# CHINA AUTOMOBILE NEW RETAIL (HOLDINGS) LIMITED
# 中國汽車新零售(控股)有限公司

(Incorporated in Bermuda with limited liability) (於百慕達註冊成立之有限公司)
Stock Code 股份代號：526

ANNUAL REPORT 2020 年報

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

Executive Directors

Mr TONG Shiping *(Chairman, appointed on 8 November 2019; and Chief Executive Officer, appointed on 2 August 2019)*
Mr LI Lixin
Mr CHENG Jianhe
Ms JIN Yaxue

Non-Executive Director

Ms CHENG Weihong

Independent Non-Executive Directors

Mr SHIN Yick Fabian
Mr CHEUNG Kiu Cho Vincent
Mr HE Chengying
Mr KWONG Kwan Tong

## COMPANY SECRETARY

Mr PUN Kam Wai Peter

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton
HM11, Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Workshop 06-07, 36/F King Palace Plaza
No. 52A Sha Tsui Road, Tsuen Wan
New Territories, Hong Kong

## SECURITIES CODE

Hong Kong Stock Code: 526

## WEBSITE ADDRESS

http://www.lisigroup.com.hk

## AUDITOR

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

## PRINCIPAL BANKERS

Shengjing Bank, Tianjin Branch, the People's Republic of China (the "PRC")
Bank of Langfang, Tianjin Branch, PRC
Tianjin Rural Commercial Bank Co., Ltd.
Bank of Communications, Hong Kong and Ningbo Branches, PRC
Bank of Ningbo, PRC
China Construction Bank, Ningbo Branch, PRC
The Hongkong and Shanghai Banking Corporation Limited

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
4th Floor North
Cedar House
41 Cedar Avenue
Hamilton HM12
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

# PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

## CHAIRMAN

**Mr TONG Shiping**, aged 60, executive director (the "Director(s)") of China Automobile New Retail (Holdings) Limited (the "Company"), chairman and Chief Executive Officer of the Company and its subsidiaries (the "Group"). Mr Tong graduated from the Department of Computer Applications, Air Force Engineering University, People's Republic of China. Mr Tong served in the Air Force of the Chinese People's Liberation Army from 1983 to 1995.

Mr Tong has extensive experience in car imports and sales in China. In 2002, Mr Tong served as a director of the Tianjin Automobile Logistics Association. In 2003, Shisheng was awarded the title of "Accelerating the Development of Advanced Units" by the Tianjin Port Bonded Area Management Committee, and was awarded the title of "Excellent Enterprise for Achievements in the Industry" by Tianjin Automobile Logistics Association. Shisheng was also awarded the title of "100 Private Entrepreneurs" by the Ministry of Commerce and the Tianjin Municipal Government in 2005 and 2006 respectively. In 2006, Shisheng was rated as "Top Ten Enterprises in China's Imported Automobile Sales Service" by China Automobile Dealers Association. Mr Tong was elected as the vice president of the Tianjin Binhai New Area Parallel Imported Automobiles Chamber of Commerce in 2016. Mr Tong is the husband of Ms Cheng Weihong, non-executive Director of the Company. He joined the Company in July 2018 as Executive Director, appointed as Group Chief Executive Officer in August 2019 and chairman in November 2019.

## EXECUTIVE DIRECTOR

**Mr LI Lixin**, aged 52, is the executive Director. Mr Li holds an Executive Master of Business Administration degree from Fudan University, and is the founder and current chairman of a private group of companies established in the PRC. The principal businesses of this private group include import and export business, chain supermarkets, commercial real estate development and operation management, real property development and investment holding. The group also has investments in real property development, printing business and local bank in the PRC. Mr Li has 29 years of experience in the manufacture and sale of plastic and hardware products and products for daily consumption.

Mr Li was a committee member of the Eleventh National Committee of the Chinese People's Political Consultative Conference, an executive committee member of National Industrial and Commercial Union. He is currently a committee member of the Twelfth Zhejiang Province Committee of the Chinese People's Political Consultative Conference, the vice chairman of the China Plastics Processing Industry Association and Ningbo City Industrial and Commercial Union.

Mr Li was awarded the title of model worker in Ningbo City for the years 2001 to 2003. He was awarded the titles of "Outstanding Builder of Socialist Undertakings of Chinese Characteristics" in 2003 and 2006 by the People's Governments of Ningbo City and Zhejiang Province respectively and was renowned for his contribution to the "Honourable Undertakings" and "Shining Star" promotional programme by the People's Government of Zhejiang Province. He was appointed as non-executive Director in September 2008 and redesignated as executive Director in April 2011; appointed as chairman of the Company and the Group in September 2008 and resigned as chairman in November 2019.

# PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

**Mr CHENG Jianhe**, aged 54, executive Officer. Mr Cheng has over 31 years of experience in the financial management, tax planning, cost control, investment and financing management fields in various industries, including manufacturing, business and paper mills. Mr Cheng graduated from the Jiangxi University of Finance and Economics and majored in financial accounting, and completed the Advanced Programme in Business Administration for Managers offered by Tsinghua University. He holds an Executive Master of Business Administration degree from Renmin University of China. By profession, Mr Cheng is a Certified Public Accountant in the PRC and a member of the Chinese Institute of Certified Public Accountants.

He was appointed as executive Director and Chief Executive Officer of the Group in September 2008 and resigned as Chief Executive Officer in August 2019.

**Ms JIN Yaxue**, aged 50, executive Director and General Manager of household products business of the Group. Ms Jin has been responsible for sales and operations management of Ningbo plant since 1998. She holds an Executive Master of Business Administration degree from Fudan University. She has over 24 years experience in development and sales of household products and sundries. She joined the Group when the Ningbo plant was acquired by the Group in 2010 and was appointed as an executive Director in July 2014.

## NON-EXECUTIVE DIRECTOR

**Ms CHENG Weihong**, aged 58, non-executive Director and member of the nomination committee of the Company. Ms Cheng is the founder of 天津開利星空實業有限公司 (Tianjin Kaili Xingkong Industrial Co. Ltd.), a company incorporated in China principally engaged in resources consolidation and strategic planning for parallel imports of cars in China. She has over 21 years' experience in car imports and sales in China. Ms Cheng is the spouse of Mr Tong Shiping, executive Director of the Company. She joined the Group in September 2018.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr SHIN Yick Fabian**, aged 51, independent non-executive Director, chairman of the audit committee and member of the remuneration committee and nomination committee of the Company. Mr Shin is currently a non-executive director of Pak Tak International Limited (2668.HK), an independent director of BIO-Key International, Inc (NASDAQ: BKYI) and Olympic Circuit Technology Co., Ltd (SH.603920), and an independent non-executive director of Newton Resources Limited (1231.HK), Zhengye International Holdings Company Limited (3363.HK) and China Tianrui Automotive Interiors Co., Ltd (6162.HK). Mr Shin was an independent non-executive director of China Shun Ke Long Holdings Ltd. (974.HK) and Huabang Financial Holdings Limited (3638.HK).

Mr Shin graduated from the University of Birmingham in England with a bachelor's degree in commerce. After graduation, he worked in the audit department of Deloitte Touche Tohmatsu. He had also worked in a listed company in Hong Kong as group financial controller and company secretary. He is a fellow member of Hong Kong Institute of Certified Public Accountants, Association of Chartered Certified Accountants, Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. He joined the Group in 2013.

# PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

**Mr CHEUNG Kiu Cho, Vincent**, aged 44, is independent non-executive Director, chairman of the nomination committee and remuneration committee and member of the audit committee of the Company. Mr Cheung is a Registered Professional Surveyor in the General Practice Division and member of The Hong Kong Institute of Surveyors and fellow member of The Royal Institution of Chartered Surveyors. He holds a Master Degree of Business Administration in International Management awarded by University of London in association with Royal Holloway and Bedford New College and a Bachelor Degree of Science (Honours) in Real Estate awarded by The Hong Kong Polytechnic University. He was also admitted as a member of Hong Kong Securities and Investment Institute in June 2017. Mr Cheung was qualified as a member of The Chine Institute of Real Estate Appraisers and Agents and admitted as a registered Real Estate Appraiser People's Republic of China.

Mr Cheung has over 22 years of experience in real estate industry and asset valuations section and is currently the Managing Director of Vincorn Consulting and Appraisal Limited. He has also been an independent non-executive director and a member of the audit committee and nomination committee of RMH Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8437), which is primarily engaged in provision of medical and surgical services in dermatology in Singapore, since September 2017 and an independent non-executive director and chairman of the nomination committee and a member of both audit committee and remuneration committee of MECOM Power and Construction Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1183), which is primarily engaged in integrated construction engineering and power substations construction in Macau, since February 2018.

Mr Cheung was appointed as independent non-executive Director in June 2006.

**Mr HE Chengying**, aged 57, independent non-executive Director. Mr He is currently the dean of the Business School of Guangxi University and the executive head of the Institute of China-ASEAN Open-door Finance (中國－東盟金融開放門戶研究院執行院長). Mr He graduated from the Department of Accountancy of South Western University of Finance and Economics, holds a Master Degree of Economics from Zhejiang University, a Doctoral Degree of Economics from Xiamen University. He previously worked for Shenzhen Investment Holding Corporation, China Eagle Securities, Guosen Securities and United Securities. He is an associate professor, senior economist and a special research fellow of the China Management Science Research Institute and Researcher (Professor) of Zhejiang University of Finance and Economy. Mr He had previously engaged in state enterprise, state-owned asset management, as well as directly participated in drafting and formulating policies for state enterprise and state-owned asset management reforms. Subsequently, Mr He has engaged in stock market innovation, asset reorganisation, as well as capital market operation and research. He has accumulated extensive experience in corporate reform, asset reorganisation and capital management planning. He was appointed as independent non-executive Director in September 2006.

**Mr KWONG Kwan Tong**, aged 54, independent non-executive Director. Mr Kwong is currently the Chief Financial Officer, Company Secretary and Authorised Representative of Weichai Power Co., Ltd., a company listed on Hong Kong stock exchange (stock code: 2338) and Shenzhen stock exchange (stock code: 000338). Mr Kwong obtained a diploma in accountancy from the Morrison Hill Technical Institute in Hong Kong in 1987. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Management Accountants. He has worked for companies listed on The Stock Exchange of Hong Kong Limited and has over 30 years' experience in the accounting, internal audit and financial management fields. He joined the Group in September 2018.

# PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT

**Mr PUN Kam Wai Peter**, aged 58, is the Chief Financial Officer of the Group and Company Secretary of the Company. Mr Pun possesses over 30 years of experience in financial management and corporate planning in various industries including FMCG (fast moving consumer goods), entertainment, telecom service, manufacturing and financial information service. He was the financial controller of a listed company in Hong Kong for which he led the successful initial public offering on GEM of the Stock Exchange of Hong Kong Limited. By profession, Mr Pun is a member of Hong Kong Institute of Certified Public Accountants and CPA Australia. Besides, he holds a Master degree in Business Administration from the Chinese University of Hong Kong and a Master degree in Professional Accounting from University of Southern Queensland, Australia. He joined the Group in July 2009 and has been responsible for the finance and accounting function of the Group. He was further appointed as a Company Secretary of the Company in January 2019.

**Madam ZHENG Rong**, aged 49, is the chief financial officer of New JoySun responsible for accounting and financial matters of New JoySun Group since 2007. Madam Zheng has nearly 26 years of experience in the retail industry and around 23 years of experience in financial management in various industries. Madam Zheng has an Executive Master of Business Administration degree from Fudan University in Shanghai. She joined the Group when Ningbo New JoySun was acquired by the Group in 2013.

**Mr ZHANG Yao**, aged 43, is the deputy general manager of New JoySun non-staple food wholesale and is responsible for the daily management and direction of operations of New JoySun Group since 2017. Mr Zhang has worked in the wholesale of wine industry for a long time and has a certain level of reputation in the wine industry. He joined the Group in 2013.

**Mr WANG Chaohong**, aged 47, is the general manager of New JoySun supermarket and is responsible for the daily management and direction of operations of the New JoySun Group. Mr Wang has been the purchasing director of a company of large-scale chain stores and has accumulated many years' management experience in the retail industry. Mr Wang holds an Executive Master of Business Administration degree from the Shanghai Jiao Tong University. He joined the Group in 2013.

**Mr LAM Wai Wah, Alan**, aged 56, is the Senior Sales and Marketing Manager of household products business of the Group. Mr Lam has been responsible for the international marketing and sales of products manufactured in Ningbo plant since September 2005. He has over 29 years experience in marketing and sales of household products and sundries. He joined the Group when the Ningbo plant was acquired by the Group in 2010.

**Mr NG Chun Ki**, aged 42, is the Technical Deputy General Manager for household products business of the Group. Mr Ng has been responsible for the product development and production management of Ningbo plant since June 2003 and has over 25 years experience in product development and manufacturing of plastic moulds. He joined Group when the Ningbo plant was acquired by the Group in 2010.

# CHAIRMAN'S STATEMENT

Dear Shareholders,

2019/20 was a year with immense challenges in business environment, affected by trade friction between the governments of the PRC and the United States and the COVID-19 outbreak. For the year ended 31 March 2020 (the "Year"), our revenue for the continuing operations was RMB1,184.0 million which represented a decrease of 56.6% versus 2018/19. Our net loss for the Year was RMB154.5 million compared to a net profit of RMB210.7 million in 2018/19. The change was mainly attributable to the recognition of the gain in fair value change of approximately RMB85.0 million from the Tranche C consideration shares for the car-sale business project in Tianjin in the last year for the continuing operations while impairment loss on goodwill of approximately RMB240.0 million in the Year for continuing operations. Given that those adverse economic environments would be expected to be relieved in the future, our group would seize any business opportunities to rebound our operations and delivered considerable financial results in the next year.

The board of Directors (the "Board") has resolved not to recommend any final dividend for the Year.

## FURTHER EXPANSION IN A PROMISING CAR-SALE BUSINESS MARKET

The Group commenced its business in car-sale market in mainland China through the acquisition of car-sale business in Tianjin in early 2017. The actual business results in terms of revenue and profit from operations generated directly from this business segment in 2017/18 and 2018/19 has proven the success of this acquisition.

On 2 March 2019, the Company took a further step to expand in this business segment and entered into a sale and purchase agreement (the "SPA") with Valuable Peace Limited (the "Vendor"). Pursuant to the SPA, the Company intends to acquire and the Vendor intends to sell entire issued share capital of Robust Cooperation Limited which holds indirectly the entire equity interest in 天津濱海國際汽車城有限公司 ("Tianjin Binhai International Automobile City Company Ltd.") (the "Acquisition"). The Acquisition was approved by the Shareholders of the Company on 27 June 2019 and completed on 31 July 2019. For details of this Acquisition, please refer to the announcements of the Company dated 3 March 2019, 30 April 2019 and 31 July 2019 and the circular of the Company dated 28 May 2019.

