholly-owned subsidiary of the Group acquired 100% of the issued share capital of Inner Mongolia Chuangying Automobile Co., Ltd. ("Chuangying") (內蒙古創贏汽車有限公司) from Inner Mongolia Lifeng Dingsheng Auto Co., Ltd ("Lifeng") (內蒙古利豐鼎盛汽車有限公司) at total consideration approximately RMB635,219,000. Chuangying is principally engaged in 4S dealership stores and related businesses which included (i) sales of automobile and provision of after-sales services,including primarily repair and maintenance services; and (ii) distribution of automobile insurance products and automobile financial products.

Details of the purchase consideration and the net assets acquired are as follows:

Purchase consideration

	RMB'000
Cash paid	391,006
Offset by other borrowing to the vendor	244,213
Total purchase consideration	635,219

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value RMB'000
Property, plant and equipment	29,890
Deferred tax asset	4,138
Trade receivables	23,810
Inventories	361,751
Prepayments, deposits and other receivables	174,798
Rebate receivable from suppliers	74,328
Tax recoverable	2,082
Amount due from related parties	650,963
Cash and cash equivalents	41,205
Trade and bills payables	(56,416)
Other payables and accruals	(168,981)
Tax payables	(3,834)
Amount due to related parties	(91,935)
Borrowings	(374,715)
Net identifiable assets acquired	667,084
Less: Non-controlling interest	(18,028)
Less: Consideration	(635,219)
Bargain purchase	13,837

44. ACQUISITION OF SUBSIDIARIES *(Continued)*

The acquisition contributed revenues of RMB546,105,000 and net loss of RMB3,800,000 to the Group for the period from 1 October to 31 December 2018. If the acquisition had occurred on 1 January 2018, the pro-forma revenue and loss for the year ended 31 December 2018 would have been RMB2,599,240,000 and RMB31,465,000 respectively. The directors of the Group consider these pro-forma numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Purchase consideration – cash outflow:

	RMB'000
Cash consideration	391,006
Less: cash and cash equivalents	(41,205)
	349,801

45. COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019. Under the transition methods design, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 3 to consolidated financial statements.

The comparative statement of profit or loss has been restated as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period.

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

RESULTS

	2019	2018	2017	2016	2015
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000	RMB'000
Revenue	**1,750,632**	1,412,883	1,267,928	1,292,665	1,254,191
(Loss)/profit before taxation					
– from continuing operations	**(207,350)**	132,682	(371,338)	(145,811)	(103,302)
– from discontinued operations	**(35,667)**	(76,563)	–	–	–
Income tax	**33,804**	(2,314)	1,368	(2,507)	(645)
(Loss)/profit for the year	**(209,213)**	53,805	(369,970)	(148,318)	(103,947)
Attributable to:					
Equity shareholders of the Company	**(191,108)**	107,833	(315,465)	(123,459)	(90,967)
Non-controlling interests	**(18,105)**	(54,028)	(54,505)	(24,859)	(12,980)
	(209,213)	53,805	(369,970)	(148,318)	(103,947)

ASSETS AND LIABILITIES

	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,937,231**	2,570,157	1,380,184	1,212,834	1,319,032
Total liabilities	**(1,125,632)**	(1,584,733)	(1,162,257)	(783,667)	(734,319)
Net assets	**811,599**	985,424	217,927	429,167	584,713