The Company expects car-sale business will continue to bring very positive contribution to the financial results, the asset base and the cash flow generation to the Group. We are optimistic with the prospect and potential of our development in car-sale business in mainland China.

# CHAIRMAN'S STATEMENT

## FURTHER STRENGTHENING OUR LIQUIDITY AND FINANCIAL POSITION

On 28 May 2020, the Company and Li Lixin, executive director and substantial shareholder of the Company, entered into a disposal agreement, pursuant to which the Company conditionally agreed to sell, and Li Lixin conditionally agreed to buy the entire shareholding interest in Magician Investments (BVI) Limited, Magician Strategic Limited and Wealthy Honor Holdings Limited (the "Disposal"). The Disposal group operated retail and wholesale business, manufacturing and trading business and investments holding business. The Board considered that the Disposal would provide the Group with an immediate cash inflow for settling its indebtedness and strengthening the Group's liquidity and financial position. For details of the Disposal, please refer to the announcements dated 17 March 2020 and 28 May 2020.

## LOOKING FOR NEW BUSINESSES WITH GROWTH POTENTIAL

The management will actively look into investment and acquisition targets of appropriate and reasonable valuation and consider other uses of fund for the best benefit of the Company and the Shareholders as a whole. The investment objectives of the Group will be in driving impactful business growth, strengthening further competitive advantage of existing business segments and enhancing the return to the Shareholders of the Company.

## APPRECIATION

With the continuous expansion of car business through generic growth and acquisition and the potential Disposal, the Group is strongly positioned with business structure to grasp the business opportunities in car business in China Market and deliver business growth and financial results with sustainable improvement. I am confident and optimistic with the prospect of the business development of the Group. On behalf of the Board, I would like to thank our customers, suppliers, business partners and the Shareholders of the Company for their continuous support. Last but not least, I would also like to take this opportunity to express my heartiest gratitude to all the employees of the Group for their industrious devotion and achievements in the challenging but exciting 2019/20. We shall continue to target for long term business growth of the Group and strive for improving financial results and return to the Shareholders of the Company.

**Tong Shiping**
*Chairman*

Hong Kong, 30 June 2020

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL HIGHLIGHTS

### General Information

For the year ended 31 March 2020 (the "Year"), the Group recorded a revenue for the continuing operations of approximately RMB1,184.0 million, representing a decrease of 56.6% when compared with the revenue of approximately RMB2,729.9 million reported for the last year. Net loss for the Year was approximately RMB154.5 million compared to a net profit of RMB210.7 million for the last year. The Group's basic and diluted loss per share for the Year were RMB1.96 cents while the Group's basic and diluted earnings per share were RMB2.79 cents and RMB1.67 cents for the corresponding period last year.

### Net Assets, Liquidity and Financial Resources

As at 31 March 2020, the Group's net assets increased to RMB2,647.2 million, rendering net asset value per share at RMB32.91 cents. The increase in net assets was mainly the result of the issuance of shares for the acquisition of a car trading platform business on 31 July 2019, and the acquisition has brought positive contribution to the asset base.

As at 31 March 2020, the Group's total assets were valued at RMB7,947.4 million, including cash and bank deposits of approximately RMB259.9 million. Consolidated bank loans and other borrowings were amounted to RMB1,060.7 million. Debt-to-equity ratio (bank loans and other borrowings over total equity) has been decreased from 46.0% as at 31 March 2019 to 40.1% as at 31 March 2020. The change in the debt-to-equity ratio was essentially due to the bank loans of a car trading platform business consolidated into the Group upon completion of the acquisition of a car trading platform business mentioned above.

Most of the Group's business transactions were conducted in RMB and US$. As at 31 March 2020, the Group's major borrowings included bank loans and loans from other financial institutions, which had an outstanding balance of RMB1,052.9 million, other borrowings from shareholders totaling RMB7.77 million. All of the Group's borrowings are denominated in RMB, HK$, US$ and CAD.

### Pledge of Assets

The Group's leasehold land and buildings and investment properties with a carrying amount of RMB1,609.2 million for continuing operations as at 31 March 2020 were pledged to secure bank borrowing and facilities of the Group.

### Prepayment to Suppliers

As at 31 March 2020, the balance of prepayment to suppliers is RMB617.6 million. As at the 30 June 2020, the utilization of the prepayment to suppliers was approximately RMB493.8 million or 79.9% of the balance.

### Capital Expenditure and Commitments

The Group will continue to allocate a reasonable amount of resources to acquisitions, better utilization of the Company's assets, and improvement of capital assets to improve operations efficiency and to meet customer needs and market demands. Sources of funding are expected to come primarily from trading revenue that the Group will generate from operations and alternative debt and equity financing.

### Exposure to Foreign-Exchange Fluctuations

The functional currency of the Company is RMB and the Group's monetary assets and liabilities were principally denominated in RMB, HK$, US$ and CAD. The Group considers the risk exposure to foreign currency fluctuation would be essentially in line with the performance of the exchange rate of RMB. Given that RMB is not yet an international hard currency, there is no effective method to hedge the relevant risk for the size and cash flow pattern of the Group. As the Chinese Government is driving RMB to get more internationalized and towards free floating in the future, we expect more hedging tools will be available in the currency market. The Group will monitor closely the development of currency policy of the Chinese Government and the availability of the hedging tools which are appropriate for the operations of manufacturing business and car business of the Group in this respect.

### Segment Information

With the acquisition of car-sale business in 2017 and car trading platform business in 2019, the overall car business has emerged to become the most important business segment of the Group in the year ended 31 March 2020. Retail and wholesale business, manufacturing and trading business and investments holding business were classified as discontinued operations for the Year.

In terms of geographical location, all of the Group's revenue for the continuing operations is generated from Mainland China.

### Contingent Liabilities

As at 31 March 2020, the Group provides guarantees to secure bank loans borrowed by some major customers. Such arrangements were made by 天津濱海國際汽車城有限公司 (Tianjin Binhai International Automobile City Company Ltd, the "Automobile City") prior to the acquisition in July 2019. The directors of the Company do not consider it probable that a claim in excess of the provision for warranties provided by the Group will be made against the Group under any of the guarantees. The maximum liability of the Group as of the close of business under the guarantees issued is RMB2,187.0 million being the aggregate banking facilities granted to third party customer of the Group by banks.

### Goodwill

The goodwill reduced from approximately RMB679.8 million to approximately RMB396.5 for the Year as compared with last year, which was attributable to the recognition of the impairment loss on goodwill for the car-sales cashing generating unit ("CGU") amounting approximately RMB240.0 million and manufacturing and trading CGUs amounting approximately RMB43.3 million during the year. The impairment to reduce their carrying value to recoverable amount. The impairment was mainly due to the impact to the CGU for the implementation of Limits and Measurement Methods for Emissions from Light-duty Vehicles (CHINA VI), COVID-19 outbreak and recent trade friction between the governments of the PRC and the United States.

The impairment was based on a valuation by an independent professional valuer. Any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

The assumptions in the value-in-use calculations are as follows:

| | Manufacturing and trading | | Car-sales | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Long-term growth rate | 3.0% | 2.0% | 3.0% | 2.5% |
| Discount rate (pre-tax) | 18.9% | 14.7% | 14.5% | 14.1% |

The Group expected the market will soon be back to normal in late 2020 as the demand of the customers was expected to be rebounded after relief of the COVID-19 pandemic. The management is confident that the sales performance will catch up in the foreseeable future.

## Employee Information

As at 31 March 2020, the Group employed a workforce of 1,697 employees for the continuing and discontinued operations in its various chain stores, offices and factories located in Hong Kong and the PRC. Competitive remuneration packages were provided and commensurate with individual responsibilities, qualifications, experience and performance. The Group provided management skills workshops, practical seminars for knowledge update, on-the-job training and safety training programs to its employees. There was a share option scheme in force but no share option was granted during the Year.

## Review of Operations

For the Year, the Group recorded a net loss of RMB154.5 million, compared to the net profit of RMB210.7 million for the corresponding last year. The change was mainly attributable to the recognition of the gain in fair value change of approximately RMB85.0 million from the Tranche C consideration shares for the car-sale business project in Tianjin in the last year for the continuing operations while impairment loss on goodwill of approximately RMB240.0 million in the Year for continuing operations.

## Revenue for the Continuing Operations

The Revenue for the continuing operations comprised Car-sale Business and Car-Trading Platform Business. During the Year, the Group recorded revenue from continuing operations of approximately RMB1,184.0 million, representing a decrease of 56.6% when compared with the revenue of approximately RMB2,729.9 million reported for the last year.

### *Car-sale Business*

The Group had originally anticipated that there would be considerable growths of revenue of the car-sale business as at the date of acquisition. However, the trading and sales of imported cars business decreased substantially by 58.7% to RMB1,126.3 million for the year ended 31 March 2020 as compared with RMB2,729.9 million for the corresponding period last year. The trade friction between the United States of America and China, the issuance of Limits and Measurement Methods for Emissions from Light-duty Vehicles (China VI) and COVID-19 pandemic did have adverse impact on the business and investment environment in China and thus affected the mood of consumers in China especially in the market of durable goods. The desire for purchase of imported cars is lessoned and some customers have a wait-and-see attitude on their purchase plan which affected the transactions of imported cars and resulted in a drop of turnover for our car-sale business in the year ended 31 March 2020 as compared with the corresponding period last year. Decrease in revenue in 2020 affected the sales forecasted incoming years assumed in the valuation model. As a result, the recoverable amounts assessed by an independent professional valuer was lower than the carrying value of the car-sale business, and impairment losses of approximately RMB240.0 million on goodwill was recognised for the year ended 31 March 2020. The management team of car-sale business expected the market of imported cars will soon be back to normal in late 2020 as the demand of the customers was expected to be rebounded after relief of the COVID-19 pandemic. The management is confident that the sales performance will catch up in the foreseeable future.

# MANAGEMENT DISCUSSION AND ANALYSIS

*Car Trading Platform Business*

The imported cars platform services and property rental business started operation after completion of the acquisition in July 2019. The business contributed revenue of RMB57.6 million for the year ended 31 March 2020. The management is confident that its business will provide considerable revenue for the next year.

### Revenue for the Discontinued Operations

Revenue for the discontinued operations included Retail and Wholesale Business, Manufacturing and Trading Business and Investment Holding Business. During the Year, the Group recorded revenue for the discontinued operations of approximately RMB1,481.9 million, representing an increase of 20.5% when compared with the total revenue of approximately RMB1,230.2 million reported for the last year.

*Retail and Wholesale Business*

Retail business increased by 9.3% to RMB504.7 million and wholesale business increased by 1.0% to RMB284.7 million for the Year as compared with last year. Although keen market competition from e-commerce, large supermarket chains and new shopping malls nearby, the retail business was operated successfully and recorded an increase in revenue. On the other hand, the wholesale business in wine and beverages has stabilized and recorded a satisfactory increase in revenue contributed by the hard work of the sale team for the Year.

*Manufacturing and Trading Business*

During the Year, the manufacturing and trading business contributed approximately RMB645.0 million to the revenue for the discontinued operations. The business of this segment increased by RMB211.1 million when compared with the last year of approximately RMB433.9 million. The competition in overseas market has been severe and our management team in this business line works very hard to look for further opportunities in the market. Their contribution successfully strengthen our established customer base, and the base can cope with short term fluctuation in the market. The business of this segment performed quite well in the Year.

*Investments Holding Business*

Dividend income and investment income decreased by 9.8% to RMB47.4 million during the Year as compared with the last year.

## PROSPECTS

### Expanding into a Promising Car-Sale Business Market

Since the completion of the acquisition of a car-sales business in early 2017, the Group continued to expand into car-sale business market.

On 2 March 2019, the Company and Valuable Peace Limited (the "Vendor") entered into a sale and purchase agreement (the "SPA"). Pursuant to the SPA, the Company intends to acquire and the Vendor intends to sell entire issued share capital of Robust Cooperation Limited which holds indirectly the entire equity interest in the Automobile City (the "Acquisition"). The Acquisition was completed on 31 July 2019. For details of the Acquisition, please refer to the announcements dated 3 March 2019, 30 April 2019 and 31 July 2019 and the circular dated 28 May 2019.

The Group will actively expand its car business through pursuing acquisition and/or cooperation opportunities of domestic and overseas procurement/warehouse/logistic facilities, car-sale exhibition facilities and products delivery/after-sales service network. An example is the signing of memorandum of understanding related to the possible acquisition of Beijing Gunlie E-commerce Company Limited. Please refer to the announcement of the Company on 22 September 2019.

### Strengthening Our Liquidity and Financial Position

On 28 May 2020, the Company and Li Lixin, executive director and controlling shareholder of the Company, entered into a disposal agreement, pursuant to which the Company conditionally agreed to see, and Li Lixin conditionally agreed to by the entire shareholding interest in Magician Investments (BVI) Limited, Magician Strategic Limited and Wealthy Honor Holdings Limited (the "Disposal"). The Disposal operated retail and wholesale business, manufacturing and trading business and investments holding business. The Board considered that the Disposal provides the Group with an immediate cash inflow for settling its indebtedness and strengthening the Group's liquidity and financial position. For details of the Disposal, please refer to the announcements dated 17 March 2020 and 28 May 2020.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance for enhancing shareholders' value. The Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules for the Year save as herein below disclosed.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiries of all Directors, the Company confirmed that all Directors have complied with the required standards as set out in the Model Code during the Year.

## BOARD OF DIRECTORS

The Board is responsible for the formulation of strategies and control of the Group and for monitoring the performance of the management teams. The chief executive officer and the senior management members are responsible for effective implementation of the Board's decisions and the day-to-day operations of the Group. During the Year, the Board comprised of four executive Directors, one non-executive Director and four independent non-executive Directors as follows:

**Executive Directors**

Mr TONG Shiping *(Chairman, appointed on 8 November 2019; and Chief Executive Officer, appointed on 2 August 2019)*
Mr LI Lixin
Mr CHENG Jianhe
Ms JIN Yaxue

**Non-Executive Director**

Ms Cheng Weihong

**Independent Non-Executive Directors**

Mr Shin Yick Fabian
Mr Cheung Kiu Cho Vincent
Mr He Chengying
Mr Kwong Kwan Tong

During the Year, fifteen Board meetings were held. Notice of at least 14 days was given to Directors for regular Board meetings during the Year as required by the CG Code Provision A.1.3.

During the Year, the Directors were provided with reading materials and briefings to refresh their knowledge on Listing Rules and other relevant laws and regulations. Mr Shin Yick Fabian, Mr Cheung Kiu Cho Vincent and Mr Kwong Kwan Tong have attended courses and/or seminars relevant to the roles and duties as directors of listed companies.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to code A.2.1 the responsibilities between the chairman and the chief executive officer ("CEO") of the Company are expected to be segregated and not be performed by the same individual. Under the current organisation structure of the Group, Mr. Tong Shiping now serves as both the Chairman and the CEO. The Board believes that vesting the roles of both the Chairman and the CEO in the same person can facilitate the execution of the Group's business strategies and boost effectiveness of its operation. Therefore, the Board considers that the deviation from the code provision A.2.1 of the CG Code is appropriate in such circumstance. In addition, under the supervision of the Board which is comprised of four executive Directors, one non-executive Director and four independent non-executive Directors, the Board is appropriately structured with balance of power to provide sufficient checks to protect the interests of the Company and its shareholders.

## NON-EXECUTIVE DIRECTORS

Non-executive Directors are appointed for a fixed term of two years or three years, subject to retirement and re-election at the annual general meeting in accordance with the Bye-laws of the Company.

## REMUNERATION COMMITTEE

The role and function of the remuneration committee are principally advising the Board on the policy and structure for remuneration of Directors and senior management and on establishing a formal and transparent procedure for developing policy on such remuneration, determining the specific remuneration packages of all executive Directors and senior management and ensuring that no Director or any of his associates is involved in deciding his own remuneration.

During the Year, the remuneration committee comprised of two independent non-executive Directors, Mr Cheung Kiu Cho Vincent (chairman), Mr Shin Yick Fabian and one executive Director, Ms Jin Yaxue. One meeting was held during the Year.

During the Year, the remuneration committee has reviewed and made recommendations to the Board on the remuneration packages of individual Directors and senior management and the overall remuneration policy of the Group and assessed performance of the Directors.

Pursuant to code provision B.1.5 of the CG code, the remuneration of the members of the senior management by band for the year ended 31 March 2020 is set out below:

| **In the band of** | **Number of individual** |
|---|---|
| | *2020* |
| Nil - HK$1,000,000* | 5 |
| HK$1,000,001 - HK$1,500,000 | 1 |

## NOMINATION COMMITTEE

The role and function of the nomination committee are principally to evaluate the structure of the Board regularly and make recommendations to the Board on any proposed change. The Committee shall review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships; assess the independence of independent non-executive Directors; and make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman and the chief executive officer of the Company.

For the measurable objectives, selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board's composition (including gender, age, and length of service) will be disclosed in the corporate governance report of the Company annually.

During the Year, the nomination committee comprised of two independent non-executive Directors, Mr Cheung Kiu Cho Vincent (chairman) and Mr Shin Yick Fabian, and one non-executive Director, Ms Cheng Weihong. Four meetings were held during the Year.

During the Year, the nomination committee has monitored and reviewed the nomination procedures and process for the nomination of Directors, reviewed the composition of the Board and made recommendation to the Board on matters related to election and retirement of the Directors.

# CORPORATE GOVERNANCE REPORT

## AUDIT COMMITTEE

During the Year, the audit committee comprised of three independent non-executive Directors, Mr Shin Yick Fabian (chairman), Mr Cheung Kiu Cho Vincent and Mr He Chengying. Two audit committee meetings were held during the Year.

The roles and function of the audit committee are principally making recommendations to the Board on the engagement of external auditors, reviewing the financial information of the Group and overseeing the Group's financial reporting system, internal control and risk management systems.

During the Year, the audit committee reviewed the Group's annual results for the year ended 31 March 2019 and interim results for the six months ended 30 September 2019. The audit committee also reviewed the Group's financial controls, internal control and risk management systems and the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function.

## NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

Attendance records of the Directors at Board meetings (BM), audit committee meetings (ACM), remuneration committee meetings (RCM), nomination committee meetings (NCM) and general meeting (GM) held during the year are set out below:

| | Number of meetings attended/held during the Year | | | | |
|---|---|---|---|---|---|
| | **BM** | **ACM** | **RCM** | **NCM** | **GM** |
| **Executive Directors** | | | | | |
| Mr Tong Shiping | 11/15 | NA | NA | NA | 1/3 |
| Mr Li Lixin | 11/15 | NA | NA | NA | 0/3 |
| Mr Cheng Jianhe | 15/15 | NA | NA | NA | 3/3 |
| Ms Jin Yaxue | 5/15 | NA | 1/1 | NA | 0/3 |
| **Non-Executive Director** | | | | | |
| Ms Cheng Weihong | 11/15 | NA | NA | 3/4 | 0/3 |
| **Independent Non-Executive Directors** | | | | | |
| Mr Shin Yick Fabian | 5/15 | 2/2 | 1/1 | 4/4 | 2/3 |
| Mr Cheung Kiu Cho Vincent | 5/15 | 2/2 | 1/1 | 4/4 | 2/3 |
| Mr He Chengying | 3/15 | 0/2 | NA | NA | 0/3 |
| Mr Kwong Kwan Tong | 5/15 | NA | NA | NA | 3/3 |

Pursuant to code E.1.2 of the CG Code, the chairman of the Board, the chairman of the audit committee, the chairman of the remuneration committee and the chairman of the nomination committee should attend the annual general meeting. During the Year, the chairman of the Board, the chairman of the audit committee, the chairman of the remuneration committee and the chairman of the nomination committee were unable to attend the annual general meeting due to other commitments.

## ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibilities for preparing the Group's financial statements, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for the reporting period. The Board is aware that its responsibilities to present a balanced, clear and understandable assessment extend to annual and interim reports, reports to regulators, other inside information and financial disclosures required under the Listing Rules as well as information required to be disclosed pursuant to statutory requirements. The Board has conducted an annual review of the effectiveness of the system of internal control and risk management of the Group.

## AUDITOR'S REMUNERATION

During the Year, the auditor's remuneration paid and payable in respect of statutory audit services and other services, provided by the auditor of the Company to the Group amounted to RMB5,100,000 and RMB2,250,000, respectively.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the establishment, maintenance and review of the Group's internal control system to safeguard the assets of the Group and shareholder investments. The internal control system of the Group aims to facilitate effective and efficient operation which in turn minimises the risks to which the Group is exposed. The system can only provide reasonable but not absolute assurance against misstatement or losses.

During the year under review, the Board has engaged Elite Partners Risk Advisory Services Limited as independent consultant to undertake an internal audit function and to review the internal control system of the Group on material issues covering financial, operational and legal compliance controls and risk management function.

The Directors considered that the Group has implemented appropriate procedures for safeguarding the Group's assets against unauthorised use or misappropriation, maintaining proper accounting records, segregation of duties and putting plans and routines into execution with appropriate authority and in compliance with the relevant laws and regulations.

The Group adopts a risk management framework which comprises the following processes:

– Identify significant risks in the Group's operation environment and evaluate the impacts of those risks on the Group's business;

– Develop necessary measures to manage those risks; and

– Monitor and review the effectiveness of such measures.

# CORPORATE GOVERNANCE REPORT

The Group formulated the policies and procedures of risk management and internal control as follows:

– The Group established an organisational structure with clear operating and reporting procedures, lines of responsibility and delegated authority;

– Each operating subsidiary maintains internal controls and procedures appropriate to its structure whilst complying with the Group's policies, standards and guidelines;

– Relevant executive Directors and senior management have been delegated with specific accountability for monitoring the performance of designated business operating units;

– A systematic review of the financial and business processes in order to provide management on the adequacy and effectiveness of internal controls. Where weaknesses are identified in the system of internal controls, management will evaluate and take necessary measures to ensure that improvements are implemented; and

– Code of ethics are established and adhered to by all employees to ensure high standards of conduct and ethical values in all business practices.

The Board has reviewed the risk management and internal control system adopted by the Group for the year ended 31 March 2020 and considered that it was effective and adequate.

For the inside information, the Company recognises its obligations under the Securities and Futures Ordinance and the Listing Rules, pursuant to which the Company is required to announce the inside information immediately after such information comes to its attention. The Company conducts its affairs with reference to the Guidelines on Disclosure of Inside Information published by the Securities and Futures Commission and regularly reminds the directors and employees of the compliance with Listing Rules and other regulatory requirements for the handling and dissemination of inside information.

## SHAREHOLDERS' RIGHTS

Shareholders may send their direct enquiries to the Board in writing by mail through the company secretary of the Company to the Company's principal place of business in Hong Kong for the time being.

Pursuant the Company's bye-laws, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of the Companies Act 1981 of Bermuda.

To put forward a proposal at a shareholders' meeting, shareholder should comply with all provisions of the Companies Act 1981 of Bermuda. In addition, shareholders are requested to submit a written request stating the resolution intended to be moved at the general meeting; or a statement with respect to the matter referred to in any proposed resolution or the business to be dealt with at a particular general meeting. The written request/statements must be signed by the shareholder(s) concerned and deposited at the Company's registered office and principal place of business in Hong Kong, for the attention of the company secretary of the Company.

## GOING CONCERN ASSESSMENT

As at 31 March 2020, bills payable of RMB245,499,000 and a bank loan of RMB129,838,000 were overdue but not yet renewed or repaid at the end of the reporting period. Up to the date of approval of these consolidated financial statements, these overdue bills and bank loan were fully repaid. Subsequent to 31 March 2020 and up to the date of approval of these consolidated financial statements, bank and other loans which were overdue but not yet repaid or renewed amounted to RMB373,290,000. Besides, the Group has failed to fulfill certain requirements relating to a long-term loan of RMB139,424,000 and hence the lender has the right to require the Group to repay the loan immediately at any time prior to its original repayment dates.

Notwithstanding these circumstances, the Directors do not consider that material uncertainties related to events or conditions exits which may cast significant doubt on the Group's ability to continue as a going concern, taking into accounts the result of the following assessment:

– On 28 May 2020, the Group has entered into an agreement to dispose the entire share capital of Magician Investments (BVI) limited, Magician Strategic Limited and Wealthy Honor Holdings Limited at cash consideration of RMB1.25 billion, subject to independent shareholders' approval;

– The vendor of Robust Cooperation Limited has agreed not to demand for the payment of the HK$300,000,000 cash consideration due to the vendor for a period of at least 18 months from 31 March 2020 if such a payment would cause the Group unable to settle its liabilities to other parties when they fall due;

– The Group is actively negotiating with banks and other financial institutions for extension of its liabilities,

– Tong Shiping (director of the Company), Cheng Weihong and Li Lixin (directors and shareholders of the Company) has agreed to provide continuing financial support to the Group as is necessary to ensure its continuing operation for a period of at least 12 months from 31 March 2020, and;

– Result of the Group's cash flow forecast for the twelve months ending 31 March 2021.

Details of the assessment are set out in Notes 2 of the consolidated financial statements respectively.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THIS REPORT

China Automobile New Retail (Holdings) Limited (hereafter the "Company"), formerly Lisi Group (Holdings) Limited, is an investment holding company principally engaged in the trading of imported cars. The Company, together with its subsidiaries (hereafter the ("Group"), "we" or "our"), operates business through six segments, including car trading platform, car-sale, manufacturing and trading of plastic and metallic household products, retailing, wholesaling, and investment holding. On 28 May 2020, the Group entered into an agreement with an executive director and a shareholder of the Company, pursuant to which the Group agreed to sell certain segments, including manufacturing and trading of plastic and metallic household products, retailing, wholesaling and investment holding. The agreement is subject to fulfilment of conditions set out in the agreement, including independent shareholders' approval. As "Create Better Living" is our business mission, the Group is committed to integrating sustainability principles into our strategic planning and daily operations through transparent measures, together with making progressive business growth and development.

Having a deep ambition to construct long-term trusted ties with our stakeholders in the community, the Group is pleased to publish its fourth environmental, social & governance ("ESG") report (the "Report"), which summarises its policies, approaches and practices towards ESG management and enables our stakeholders to have a better understanding about the progress and performance of the Group's ESG development.

### Scope of the Report

The Report examines the ESG management approaches, environmental and social performance and material topics during the year from 1 April 2019 to 31 March 2020 (the "Reporting Period", "FY2020") of our core operations in Ningbo of the People's Republic of China ("PRC"), Tianjin of the PRC and the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), unless otherwise specified, as listed below:

<table>
<tr><th>Business Segments</th><th>Locations</th><th>Companies</th></tr>
<tr><td colspan="3">Continuing</td></tr>
<tr><td>Head office</td><td>Hong Kong</td><td>China Automobile New Retail (Holdings) Limited</td></tr>
<tr><td>Car-sale</td><td rowspan="2">Tianjin, PRC</td><td>Tianjin Calistar Automall Operation Management Co., Ltd.</td></tr>
<tr><td>Car trading platform</td><td>Tianjin Binhai International Auto Mall Co., Ltd.</td></tr>
<tr><td colspan="3">Discontinued</td></tr>
<tr><td>Investment holding</td><td rowspan="4">Ningbo, PRC</td><td rowspan="2">Ningbo Lisi Household Products Company Limited</td></tr>
<tr><td>Manufacturing and trading of plastic and metallic household products</td></tr>
<tr><td>Wholesaling</td><td>Ningbo New JoySun Corp.</td></tr>
<tr><td>Retailing</td><td>Ningbo New JoySun Supermarket Chain Limited</td></tr>
</table>

The reporting boundary is defined by the materiality of the businesses. Operations that generate the largest total revenue from each of the six segments were selected.

### Reporting Standard

This Report has been prepared in accordance with the "comply or explain" provisions of the Environmental, Social and Governance Reporting Guide under Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKEx ESG Reporting Guide").

### Contact and Feedback

The Group welcomes your feedback and suggestion on this ESG Report, please feel free to provide your comments via info@lisigroup.com.hk.

## STAKEHOLDER ENGAGEMENT

With the ongoing communication and engagement with its stakeholders, the Group can better understand the persepctives and expectations of its stakeholders on the Group's ESG issues with the greatest concerns, as well as the associated environmental and social impacts on the business. By gathering their opinion and understanding their concerns, the Group can refine its management policies and approaches on ESG management, determine a more suitable way to address the ESG issues, as well as making continuous improvement on its ESG performance.

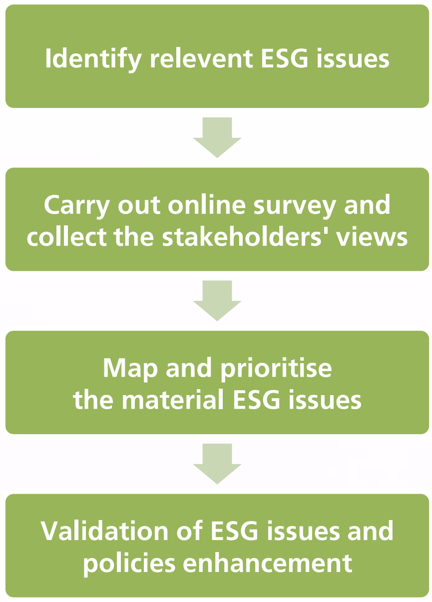
The Group not only has identified key stakeholder groups who have a significant impact on our business or those who can be significantly affected by our operations, but also has been maintaining regular communication with them through various channels, which are illustrated in the table below:

| Stakeholder groups | Communication channels |
|---|---|
| **Investors and shareholders** | • Company website<br>• Company's announcements<br>• Annual general meeting<br>• Annual and interim reports |
| **Customers** | • Company website<br>• Customer direct communication<br>• Customer feedback and complaints |
| **Employees** | • Training and orientation<br>• Emails and opinion box<br>• Regular meetings<br>• Employee performance evaluation<br>• Employee activities |
| **Suppliers and business partners** | • Selection assessment<br>• Procurement process<br>• Performance assessment<br>• Regular communication with business partners (e.g. emails, meetings, on-site visit etc.) |
| **Government authorities and regulators** | • Documented information submission<br>• Compliance inspections and checks<br>• Forums, conferences and workshops |
| **Non-governmental organizations** | • Emails<br>• Phones<br>• Charity donations |
| **Communities** | • Company website<br>• Community activities |
| **Media** | • Company website<br>• Company's announcements |

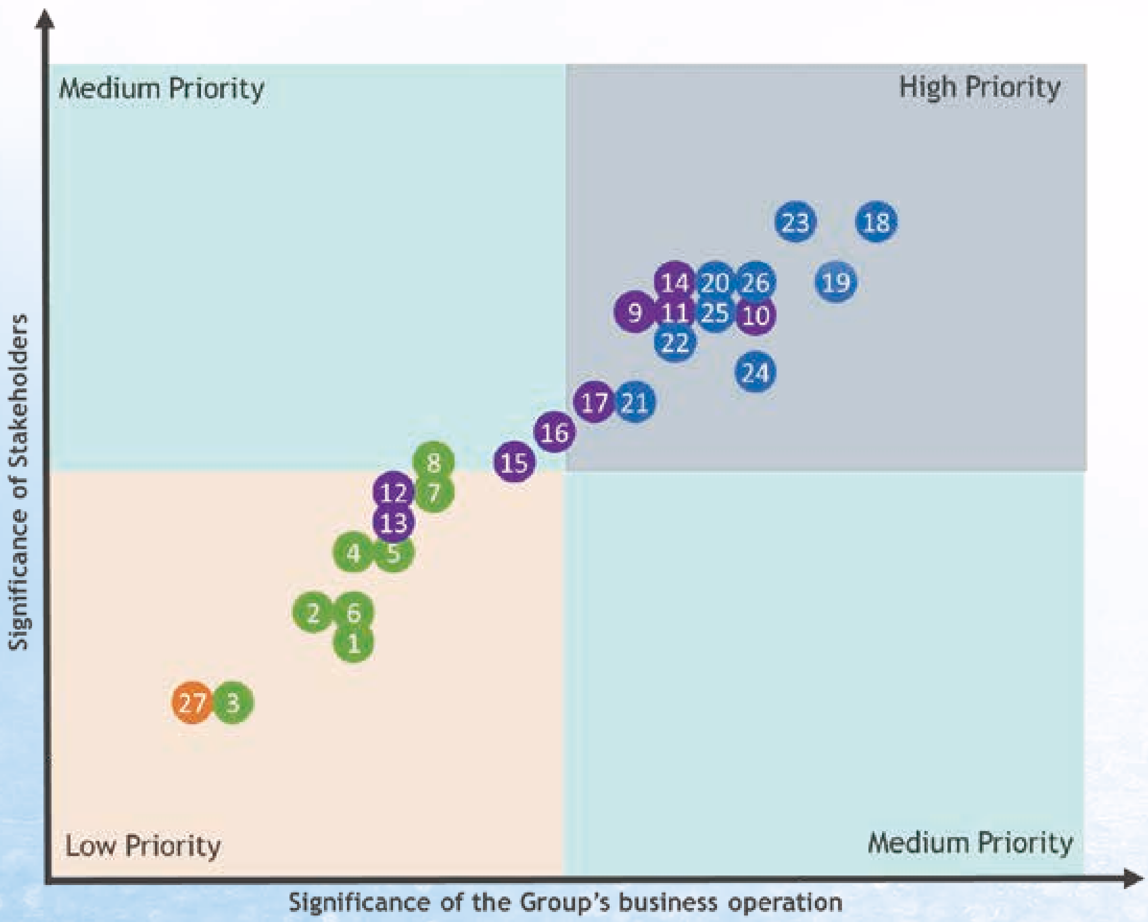
## MATERIALITY ASSESSMENT

To identify the ESG issues that matter most to the Group's business operations and the reporting disclosure, the Group has engaged an independent consultant to carry out a materiality assessment exercise this year through an online survey. The stakeholder groups, including those from the board, employees and customers, are invited to rate 27 ESG issues based on the significance and relevance of each issue to the Group's business and stakeholder themselves respectively in the questionnaire. A materiality analysis was performed to map and prioritise the most material ESG topics to the Group based on the collected results.

**Process of materiality assessment**




The matrix below illustrates the result of the materiality assessment. We have mapped the materiality of 27 ESG issues and the issues which fell on the top right corner of the matrix are those identified as most important for the Group.



| Environment | Social | |
|---|---|---|
| | Employment | Operation |
| 1. Air emission<br>2. Greenhouse gas emission<br>3. Climate change<br>4. Energy efficiency<br>5. Water and effluents<br>6. Use of materials<br>7. Waste management<br>8. Environmental compliance | 9. Labour rights<br>10. Labour-management relations<br>11. Employee retention<br>12. Diversity and equal opportunity<br>13. Non-discrimination<br>14. Occupational health and safety<br>15. Employee training<br>16. Employee development<br>17. Prevention of child labour and forced labour | 18. Customer satisfaction<br>19. Customer service quality and complaints handling<br>20. Customer health and safety<br>21. Marketing and product and service labelling compliance<br>22. Intellectual property<br>23. Customer privacy and data protection<br>24. Responsible supply chain management<br>25. Business ethics<br>26. Socio-economic compliance |
| | | **Community** |
| | | 27. Community investment |

According to the results of the materiality matrix, the Group should focus on the aspects of sustainable operation and responsible employment relating to labour-management relations, occupational health and safety, employee retention, labour rights and prevention of child labour and forced labour. The Group has disclosed its relevant management approaches and performance on the material issues in the forthcoming section of this Report. The Group will continue to review the corresponding policies in order to pursue continuous improvement on its ESG performance in future.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## SUSTAINABLE OPERATION

There is a growing concern about sustainable operation of the market, and demands for sustainable products and services surges these days. Since customer satisfaction is one of the top material issues of the Group, according to our materiality assessment, it is of tremendous importance to focus strategically on bringing quality products and services. Adhering to the corporate mission — Create Better Living, the Group is committed to better understanding of customer needs, innovating and delivering safe and environmentally-friendly products of good quality.

### Product Responsibility

Manufacturing, retailing and wholesaling business segments are under higher risks associated with product responsibility than the other two segments; thus we pay higher attention on securing our product and service quality of these three sectors. Understanding that our customers demand for the variety of household ware, the Group endeavours to provide a wide range of product choice to fulfil their diversified and ever-changing expectations. Besides, being one of the leading household products suppliers with multiproduct categories in Asia with its name highly correlated to quality and dependability, the Group strictly abides by the relevant national laws and regulations such as Product Quality Law of the PRC《中華人民共和國產品質量法》, industry standards as well as clients' specific requirements. A comprehensive quality management system ("QMS") certified with the international standards of ISO 9001 in its manufacturing facility has been implemented to systematically identify, manage and mitigate quality management risks.

The Group's product and service quality is highly supervised and maintained throughout the production process under the QMS. A series of thermal testing is conducted prior to delivery, including dynamic stability control, dynamic mechanical thermal analysis, thermomechanical analysis to ensure all of the goods are safe and standardized. Regular sampling checks are also performed in each production cycle to verify the consistency of the product quality, sort out any products with defects and perform immediate ratification in case of quality non-compliance. Products that do not conform to our quality standard, required product specifications or specific customer' requirements are subject to re-work and we will inspect and make relevant remediation of our production process promptly if applicable.

During the Reporting Period, the Group was not aware of material non-compliance with relevant laws and regulations relating to health and safety, advertising, labelling and privacy matters relating to products and services provided.

### Supply Chain Management

Supply chain management is another cornerstone for securing product quality that satisfies customer demands; thus, we are committed to establishing a close collaboration with qualified suppliers for embracing corporate social responsibility. All of the potential new suppliers are required to pass our stringent evaluation before entering into cooperation to ensure they are in line with our standards and requirements regarding product quality, environmental awareness and safety. Besides, the Group regularly evaluates and assesses the existing suppliers for their raw material quality and their associated environmental and social risks. Apart from encouraging suppliers to implement policies to minimize their environmental impacts and take up their social responsibility, we reduce our carbon footprint by giving priority to suppliers who are in nearby provinces, such as Jiangsu and Quanzhou to minimise any unnecessary transportation.

**Business Integrity**

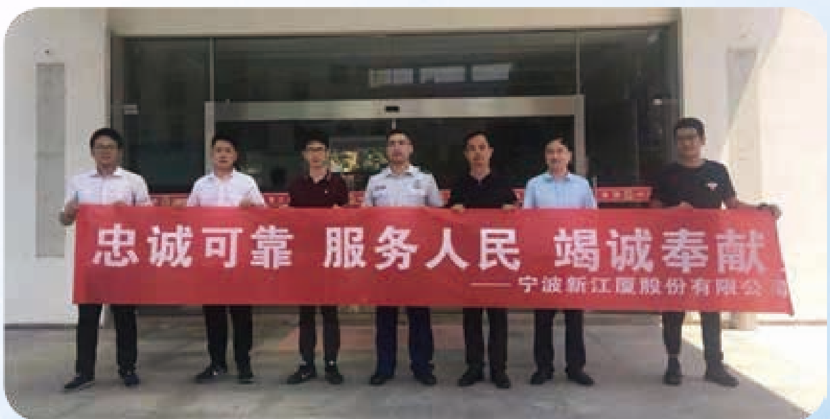
Integrity, accountability and fairness are the core values for a sustainable and successful business. The Group is committed to upholding the highest standard of business integrity and business ethics throughout the operations at all times in protecting the stakeholder interests and corporate sustainability. The Group strictly complies with the relevant laws and regulations, including the Criminal Law of the PRC《中華人民共和國刑法》and Anti-Money Laundering Law of the PRC《中華人民共和國反洗錢法》, and adopts zero-tolerance policy to corruption and fraud practices in its operations. To reinforce its commitments in combating corruption practices, all employees are strictly forbidden to solicit and/or receive, directly or indirectly, any personal benefits (e.g. gifts, entertainment and commissions) in the business relationships. Employees are required to report in event of any suspected or actual conflict of interest found. Employees who breach the rules as stated in the code of conduct are subject to disciplinary actions. Likewise, the Group expects the suppliers to follow the same degree of business integrity and practices in the business dealings.

Fair market competition is significant to improve the Group's competitive edge and maintain the industry sustainability. The Group uses its best endeavours to comply with the relevant competition laws. To comply with the Anti-Unfair Competition Law of the PRC《中華人民共和國反不正當競爭法》, the Group enacts zero tolerance to any anti- competitive practices such as cartels and market power abuse in its business dealings. The Group prevents the disclosure of false or misleading information in advertisement. Financial and non-financial details are handled with care by complying with the relevant national laws and regulations.

During the Reporting Period, the Group was not aware of any breaches of relevant laws and regulations that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering and there were no concluded legal cases regarding corrupt practice brought against the Group or employees.

**Community Engagement**

The Group is committed to fulfilling its corporate responsibility and strives to leverage its resources to thrive the steady community growth and create a sustainable, inclusive and harmonious society for people to live in. During the Reporting Period, we organized visits to areas that suffered from natural disasters. We offered financial support to people who are seriously affected by the coronavirus disease 2019. Besides, we keep paying effort on nurturing talents by organising training activities in campuses.



## RESPONSIBLE EMPLOYMENT

Reasonable employment practices and labour rights are growing more material for both our operations and our stakeholders according to the materiality matrix. The Group not only treats employees as the most precious asset in its business development and success, but also treasures their contribution. Their interests are always our first priority during operations. The Group is committed to providing an inclusive, fair and harmonious working environment for its employees, nurturing their potentials, as well as complying with the relevant labour laws and regulations.

### Occupational Health and Safety

The Group spares every effort to provide a safe working environment to its employees and aims to achieve zero occupational accidents as its ultimate goal, in order to safeguard its operations against occupational health and safety ("OHS") risks, improve production efficiency and comply with relevant national laws and regulations. Employees' health and safety are always put in the first place and the top management are directly accountable for an OHS management mechanism to identify, prevent and mitigate all potential OHS risks. All of our workplaces are well-equipped with essential protective tools and first aid kits, and their cleanliness and tidiness are strictly maintained. The Group also regards raising our staff's safety awareness as our mission through offering safety training for new hires and workers engaged in high-risk activities, such as operating hydraulic vehicles and other special mechanical equipment. Emergency drills are also conducted regularly to equip our staff with the capability to respond and handle emergencies such as fire.

**Safety Goals**

1. Zero occurrence of occupational diseases
2. Zero occurrence of fire, explosions, accidents related to equipment malfunction
3. Work injury rate below 0.3%
4. 100% health examination coverage for workers under high risks
5. Zero occurrence of serious transport accidents in factory area
6. Zero occurrence of electric shock incidents
7. Zero occurrence of lightning strike incidents

The manufacturing segment is under higher OHS risks than the other four segments of the Group. Therefore, the Group has implemented an OHS management system certified with the OHSAS 18001 international standard for identifying potential OHS risks, providing appropriate management procedures and guidelines as well as cultivating a safety culture along the production chain. The Group has introduced a series of stringent OHS management procedures, including analyzing and mitigating the latent safety risks of various production processes to avoid severe safety accidents or incidents during the business operations. The identified safety risks and their related measures taken are listed below. During the Reporting Period, the Group was not aware of any material breaches of relevant laws and regulations (i.e. the Work Safety Law of the PRC《中華人民共和國安全生產法》, the Law of the PRC on the Prevention and Control of Occupational Diseases《中華人民共和國職業病防治法》and the Fire Control Law of the PRC《中華人民共和國消防法》).

| | |
|---|---|
| Fire | • Attach safety signs in conspicuous zones<br>• Regular inspection of firefighting equipment<br>• Establish emergency plans, reporting networks and evacuation routes<br>• Conduct fire drills and training regularly |
| Electric Shock | • All machine operators should be licensed and qualified<br>• Provision of personal protective equipment<br>• Comply with the General Guide for Safety of Electric User (GB/T 13869-92)<br>• All machines are under regular inspection and maintenance |
| Equipment Malfunction | • Installation of shielding layers for machines that pose great safety risks<br>• Regualr inspection for equipment abrasion and damage<br>• Conduct training about operational safety regularly |
| Health risks related to noise and air polluton | • Workers are not allowed to work in an environment that is over 85dB for 8 hours consecutively<br>• Provision of protective equipment, such as earplugs, masks and protective glasses |

The Group also values of our workers' health and safety of car-sale, retailing and wholesaling segments although they are exposed to lower risks. Our stores are fully complied with "The Health Standards of Shopping Mall (Store), Bookshop"《中華人民共和國商場(店)、書店衛生標準》, which stipulates the standards of temperature, humidity, carbon monoxide level, inhalable particles Class A (PM10), formaldehyde, bacterial content, by establishing effective ventilation systems and disinfection policy and procedures.

Although sufficient safety preventive measures have been in place, accidents and incidents may still occur in the workplace. The Group will carry out a comprehensive accident investigation in order to find out the root cause(s) of the accidents, rectify and improve the existing safety conditions in workplace based on the investigation findings. If necessary, the Group refines the existing safety management approaches and safety practices in order to prevent similar accidents from occurring. The Group also ensures that our employees receive appropriate medical treatment and proper compensation under the social insurance after accidents.

**Employment Practices**

The Group places tremendous effort into recruiting and retaining innovative and responsible talents. We offer competitive remuneration and benefits packages to our staff, which are complied with the relevant laws, including the Labour Law of the PRC《中華人民共和國勞動法》and Labour Contract Law of the PRC《中華人民共和國勞動合同法》. Benefits to full-time employees include paid leave (e.g. annual leave, sick leave, marriage leave, maternity leave, paternity leave and compassionate leave) and social insurance funds (i.e. pension insurance, medical insurance, unemployment insurance, maternity insurance, work-related injury insurance and housing funds). Besides, overtime work is not encouraged under our fixed working hours. Prior approval from manager is required and overtime pays will be granted to employees for compensation of any overtime work. The Group incentivises our employees based on their capability and performance, by means of rewards and performance bonus.

The Group pays full respect of human and labour rights and seeks every opportunity to protect them. A Staff Welfare Committee has been established to review the existing management policies on employment, working conditions, welfares and benefits and mutually understand the concerns, needs and expectations in these aspects. Besides, the Group is committed to maintaining a stable, motivated and supportive workforce underpins the diverse, fair and respectful corporate culture. Every employee and job candidate are provided with an equal opportunity in recruitment, transfer, promotion, annual performance appraisal, training, benefits as well as compensation. The Group prohibits any discrimination against sex, sexual orientation, age, colour, nationality, disability, religion, pregnancy, political inclination, union membership or socioeconomic status, and protects their relevant rights, including organizing anti-discrimination training. There is also zero tolerance on any form of unlawful harassment and victimisation in the workplace. A whistle-blowing system is in place for employees to report any misconduct in spoken or written form, in which all of the reported information is kept in high confidentiality to protect the privacy of the complainants. The Group will conduct an investigation promptly and take rectifications immediately where appropriate.

The Group strictly abides by Business Social Compliance Initiative of the Foreign Trade Association, which covers areas of freedom of collective negotiation with the Group, fair reward and compensation, anti-discrimination, safety of workplace and ethical behaviour. During the Reporting Period, the Group was not aware of any breaches of relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination, and other benefits and welfare.

**Labour Standards**

The Group respects the human rights and enforces a zero-tolerance policy on the child and forced labour in its workplace. The Human Resources Department examines identity documents, academic qualifications and work references of all candidates at the time of recruitment process and upon employment, to ensure their age and eligibility of work meet the legal requirements, including those under the Labour Law of the PRC《中華人民共和國勞動法》and Provisions on the Prohibition of Using Child Labour《禁止使用童工規定》. Should we unfortunately discover any child labour in the workplace, the Group will take prompt remedial actions to plug the loophole. The Group also takes stringent measures to protect juvenile workers aged between 16 and 18 years old. They are prohibited from working at night or overtime, and their work should neither pose any potential hazards on their health and growth nor impede their education. Regular training is also offered for them to master job-related skills.

All employees sign the labour contract on a voluntary basis and are free to leave their position with proper notifications. Physical punishment and imprisonment are strictly prohibited. The Group complies with relevant legal obligations and guarantees all employees have their freedom of association to join the labour union and other organisations and collective bargaining. The Group also takes care of the well-being of employees who are in pregnancy and places special arrangement on work allocation such as no labour-intensive and high-risk activities etc.

The Group complies fully with relevant national laws and SA8000 international requirements, including prohibition of slaves labour and harassment. Employees are given opportunities to explain before disciplinary actions are taken. During the Reporting Period, the Group was not aware of any breaches of relevant laws and regulations that have a significant impact on the Group relating to preventing child and forced labour.

**Work-life Balance**

The Group is dedicated to promoting a healthy work-life balance for our employees, as it is equally crucial to their growth and personal development. Hence, the Group organised a variety of recreational activities such as team-building camp and festive celebrations to our staff during the Reporting Period, in order to cultivate a cohesive and harmonious workplace. Through all these events, our team not only can relieve their stress, but also can build up a strong bond and learn with their co- workers.

**Training and Development**

The Group strives to facilitate staff development and strengthen their the capabilities, knowledge and work efficiency, by the means of offering a wide range of technical and professional training. The Group believes when employees grow and make personal and professional advancement, the Group will make mutual progress as a whole. We formulate a training plan every year based on our staff and business needs and we achieve a 100% completion rate during the Reporting Period.

**Induction Training**

- Overview of staff handbook
- Business characteristics
- Company rules and regulations

**In-job Training**

- Technical skills
- Job-related knowledge

**Professional Training**

- Middle/high-level-management programme
- Seminars organised by industry professioanls

To unleash our employees' full potentials, the Group closely monitors not only our employees' needs, but also the latest market trend. All new hires are required to attend an induction training, which offers a brief introduction of the corporate background and culture, staff remuneration and benefits, code of conducts and operational practices.

Besides, the safety production and environmental management training is arranged to new comers. These training programmes aim to assist the new hires in adapting to the Group's working environment and being conscientious of safety hazards and environmental protection efficiently. Various on-the-job training sessions, covering operational strategies and procedures, fundamental knowledge on corporate management systems, team- building, communication and leadership skills, are offered to the employees in accordance with their job duties. Staff with outstanding performance will also be selected for professional training to nurture talented management personnel. The Group also invites professionals in the industry to give seminars for our staff to gain knowledge of the most updated market trends and relevant skills.


## ENVIRONMENTAL PROTECTION

Although environmental issue is not recognised as a pressing concern of the Group according to the materiality assessment, the Group still attaches great importance to greener production practices and environmental sustainability of the manufacturing segment due to its environmental impacts generated. The Group is dedicated to preventing pollutions, utilising the resources in an environmentally responsible manner and minimising the environmental impacts throughout its operations, as stipulated in its environmental policy.

Environmental Vision: Create Quality Life

Commitment:

1. Reduce energy usage continually
2. Prevent pollution and comply with relevant laws and regulations
3. Promote waste sorting and reduction
4. Enhance workplace safety and environmental management

The Group has implemented an Environmental Management System ("EMS"), accredited with recognised international standard of ISO 14001 in its manufacturing facility since 2004. The Group has formulated a set of environmental management procedures and working guidelines for staff to follow in the operations, in order to manage the identified significant environmental aspects and risks by exerting proper administration and engineering controls and mitigation measures.

During the Reporting Period, the Group strictly complies with the relevant national environmental laws and regulations such as the Environmental Protection Law of the PRC《中華人民共和國環境保護法》and the Environmental Protection Tax Law of the PRC《中華人民共和國環境保護稅法》. The Tax Law requires entities to pay tax for producing air and water pollutants, noise and solid wastes and violation of these regulations may result in temporary suspension of production.

Environmental data of FY2020 in the following sections is expressed separately in continuing operations and discontinued operations as defined in the "Scope of the Report" unless otherwise specified. Environmental data of FY2019 is rearranged based on the same methodology.

**Emission Control**

*Air emission*

The Group's major sources of air emissions are air pollutants from consumption of diesel and gasoline from mobile combustion and limited volatile organic compounds gases ("VOC"), such as benzene, toluene and xylene. We have eliminated unnecessary travel and adopted a new spray-lacquer of oil painting with extensively less VOC emitted to curtail the identified sources respectively. Low-styrene emission resins are also in use to further reduce VOCs emission. Air contained toxic substances will be treated before emission. The emission amount and quality is assessed by a third-party consultant annually to ensure compliance with the Prevention and Control of Atmospheric Pollution《中華人民共和國大氣污染防治》, Integrated Emission Standard of Air Pollutants (GB16297-1996)《廢氣綜合排放標準 (GB16297-1996)》and Occupational Exposure Limits for Hazardous Agents in the Workplace (GBZ2.2-2007)《工作場所有害因素職業接觸限值物理有害因素 (GBZ2.2- 2007)》.

During the Reporting Period, the air emissions from mobile combustion, in terms of nitrogen oxides ("NOx"), sulphur oxides ("SOx") and Particulate Matter ("PM"), are shown in the table below:

| | | FY2020 | | FY2019[2] | |
|---|---|---|---|---|---|
| **Air Emissions[1]** | **Unit** | **Continuing Operations** | **Discontinued Operations** | **Continuing Operations** | **Discontinued Operations** |
| NOx | kg | N.A. | 805.88 | N.A. | 929.61 |
| SOx | kg | N.A. | 2.16 | N.A. | 1.80 |
| PM | kg | N.A. | 63.52 | N.A. | 62.51 |

*Greenhouse Gas ("GHG") Emission*

| | | FY2020 | | FY2019[3] | |
|---|---|---|---|---|---|
| **Greenhouse Gas Emissions** | **Unit** | **Continuing Operations** | **Discontinued Operations** | **Continuing Operations** | **Discontinued Operations** |
| Scope 1[4] | $tCO_2e$ | N.A. | 828.40 | N.A. | 670 |
| Scope 2[5] | $tCO_2e$ | 3,080.27 | 28,577.53 | – | 24,914 |
| Scope 3[6] | $tCO_2e$ | 24.46 | 33.33 | 21 | 23 |
| Total | $tCO_2e$ | 3,104.72 | 29,439.26 | 21 | 25,627 |
| **Intensity** | $tCO_2e$ per $m^2$ floor area | 0.04 | 0.25 | – | – |

Global warming is one of the most challenging problems facing the planet nowadays and every government and corporate organisation should take effective efforts to fight against it. The direct GHG emission (Scope 1) of the Group is mainly generated from the combustion of fossil fuel for stationary and mobile sources. The energy indirect GHG emission (Scope 2) mainly comes from the consumption of purchased electricity for daily production, while the other indirect GHG emission (Scope 3) come from business air travels by the Group's employees and methane gas generation at landfill due to disposal of paper waste. In order to manage and monitor the GHG emission controlled by the Group, in particular the energy consumption across its production chain, the Group has developed various initiatives and programmes to reduce the carbon footprint of its operations and is further elaborated in the later section headed "Resource Management" of this ESG Report.

1 The calculation is based on the "How to prepare an ESG Report? Appendix 2: Reporting Guidance on Environmental KPIs" published by HKEx.

2 Air Emission of FY2019 is recalculated with a more accurate emission factor from the "How to prepare an ESG Report? Appendix 2: Reporting Guidance on Environmental KPIs" published by HKEx.

3 Greenhouse Gas Emission of FY2019 is recalculated with more accurate emission factors.

4 The calculation is using the published emission factors from the guidance worksheets of World Resources Institute's GHG Protocol Tool for Mobile Combustion and the GHG Protocol Tool for Stationary Combustion.

5 The calculation is based on the published emission factors of the emission factors from 2017 Emission Factors for purchased electricity within Mainland China (2017年度減排項目中國區域電網基準線排放因子), published by Climate Change Info-Net and CLP Sustainability Report in Hong Kong.

6 The calculation is based on the published emission factor of paper disposal from "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong" and the ICAO Carbon Emissions Calculator.

*Wastewater discharge*

The Group conducts environmental inspection and testing on wastewater discharge systems and pipes at least annually by a certified third party to ascertain the compliance with the relevant laws and regulations such as the Urban Drainage and Sewage Treatment Regulations《城鎮排水與污水處理條例》, the Integrated Wastewater Discharge Standard of PRC (GB8978-1996)《污水綜合排放標準 (GB8978-1996)》and Environmental Quality Standards for Surface Water (GB3838-2002)《地表水環境質量標準(GB3838-2002)》.

*Waste management*

The Group adopts three main principles for our waste management – Minimization, Detoxification and Making the best use of resources to reduce waste disposal and its environmental impacts, and maximize resource efficiency. All of the waste is segregated into recyclable, non-recyclable and toxic waste, and they are stored and handled separately with clear labels on their respective sealed containers. During the Reporting Period, the Group strictly abides by the Prevention and Control of Environmental Pollution by Solid Waste《中華人民共和國固體廢物污染環境防治法》.

The Group recognises the importance of waste reduction at source and hence requires all departments to purchase accurate amount of raw materials to avoid over-ordering, and contribution to the wastage due to materials deterioration and damage. Raw materials are reused as much as possible for production before disposal to extend their useful life and to minimise the resource consumption. For the recyclable waste, the Group has a proper waste segregation, without mixing up with other non-recyclable wastes. The segregated waste is stored in designated areas and consigned to qualified professional waste collectors for recycling and disposal.

Understanding that improper handling of hazardous wastes can contribute to serious land and water pollution and threaten the biodiversity of the eco-system, the Group conducts inspection monthly to ensure the on-site hazardous waste is handled properly in accordance with the best practices, the applicable laws and regulations. All of the hazardous waste is sorted by category to avoid mixing up with other incompatible waste, and is stored in designated collection points. Proper chemical labels are attached on the containers for waste identification and safety caution. The hazardous waste is disposed after detoxifying treatment and is consigned to licensed professional waste collectors or entrusted to the government for handling and treatment.

**Resource Management**

The Group believes that behaviour change and consistent actions over time can minimize our corporate environmental footprint. Therefore, we encourage our employees to adopt a sustainable lifestyle by introducing green policies in our operations for saving energy and resources and recycling waste.

### Electricity

- Manufacturing facilities are designed to have more windows and higher rooftop to reduce the use of electronic lights and air-conditioning
- Replace lightings with LED lights
- Install an independent socket for each light and ventilation system
- Organize training on saving energy regularly
- Procure energy-saving equipment
- Pose limits on energy consumption for each department

### Water

- Repair timely when there is dripping, spraying and leaky faucet
- Keep the faucets off when they are not in use
- Conduct regular inspection of faucets

### Paper

- Promote e-platform for internal information circulation
- Encourage the use of recycled paper and double-sided printing

### Equipment and Raw Materials

- Office equipment can only be disposed after inspection by the Administrative Department and it is not repairable
- Use degradable plastics for manufacturing process
- Supervise raw and packaging materials consumption to avoid wastage
- Organize special offer and outlet events to clear storage before they deteriorate

The data of resource consumption of the Group during the Reporting Period is listed below.

| Resource Consumption | Unit | FY2020 Continuing Operations | FY2020 Discontinued Operations | FY2019 Continuing Operations | FY2019 Discontinued Operations |
|---|---|---|---|---|---|
| Electricity | MWh | 3,190.65 | 35,517.69 | – | 30,963.86 |
| | GJ | 11,486.34 | 127,863.68 | – | 111,469.88 |
| **Intensity** | MWh per $m^2$ floor area | 0.04 | 0.30 | – | 1.68 |
| Stationary Fuel – Natural Gas | $m^3$ | N.A. | 305,384.00 | N.A. | 250,290.00 |
| | GJ | N.A. | 10,260.90 | N.A. | – |
| Mobile Fuel - Diesel | L | N.A. | 132,262.00 | N.A. | 109,596.57 |
| | GJ | N.A. | 4,777.30 | N.A. | – |
| Mobile Fuel - Gasoline | L | N.A. | 2,400.00 | N.A. | 2,630.00 |
| | GJ | N.A. | 78.68 | N.A. | – |
| Total Direct Energy Consumption[7] | GJ | N.A. | 15,116.88 | N.A. | – |
| **Intensity** | GJ per $m^2$ floor area | N.A. | 0.13 | N.A. | – |
| Water[8] | Tonne | 18,285.00 | 238,158.00 | – | 250,139.00 |
| **Intensity** | Tonne per $m^2$ floor area | 0.26 | 2.04 | – | 14 |
| Paper | Tonne | 2.69 | 5.23 | 0.42 | 3.55 |
| **Intensity** | Tonne per employee | 0.023 | 0.003 | 0.042 | 0.002 |
| Packaging Materials | Tonne | N.A. | 24.07 | N.A. | 935 |
| **Intensity** | Tonne per $m^2$ floor area | N.A. | 0.00027 | N.A. | – |

[7] The conversion factors from volumetric units of unleaded petrol and diesel oil consumption to energy units are in reference to CDP Technical note: Conversion of fuel data to MWh.

[8] There is no issue of sourcing water in FY2020.

**Minimising Impacts on the Environment and Natural Resources**

The Group is dedicated to implementing prompt actions to lift our environmental performance in the aspects of trimming our overall greenhouse gas emission, resource and energy consumption, and waste production through the ISO 14001 certified EMS to identify, manage and mitigate the environmental risks generated by our building and operational processes. An environmental team has been set up for the establishment, implementation, maintenance and continual improvement of our EMS. The team is operated under the direction of the CEO to examine the environmental key performance indicators, such as violation of relevant laws and regulations, safety rate of handling hazardous waste and environmental training coverage. It is also responsible for raising staff's environmental awareness and participation in compliance of environmental laws, waste and pollution reduction and safety and environmental operation. Risk assessment and environmental impact assessment on the production facilities are conducted regularly to identify the Group's strengths, weaknesses, opportunities and threats of the emissions of air pollutants, greenhouse gases, water, sewage, hazardous and non-hazardous waste, noise and soil quality, and update the stewardship approach.

The Group is aware of the noise and contamination of land generated from our manufacturing segment; thus, we also implement related control measures. For our worker safety and minimising the noise impacts to the nearby residents, we carry out inspection and maintenance regularly for the machines that generate large amount of noise during operations. Mitigation measures include noise cancellation, noise insulation and vibration reduction and those machines are placed in designated room with soundproof. We establish a strict standard of noise production. Our operations should generate noise lower than 65dB in the daytime and at most 90dB for the rest of the day to comply with Emission Standard for Industrial Enterprises Noise at Boundary (GB12348-2008)《工業企業廠界環境噪聲排放標準 (GB12348-2008)》, Occupational Exposure Limits for Hazardous Agents in the Workplace Part 2: Physical Agents (GBZ2.2-2007)《工作場所有害因素職業接觸限值物理有害因素 (GBZ2.2-2007)》 and Environmental Quality Standard for Noise (GB3096-2008)《聲環境質量標準 (GB3096-2008)》. The Group identifies the major source of soil contamination during our operations is the disposal of untreated hazardous waste to the land nearby. Therefore, we have processed all of the waste before disposal to ensure the compliance with the Environmental Quality Standard for Soils (GB15618- 2018)《土壤環境質量標 (GB15618-2018)》 during the Reporting Period.

# DIRECTORS' REPORT

The Directors submit their report together with the audited consolidated financial statements of the Company and the Group for the Year.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of its principal subsidiaries are set out in Note 16 to the consolidated financial statements.

## BUSINESS REVIEW

A review of the business of the Group during the year and discussion on the Group's prospects, as well as discussion and analysis of the Group's performance using financial key performance indicators during the year ended 31 March 2020 and the material factors underlying its financial performance are set out in the "Chairman's Statement" on pages 7 to 8, "Management Discussion and Analysis" on pages 9 to 13 and "Environmental, Social and Governance Report" on pages 20 to 36, respectively, of this annual report.

## COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group has strived to ensure ongoing compliance with relevant rules and regulations and to maintain cordial working relationships with regulators through effective communications. During the Year, to the best of the Directors' knowledge, there is no material breach of or non-compliance with applicable laws and regulations by the Group which has a significant impact on its business and operations.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Group faces various risks such as foreign currency risk and market uncertainties in operations. To cope with the risks and uncertainties, the Group's risk management and internal control systems are in place to ensure the principal risks are continuously identified, monitored and managed on an established bases. The policies and procedures of risk management and internal control that the Group is adopting are set out in the "Corporate Governance Report" on pages 14 to 19 of this annual report. Additionally, the financial risk management objectives and policies of the Company can be found in Note 31 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out on page 54 of this annual report.

A management discussion and analysis of the results of the Group for the Year is set out on pages 9 to 13 of this annual report.

The directors of the Company did not recommend the payment of a final dividend for the year ended 31 March 2020 (2019: RMB nil).

## RESERVES

Movements in the reserves of the Group and the Company during the Year are set out on pages 58 to 59 of this annual report and in Note 27 to the consolidated financial statements respectively.

## FIXED ASSETS

Details of the movement in fixed assets of the Group are set out in Notes 14 and 15 to the consolidated financial statements.

## SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2020 are set out in Note 16 to the consolidated financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of the share capital and share options of the Company are set out in Note 27(c) to the consolidated financial statements and on pages 43 to 44 of this annual report respectively.

# DIRECTORS' REPORT

## DISTRIBUTABLE RESERVES

As at 31 March 2020, the aggregate amount of reserves (including the Company's retained profits, if any, and share premium, subject to equity shareholders' approval, and contributed surplus, subject to satisfaction of the related laws and regulations) available for distribution to the equity shareholders of the Company was RMB1,666,458,000 (2019: RMB1,108,064,000).

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 154 of this annual report.

## DIRECTORS

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

Executive Directors

Mr TONG Shiping *(Chairman, appointed on 8 November 2019; and Chief Executive Officer, appointed on 2 August 2019)*
Mr LI Lixin
Mr CHENG Jianhe
Ms JIN Yaxue

Non-Executive Director

Ms CHENG Weihong

Independent Non-Executive Directors

Mr SHIN Yick Fabian
Mr CHEUNG Kiu Cho Vincent
Mr HE Chengying
Mr KWONG Kwan Tong

In accordance with bye-laws 86 and 87 of the Company's bye-laws, Mr Tong Shiping, Ms Jin Yaxue and Mr He Chengying will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

## EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in Notes 8 and 9 to the consolidated financial statements respectively.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' AND A CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS

Save as set out in Note 28 of the consolidated financial statements, no other contracts of significance in relation to the Group's business to which the Company or its fellow subsidiaries, was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

## PERMITTED INDEMNITY PROVISION

Each Director or other officer of the Company shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he or she may incur or sustain in or about the execution of the duties of his or her office or otherwise in relation thereto in accordance with the Company's articles of association.

## CONNECTED TRANSACTIONS

Details of continuing connected transactions for the year ended 31 March 2020:

(a) Lease of properties

*(i) Lease agreement signed with Da Mei (Ningbo) New Materials Company Limited*

Pursuant to a lease agreement signed on 22 November 2018 between Ningbo Lisi Household Products Company Limited ("Ningbo Lisi"), the Company's subsidiary, and Da Mei (Ningbo) New Materials Company Limited ("Da Mei"), a company owned by Mr. Li Lixin, a director and substantial shareholder of the Company, Da Mei agreed to lease east part of its property at 518 Cheng Xin Lu, Yinzhou Investment and Business Incubation of Ningbo, the People's Republic of China (the "East District") to Ningbo Lisi for a term of 3 years commencing from 1 January 2019 to 31 December 2021 as its factory space and office premises with monthly rent of RMB532,242.

The maximum aggregate annual value (the "Annual Cap") of the rental expenses and rental expenses incurred for leasing of the East District is as follow:

| | **Annual Cap** | **Rental expenses** |
|---|---|---|
| | RMB | RMB |
| From 1 April 2019 to 31 March 2020 | 6,386,904 | 6,386,904 |

*(ii) Lease agreement signed with Ningbo Lisi Electrical Appliances Manufacturing Company Limited*

Pursuant to a lease agreement signed on 31 October 2018 between Ningbo Lisi, the Company's subsidiary, and Ningbo Lisi Electrical Appliances Manufacturing Company Limited ("NLEAM"), a company owned by Mr. Li Lixin, a director and substantial shareholder of the Company, NLEAM agreed to lease west part of its property at 518 Cheng Xin Lu, Yinzhou Investment and Business Incubation of Ningbo, the People's Republic of China (the "West District") to Ningbo Lisi for a term of 3 years commencing from 1 November 2018 to 31 May 2021 as its factory space and office premises with monthly rent of RMB635,100.

The Annual Cap of the rental expenses and rental expenses incurred for leasing of the West District is as follows:

| | **Annual Cap** | **Rental expenses** |
|---|---|---|
| | RMB | RMB |
| From 1 April 2019 to 31 March 2020 | 7,621,200 | 7,621,200 |

(b) Export agency services

Pursuant to an export agency agreement signed on 22 November 2018 between Ningbo Lisi and Lisi Import and Export Company Limited ("Lisi I&E"), a company owned by Mr. Li Lixin, a director and substantial shareholder of the Company, Lisi I&E agreed to provide Ningbo Lisi export agency services which include assisting Ningbo Lisi on handling government applications, settlement services and other liaison services between local government departments and the customers for a term of 3 years commencing from 1 January 2019 to 31 December 2021.

The Annual Cap of the export agency service fee and the amount of export agency fee incurred for the provision of export agency is as follow:

| | Annual Cap | Export agency fee |
|---|---|---|
| | RMB | RMB |
| From 1 April 2019 to 31 March 2020 | 5,250,000 | 5,240,237 |

(c) Import agency services

Pursuant to an import agency agreement signed on 22 November 2018 between Ningbo Lisi and Lisi I&E, Lisi I&E agreed to provide Ningbo Lisi import agency services for a term of 3 years commencing from 1 January 2019 to 31 December 2021. The import agency services include assisting Ningbo Lisi on handling government applications, settlement services and the provision of guarantees in respect of payment obligations under raw materials or goods purchase contracts entered into between Ningbo Lisi with other third parties.

The Annual Cap of the gross transaction amount for the provision of import agency service, gross transaction amount and the amount of import agency fee incurred for raw material purchased is as follow:

| | Annual Cap of gross transaction amount | Gross transaction amount | Import agency fee incurred |
|---|---|---|---|
| | RMB | RMB | RMB |
| From 1 April 2019 to 31 March 2020 | 77,080,000 | 76,404,720 | 472,699 |

(d) Mutual supply of products

Pursuant to a mutual supply framework agreement signed on 22 November 2018 between New JoySun Corp. (for itself and on behalf of its subsidiaries), the Company's subsidiary, and Lisi Group Co. Ltd. (for itself and on behalf of its subsidiaries), a company owned by Mr. Li Lixin, a director and substantial shareholder of the Company, it was agreed that members of the group of New JoySun Corp. will supply to members of the group of Lisi Group Co. Ltd. electrical appliance products, food and beverage products and various domestic products, and reciprocally, members of the group of Lisi Group Co. Ltd. will supply to members of the group of New JoySun Corp. household products. The term of the mutual supply agreement is commencing from 1 January 2019 to 31 December 2021. Subsidiaries from both sides will enter into individual supply contracts with the pricing of the products transacted and the payment terms determined and negotiated based on normal commercial terms, with reference to the prevailing fair market prices of comparable products and no less favourable than those offered to or from members of the group of New JoySun Corp. by or to independent third parties.

The Annual Caps for the transactions contemplated and transactions incurred under the mutual supply framework agreement are as follows:

| | Annual Cap From 1 April 2019 to 31 March 2020 | Transaction amount From 1 April 2019 to 31 March 2020 |
|---|---|---|
| | RMB | RMB |
| Supply of products from the group of New JoySun Corp. to the group of Lisi Group Co. Ltd. | 3,000,000 | 2,664,083 |
| Supply of products from the group of Lisi Group Co. Ltd. to the group of New JoySun Corp. | 1,290,000 | – |

(e) Purchase of products from Tianjin Binhai International Car City Co., Ltd.

Pursuant to a strategic cooperative agreement, signed on 22 November 2018 between Tianjin Calistar Automall Operation Management Co., Ltd. ("Tianjin Calistar"), the Company's subsidiary, and Tianjin Binhai International Car City Co., Ltd ("Binhai Car City"), a company under the control of Cheng Weihong, a substantial shareholder of the Company, it was agreed that Binhai Car City supply to Tianjin Calistar such parallel imported cars as may order from time to time, and procure the completion of all necessary procedures for the purpose of overseas procurement. The purchase prices of the parallel imported cars payable by Tianjin Calistar to Binhai Car City will be determined with reference to the prevailing market prices of similar products available on the market, and on terms no less favourable to the terms other independent third parties may offer to Tianjin Calistar. The term of the strategic cooperative agreement is commencing from 1 January 2019 and ended on 31 December 2021. On 31 July 2019, the Company acquired 100% interests in Robust Cooperation Limited, the intermediate holding company of Binhai Car City, and Binhai Car City became a subsidiary of the Company since then. The corresponding amounts of the supply of products after 31 July 2019 would not be counted and a strategic cooperative agreement would not be applicable.

The annual cap for the supply of products from Binhai Car City to Tianjiin Calistar are as follow:

| | Annual Cap From 1 January 2019 to 31 December 2019 | Transaction amount From 1 January 2019 to 31 March 2019 | Transaction amount From 1 April 2019 to 31 December 2019 | Transaction amount From 1 January 2019 to 31 December 2019 |
|---|---|---|---|---|
| | RMB | RMB | RMB | RMB |
| Supply of products from Binhai Car City to Tianjiin Calistar | 800,000,000 | 330,140,345 | 175,601,360 | 505,741,705 |

Having reviewed the Continuing Connected Transactions, the independent non-executive Directors, pursuant to Rule 14A.54 of the Listing Rules on the requirement to carry out an annual review on all continuing connected transactions, other than fully exempt continuing connected transactions under the Listing Rules (if any), confirmed that the continuing connected transactions were made in the ordinary and usual course of business of the Company, were made on normal commercial terms and in accordance with the relevant agreements governing the continuing connected transactions on terms that were fair and reasonable and in the interests of the shareholders as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor had issued its unqualified letter containing their findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.55 of the Listing Rules. A copy of the auditor's letter had been submitted by the Company to the Stock Exchange.

Pursuant to Rule 14A.55 of the Listing Rules, the auditor of the Company confirmed that the Continuing Connected Transactions:

(1) had received the approval of the Board;

(2) had been in accordance with the pricing policies of the Group or the comparable transactions as identified by the Management;

(3) had been entered into in accordance with the relevant agreements governing the continuing connection transactions; and

(4) with respect of the disclosed continuing connected transactions (a) to (e) listed above, had not exceeded the Annual Cap disclosed in the previous announcements dated 31 October 2018 and 22 November 2018.

Save as mentioned above, there was no other disclosable non-exempted connected transaction or non-exempted continuing connected transaction under the Listing Rules during the Year.

Related party transactions, including the Continuing Connected Transactions, entered into by the Group for the Year are disclosed in Note 28 to the consolidated financial statements.

The related party transactions included in Note 28(a) to the consolidated financial statements constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. These transactions are disclosed in the Directors' Report as required by Chapter 14A of the Listing Rules, except for certain miscellaneous purchase and service income, operating lease expense and income, interest expenses, net increase in non-interest bearing advances received from related parties and net increase in loans received from related parties which are exempted from the disclosure. The related party transaction included in Note 28(b) to the consolidated financial statements did not fall under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

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

As at 31 March 2020, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

| Name | Capacity | Number of shares/ underlying shares (Note 1) | Approximate percentage of the issued share capital of the Company |
|---|---|---|---|
| Mr Tong Shiping | Note 2 | 1,849,407,702 (L)<br>398,000,000 (S) | 22.99%<br>4.95% |
| Mr Li Lixin | Note 3 | 2,755,137,680 (L)<br>2,388,284,681 (S) | 34.25%<br>29.69% |
| Ms Cheng Weihong | Note 2 | 1,849,407,702 (L)<br>398,000,000 (S) | 22.99%<br>4.95% |

Note 1: (L) denotes long positions.
(S) denotes short positions.

Note 2: Mr Tong Shiping is the husband of Ms. Cheng Weihong. Ms Cheng Weihong's interest in 956,407,702 Shares and 893,000,000 Shares are held through Mighty Mark Investments Limited ("Mighty Mark") and Hopeful Glad Limited ("Hopeful Glad") respectively. The issued share capital of Mighty Mark and Hopeful Glad are wholly owned by Ms. Cheng Weihong.

Note 3: Mr Li Lixin's interest in 2,755,137,680 Shares is held as to 17,822,000 Shares personally, 1,382,141,014 Shares through Big-Max Manufacturing Co., Limited ("Big-Max") and 1,355,174,666 Shares through Shi Hui Holdings Limited ("Shi Hui"). The issued share capital of Big-Max and Shi Hui are wholly owned by Mr Li Lixin.

Furthermore, no share options had been granted under the Company's share option scheme since its adoption on 31 August 2012 and there were no other options outstanding at the beginning or the end of the year ended 31 March 2020. Other than that, at no time during the year ended 31 March 2020 was the Company or any of its subsidiaries a party to any arrangements to enable the directors to acquire benefits by means of the acquisition of share in, or debentures of, the Company or any other body corporate and none of the directors, their spouses or children under the age of 18 have any right to subscribe for the securities of the Company, or had exercised any such right during the year ended 31 March 2020.

Save as disclosed herein, as at 31 March 2020, none of the Directors or chief executives of the Company had 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 SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

### Share option scheme

The company adopted a share option scheme (the "Scheme") on 31 August 2012, the particulars of the Scheme are as follows:

*Purpose of the Scheme:*

To reward Participants who have contributed to the Group and to provide incentives to Participants to work towards the success of the Company.

*Participants:*

(a) any full-time or part-time employee of any member of the Group; (b) any consultant or adviser of any member of the Group; (c) any director (including executive, non-executive or independent non-executive directors) of any member of the Group; (d) any shareholder of any member of the Group; or (e) any distributor, contractor, supplier, agent, customer, business partner or service provider of any member of the Group.

*Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of the annual report:*

247,696,379 ordinary shares (10% of the issued share capital of the Company at the date of approval of the refreshed Scheme Mandate Limit).

*Maximum entitlement of each participant:*

Shall not exceed 1% of the aggregate number of ordinary shares issued and issuable under the Scheme.

*Period within which the securities must be taken up as an option:*

No option will be exercisable later than 10 years after its date of grant.

*Minimum holding period before an option can be exercised:*

Will be defined by Directors based on grantee's seniority and other relevant factors.

*Period within which payments or loans must be made or repaid:*

Not applicable

*Basis of determining the exercise price:*

Determined by the Board and shall be:

(1) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of offer; and

(2) the average of closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer,

whichever is higher provided that it shall not be lower than the nominal value of the shares.

*The remaining life of the Scheme:*

The Scheme remains in force until 31 August 2022.

No share options had been granted under the Scheme up to 31 March 2020 and there were no other options outstanding at the beginning or at the end of the Year.

Saved as disclosed above, at no time during the Year was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors, their spouses or their children under the age of 18 have any right to subscribe for the securities of the Company, or had exercised any such right during the Year.

# DIRECTORS' REPORT

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2020, the interests or short positions of every person, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

| Name | Capacity | Number of shares/ underlying shares (Note) | Approximate percentage of the issued share capital of the Company |
|---|---|---|---|
| Mighty Mark Investments Limited | Beneficial owner | 956,407,702 (L) | 11.89% |
| Hopeful Glad Limited | Beneficial owner | 893,000,000 (L)<br>398,000,000 (S) | 11.10%<br>4.95% |
| Big-Max Manufacturing Co., Limited | Beneficial owner | 1,382,141,014 (L)<br>1,033,111,014 (S) | 17.18%<br>12.84% |
| Shi Hui Holdings Limited | Beneficial owner | 1,355,174,666 (L)<br>1,355,173,667 (S) | 16.85%<br>16.85% |
| Central Huijin Investment Limited | Person having a security interest in shares/ interest in controlled corporation | 2,839,301,680 (L) | 35.30% |
| China Construction Bank Corporation | Person having a security interest in shares/ interest in controlled corporation | 2,839,301,680 (L) | 35.30% |
| Greater Bay Area Homeland Investments Limited | Person having a security interest in shares/ interest in controlled corporation | 1,375,857,143 (L) | 17.10% |
| Poly Platinum Enterprises Limited | Beneficial owner/Person having a security interest in shares | 885,239,143 (L) | 11.00% |
| Greater Bay Area Homeland Development Fund (GP) Limited | Person having a security interest in shares/ interest in controlled corporation | 875,857,143 (L) | 10.89% |
| Ministry of Finance of Zhejiang Province, the People's Republic of China（中華人民共和國浙江省財政廳） | Person having a security interest in shares | 792,971,000 (L) | 9.86% |
| 浙江省財務開發公司 | Person having a security interest in shares | 792,971,001 (L) | 9.86% |
| Caitong Securities Co., Limited | Person having a security interest in shares | 700,971,001 (L) | 8.71% |
| China Fund Limited | Beneficial owner | 462,663,898 (L) | 5.75% |
| Li Yuelan | Interest in controlled corporation | 462,663,898 (L) | 5.75% |
| Liu Xuezhong | Interest in controlled corporation | 462,663,898 (L) | 5.75% |

Note: (L) denotes long positions.
(S) denotes short positions.

## DIVIDEND POLICY

The Company has a dividend policy, pursuant to which the Company may declare and distribute dividends to the shareholders of the Company, provided that the Group is profitable and having retained adequate reserves for future growth. In proposing any dividend payout, the Board shall take into account the following factors:

- the Group's current and future operations;
- the Group's capital requirements;
- the Group's liquidity position;
- the Group's debt to equity ratios and the debt level;
- retained earnings and distributable reserves of the Company and each of the other members of the Group;
- statutory and regulatory restrictions;
- other internal or external factors that may have an impact on the business or financial performance and positions of the Company; and
- other factors that the Board deems relevant.

## MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the Year.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the Year attributable to the Group's major suppliers and customers for the continuing operations are as follows:

| | |
|---|---|
| *Purchases* | |
| – the largest supplier | 48.6% |
| – five largest suppliers | 93.4% |
| *Sales* | |
| – the largest customer | 15.6% |
| – five largest customers | 40.6% |

None of the Directors, their associates or any shareholders (which, to the knowledge of the Directors, owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

## RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group recognises that employees, suppliers and customers are crucial for the Group's sustainable development. We strive to maintain a close relationship with our employees and provide them with a competitive remuneration package and opportunities within the Group for career advancement. We commit to provide high quality products and services to our customers in order to enhance our competitiveness and strengthen the cooperation with our suppliers.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Year.

## SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Directors, the Company maintained sufficient public float at all times during the Year.

## AUDITOR

The consolidated financial statements for the Year were audited by KPMG, Certified Public Accountants. A resolution for its reappointment as auditor for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Tong Shiping**
*Chairman*

Hong Kong, 30 June 2020

# INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report to the shareholders of
**China Automobile New Retail (Holdings) Limited (formerly known as Lisi Group (Holdings) Limited)**
*(Incorporated in Bermuda with limited liability)*

## OPINION

We have audited the consolidated financial statements of China Automobile New Retail (Holdings) Limited (the "Company") and its subsidiaries (the "Group") set out on pages 54 to 151, which comprise the consolidated statement of financial position as at 31 March 2020, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 March 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, 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 period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## KEY AUDIT MATTERS (CONTINUED)

**Assessing the accounting in relation to an acquisition**

*Refer to Note 13 to the consolidated financial statements and the accounting policies in Note 2(d).*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| On 31 July 2019, the Group completed the acquisition of entire equity interests of Robust Cooperation Limited ("Robust") and its subsidiaries (collectively referred to as "Robust Group") at a consideration of RMB915 million. The principal operation of Robust Group is provision of car trading platform related services.<br><br>The fair values of the identifiable assets and liabilities acquired were assessed by the directors based on an independent valuation prepared by a firm of external valuers which required the exercise of significant judgement and estimation, particularly in relation to the forecast of future performance of the business acquired.<br><br>We identified the accounting for the acquisition of Robust Group as a key audit matter because of the significant impact the acquisition has on the consolidated financial statements and because the valuation of the fair value of assets and liabilities acquired can be inherently subjective and require significant judgement and estimation which increases the risk of error or potential management bias. | Our audit procedures to assess the accounting for the acquisition of Robust Group included the following:<br><br>• inspecting the sale and purchase agreement and evaluating management's accounting treatment for the acquisition with reference to the terms set out in the sale and purchase agreement and the requirements of the prevailing accounting standards;<br><br>• assessing the determination of acquisition date and consideration in accordance with HKFRS 3, *Business Combinations*;<br><br>• assessing the external valuers' qualifications, experience and expertise and considering their objectivity and independence;<br><br>• obtaining and inspecting the valuation report prepared by the external valuers engaged by the Company and on which the directors' assessment of the fair value of the assets and liabilities acquired was based and assessing whether or not there was indication of management bias;<br><br>• with the assistance of our internal valuation specialists, assessing the valuation methodology adopted by the external valuers with reference to the requirements of the prevailing accounting standards and challenging the key assumptions adopted in the valuation; and<br><br>• assessing the disclosures in the consolidated financial statements in respect of the acquisition with reference to the relevant Hong Kong Financial Reporting Standards. |

## KEY AUDIT MATTERS (CONTINUED)

**Assessing goodwill impairment**

*Refer to Note 17 to the consolidated financial statements and the accounting policies in Note 2(g).*

**The Key Audit Matter**

As at 31 March 2020, goodwill attributable to the car-sale business amounted to RMB396 million. In view of the decrease in the sales of car-sales business, the Group recognised impairment losses of RMB240 million during the year ended 31 March 2020.

Goodwill is assessed annually for impairment by the management based on a discounted cash flow forecast of the future performance of the car-sale business. This involves the exercise of significant management judgement in particular in determining the key assumptions adopted, which include sales and the gross profit ratio and in calculating the discount rate applied.

We identified assessing impairment of goodwill attributable to the car-sale business as a key audit matter because the assessment of impairment of goodwill is inherently subjective and requires significant judgement and estimation which increases the risk of error or potential management bias.

**How the matter was addressed in our audit**

Our audit procedures to assess impairment of goodwill in relation to the car-sale business included the following:

- examining the management's discounted cash flow forecast for the car-sale business, challenging the key assumptions, which included sales and gross profit ratio by comparing the key assumptions with available market information;

- with the assistance of our internal valuation specialists, evaluating the discount rate used in the discounted cash flow forecast by benchmarking the discount rate against the discount rates for similar companies in the same industry;

- performing a retrospective review of the prior year's discounted cash flow forecast and comparing the forecast revenue and profit with the current year's actual results to assess the reliability of management's forecasting process;

- obtaining management's sensitivity analyses for the key assumptions, including sales and the discount rate, adopted in the preparation of the discounted cash flow forecast and assessing the impact of changes in the key assumptions on the conclusions reached by management in its impairment assessment and whether there were any indicators of management bias; and

- assessing the disclosures in the consolidated financial statements in respect of the assessment of impairment of goodwill with reference to the requirements of the prevailing accounting standards.

## KEY AUDIT MATTERS (CONTINUED)

**Revenue recognition**

*Refer to Note 4 to the consolidated financial statements and the accounting policies in Note 2(v).*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| The Group has several distinct revenue streams which include (i) provision of car trading platform related services and trading of motor vehicles (the "continuing operations") and (ii) retail, wholesale of wine and electrical appliances and manufacturing and trading of household products (the "discontinued operations").<br><br>In general, revenue from car trading platform related services is recognised when service is rendered to the customer, revenue from trading of motor vehicles and wholesale revenue is recognised when the goods are delivered to and accepted by the customers, retail revenue is recognised when sales are made to customers over the counter, and revenue from the trading of household products is recognised when the goods are loaded onto shipping vessels for export or delivered to customers' premises for domestic sales.<br><br>We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations. | Our audit procedures to assess the recognition of revenue included the following:<br><br>• assessing the design, implementation and operating effectiveness of key internal controls over the recognition of revenue;<br><br>• involving our internal IT specialists to assist us in assessing the operating effectiveness of those IT controls which were critical to the recognition of revenue from retail operations;<br><br>• inspecting service contracts with customers for the car trading platform operations and sales contracts with customers for the wholesale and trading operations, on a sample basis, to understand the terms of sales transactions in order to assess the Group's revenue recognition criteria with reference to the requirements of the prevailing accounting standards;<br><br>• inspecting a sample of journal entries affecting revenue raised during the financial year, which met certain risk-based criteria, enquiring of management the reasons for such entries and comparing the details of the entries with relevant underlying documentation; |

## KEY AUDIT MATTERS (CONTINUED)

**Revenue recognition (continued)**

*Refer to Note 4 to the consolidated financial statements and the accounting policies in Note 2(v).*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| | • selecting a sample of sales transactions around the financial year end and assessing the timing of revenue recognition by comparing details of the sales with underlying documentation, which included goods delivery notes, customer acceptance forms and/or shipping documents; and<br><br>• In respect of wholesale, car trading platform related services and trading revenue, obtaining audit confirmations of sales transaction amounts during the year from customers on a sample basis, and performing alternative procedures for unreturned confirmations by comparing details of the sales transactions with individual customers with relevant underlying documents. |

## INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors 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 directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

- 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.

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

The engagement partner on the audit resulting in this independent auditor's report is Yu Wai Sum.

**KPMG**
*Certified Public Accountants*

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 June 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2020
(Expressed in Renminbi ("RMB"))

| | Note | 2020<br>RMB'000 | 2019<br>RMB'000<br>(Restated)<br>(Note) |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 4 | 1,183,976 | 2,729,867 |
| Cost of sales | | (1,107,808) | (2,565,308) |
| **Gross profit** | 4(b) | 76,168 | 164,559 |
| Other income | 5 | 8,929 | (35) |
| Selling and distribution expenses | | (5,970) | (2,354) |
| Administrative expenses | | (36,912) | (29,177) |
| Finance (costs)/income | 6(a) | (103,223) | 82,938 |
| Impairment losses on financial assets and guarantee contracts | 6(c) | (28,703) | – |
| Net valuation loss on investment properties | 15 | (41,233) | – |
| Net gain on acquisition of subsidiaries | 13 | 258,235 | – |
| Impairment loss on goodwill | 17 | (239,989) | – |
| **(Loss)/profit before taxation from continuing operations** | 6 | (112,698) | 215,931 |
| Income tax | 7 | 15,850 | (38,932) |
| **(Loss)/profit for the year from continuing operations** | | (96,848) | 176,999 |
| **Discontinued operations** | | | |
| (Loss)/profit for the year from discontinued operations | 12 | (57,610) | 33,701 |
| **(Loss)/profit for the year** | | (154,458) | 210,700 |
| **(Loss)/earnings per share (for continuing and discontinued operations) (RMB cent)** | | | |
| – Basic | 11(a) | (1.96) | 2.79 |
| – Diluted | 11(b) | (1.96) | 1.67 |
| **(Loss)/earnings per share (for continuing operations) (RMB cent)** | | | |
| – Basic | 11(a) | (1.23) | 2.34 |
| – Diluted | 11(b) | (1.23) | 1.22 |

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. The comparative information has been re-presented to show the results of discontinued operations separately. See Notes 2(c) and 12.

The notes on pages 62 to 151 form part of these financial statements.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2020
(Expressed in RMB)

| | Note | 2020<br>RMB'000 | 2019<br>RMB'000<br>(Note) |
|---|---|---|---|
| **(Loss)/profit for the year** | | (154,458) | 210,700 |
| **Other comprehensive income for the year (after tax and reclassification adjustments):** | 10 | | |
| Item that will not be reclassified to profit or loss: | | | |
| – Equity investment at fair value through other comprehensive income – net movement in fair value reserve (non-recycling) | | 142,703 | (71,468) |
| Item that may be reclassified subsequently to profit or loss: | | | |
| – Exchange differences on translation into presentation currency | | (4,961) | (4,891) |
| **Other comprehensive income for the year** | | 137,742 | (76,359) |
| **Total comprehensive income for the year attributable to equity shareholders of the Company** | | (16,716) | 134,341 |

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

The notes on pages 62 to 151 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2020

(Expressed in RMB)

| | Note | 2020<br>RMB'000 | 2019<br>RMB'000<br>(Note) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | 86,863 | 425,987 |
| Investment properties | 15 | 1,541,547 | 771,050 |
| Goodwill | 17 | 396,464 | 679,766 |
| Equity investment | 18 | – | 109,420 |
| Deferred tax assets | 26(b) | 3,054 | 8,009 |
| | | 2,027,928 | 1,994,232 |
| **Current assets** | | | |
| Inventories | 19 | 280,178 | 430,997 |
| Trade and other receivables | 20 | 1,454,486 | 338,137 |
| Prepayments | 20 | 617,637 | 474,771 |
| Non-equity investments | 18 | – | 786,758 |
| Restricted bank deposits | 21 | 242,627 | 116,673 |
| Cash and cash equivalents | 22 | 17,305 | 164,381 |
| | | 2,612,233 | 2,311,717 |
| Assets of disposal groups classified as held for sale | 12 | 3,307,215 | – |
| | | 5,919,448 | 2,311,717 |
| **Current liabilities** | | | |
| Trade and other payables | 23 | 1,461,735 | 675,102 |
| Bank and other loans | 24 | 1,060,675 | 942,004 |
| Income tax payable | 26(a) | 27,177 | 20,332 |
| | | 2,549,587 | 1,637,438 |
| Liabilities of disposal groups classified as held for sale | 12 | 2,111,982 | – |
| | | 4,661,569 | 1,637,438 |
| **Net current assets** | | 1,257,879 | 674,279 |
| **Total assets less current liabilities** | | 3,285,807 | 2,668,511 |

The notes on pages 62 to 151 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 31 March 2020

(Expressed in RMB)

| | Note | 2020<br>RMB'000 | 2019<br>RMB'000<br>(Note) |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Promissory notes | 13 | 323,385 | – |
| Bank and other loans | 24 | – | 122,600 |
| Deferred tax liabilities | 26(b) | 315,250 | 233,584 |
| | | 638,635 | 356,184 |
| **NET ASSETS** | | 2,647,172 | 2,312,327 |
| **CAPITAL AND RESERVES** | 27 | | |
| Share capital | | 69,888 | 65,494 |
| Reserves | | 2,577,284 | 2,246,833 |
| **TOTAL EQUITY** | | 2,647,172 | 2,312,327 |

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

Approved and authorised for issue by the board of directors on 30 June 2020.

**Tong Shiping**
*Chairman*

**Cheng Weihong**
*Director*

The notes on pages 62 to 151 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020
(Expressed in RMB)

| | Share capital RMB'000 (Note 27(c)) | Share premium RMB'000 (Note 27(d)(i)) | Capital redemption reserve RMB'000 (Note 27(d)(i)) | Statutory reserves RMB'000 (Note 27(d)(ii)) | Contributed surplus RMB'000 (Note 27(d)(iii)) | Exchange reserve RMB'000 (Note 27(d)(iv)) | Fair value reserve (non-recycling) RMB'000 (Note 27(d)(v)) | Other reserve RMB'000 (Note 27(d)(vi)) | Accumulated losses RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 April 2018** | 49,074 | 636,173 | 1,341 | 34,419 | 202,449 | (19,111) | 100,889 | 30,340 | (581,658) | 453,916 |
| **Changes in equity for the year ended 31 March 2019:** | | | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | – | – | 210,700 | 210,700 |
| Other comprehensive income | – | – | – | – | – | (4,891) | (71,468) | – | – | (76,359) |
| Total comprehensive income for the year | – | – | – | – | – | (4,891) | (71,468) | – | 210,700 | 134,341 |
| Issuance of ordinary shares on acquisition of subsidiaries (Note 27(c)) | 16,420 | 1,707,650 | – | – | – | – | – | – | – | 1,724,070 |
| Appropriation to reserves | – | – | – | 15,823 | – | – | – | – | (15,823) | – |
| | 16,420 | 1,707,650 | – | 15,823 | – | – | – | – | (15,823) | 1,724,070 |
| **Balance at 31 March 2019 (Note)** | 65,494 | 2,343,823 | 1,341 | 50,242 | 202,449 | (24,002) | 29,421 | 30,340 | (386,781) | 2,312,327 |

The notes on pages 62 to 151 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the year ended 31 March 2020

(Expressed in RMB)

| | Share capital RMB'000 (Note 27(c)) | Share premium RMB'000 (Note 27(d)(i)) | Capital redemption reserve RMB'000 (Note 27(d)(i)) | Statutory reserves RMB'000 (Note 27(d)(ii)) | Contributed surplus RMB'000 (Note 27(d)(iii)) | Exchange reserve RMB'000 (Note 27(d)(iv)) | Fair value reserve (non-recycling) RMB'000 (Note 27(d)(v)) | Other reserve RMB'000 (Note 27(d)(vi)) | Accumulated losses RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2019** | 65,494 | 2,343,823 | 1,341 | 50,242 | 202,449 | (24,002) | 29,421 | 30,340 | (386,781) | 2,312,327 |
| **Changes in equity for the year ended 31 March 2020:** | | | | | | | | | | |
| Loss for the year | – | – | – | – | – | – | – | – | (154,458) | (154,458) |
| Other comprehensive income | – | – | – | – | – | (4,961) | 142,703 | – | – | 137,742 |
| Total comprehensive income for the year | – | – | – | – | – | (4,961) | 142,703 | – | (154,458) | (16,716) |
| Issuance of ordinary shares on acquisition of subsidiaries (Note 27(c)) | 4,394 | 347,167 | – | – | – | – | – | – | – | 351,561 |
| Effect on equity arising from disposal of equity investment (Note 18(i)) | – | – | – | – | – | – | (172,124) | – | 172,124 | – |
| Appropriation to reserves | – | – | – | 9,538 | – | – | – | – | (9,538) | – |
| | 4,394 | 347,167 | – | 9,538 | – | – | (172,124) | – | 162,586 | 351,561 |
| **Balance at 31 March 2020** | 69,888 | 2,690,990 | 1,341 | 59,780 | 202,449 | (28,963) | – | 30,340 | (378,653) | 2,647,172 |

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

The notes on pages 62 to 151 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2020
(Expressed in RMB)

| | Note | 2020 RMB'000 | 2019 RMB'000 (Note) |
|---|---|---|---|
| **Operating activities** | | | |
| (Loss)/profit before taxation | | | |
| – Continuing operations | | (112,698) | 215,931 |
| – Discontinued operations | 12(a) | (31,974) | 62,850 |
| Adjustments for: | | | |
| Depreciation and amortisation | | 88,016 | 59,007 |
| Net loss/(gain) on disposal of property, plant and equipment | | 1,093 | (27,514) |
| Interest income on cash at bank | | (10,932) | (6,508) |
| Net valuation loss on investment properties | 15 | 152,283 | 59,226 |
| Finance costs/(income) | | 157,416 | (31,394) |
| Impairment loss on goodwill | 17 | 283,302 | – |
| Impairment losses on property, plant and equipment | 14 | 59,821 | – |
| Impairment losses on financial assets and guarantees contracts | | 28,922 | 2,113 |
| Write-down of inventories | | 12,217 | – |
| Net gain on acquisition of subsidiaries | 13 | (258,235) | – |
| Net foreign exchange (gain)/loss | | (6,575) | 15,361 |
| Investment and dividend income | | (47,440) | (52,566) |
| Changes in working capital: | | | |
| Increase in inventories | | (7,851) | (45,530) |
| Decrease/(increase) in trade and other receivables | | 787,150 | (118,515) |
| Decrease in trade and other payables | | (958,558) | (47,596) |
| **Cash generated from operations** | | 135,957 | 84,865 |
| Income tax paid | 26(a) | (62,242) | (56,579) |
| **Net cash generated from operating activities** | | 73,715 | 28,286 |
| **Investing activities** | | | |
| Cash acquired through the acquisition of subsidiaries, net of payment | 13 | 15,409 | – |
| Payments for purchase of non-equity investments | 31(e) | (1,078,910) | (132,800) |
| Proceeds from sale of non-equity investments | 31(e) | 782,800 | 110,890 |
| Payments for purchase of property, plant and equipment | | (60,068) | (59,749) |
| Proceeds from disposal of property, plant and equipment | | 384 | 2,278 |
| Proceeds from disposal of a subsidiary, net of cash disposed of | | 119,868 | – |
| Net decrease in restricted bank deposits | | 288,330 | 504,461 |
| Interest received | | 10,932 | 11,523 |
| Investment and dividend income received | | 38,945 | 53,793 |
| Net increase in advances to related and third parties | | 123,838 | – |
| **Net cash generated from investing activities** | | 241,528 | 490,396 |

The notes on pages 62 to 151 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT (Continued)

For the year ended 31 March 2020

(Expressed in RMB)

| | Note | 2020<br>RMB'000 | 2019<br>RMB'000<br>(Note) |
|---|---|---|---|
| **Financing activities** | | | |
| Proceeds from new bank and other loans | 22(b) | 1,005,203 | 733,282 |
| Repayment of bank and other loans | 22(b) | (777,392) | (1,197,223) |
| Finance costs paid | 22(b) | (98,895) | (53,359) |
| Capital element of lease rentals paid | 22(b) | (19,322) | – |
| Interest element of lease rentals paid | 22(b) | (3,210) | – |
| **Net cash generated from/(used in) financing activities** | | 106,384 | (517,300) |
| **Net increase in cash and cash equivalents** | | 421,627 | 1,382 |
| **Cash and cash equivalents at 1 April** | 22 | 164,381 | 162,474 |
| **Effect of foreign exchange rate changes** | | 104 | 525 |
| **Less: cash and cash equivalents of disposal group classified as held for sale at the end of year** | 12 | (568,807) | – |
| **Cash and cash equivalents at 31 March** | 22 | 17,305 | 164,381 |

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

The notes on pages 62 to 151 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 1 CORPORATE INFORMATION

China Automobile New Retail (Holdings) Limited (formerly known as Lisi Group (Holdings) Limited) (the "Company") was incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act 1981. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 October 1995. The consolidated financial statements of the Company for the year ended 31 March 2020 comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interests in an associate. During the year, the Group is principally engaged in provision of car trading platform related services, trading of imported cars, manufacturing and trading of household products, operation of supermarkets, wholesale of wine and electrical appliances and investments holding (see Note 4).

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. 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 (the "Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### (b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except for equity and non-equity investments (see Note 2(h)), investment properties (see Note 2(i)) which are stated at their fair values. Disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see Note 2(y)).

As at 31 March 2020, bills payable of RMB245,499,000 and a bank loan of RMB129,838,000 were overdue but not yet renewed or repaid at the end of the reporting period. Up to the date of approval of these consolidated financial statements, these overdue bills and bank loan were fully repaid. Subsequent to 31 March 2020 and up to the date of approval of these consolidated financial statements, bank and other loans which were overdue but not yet repaid or renewed amounted to RMB373,290,000. Besides, the Group has failed to fulfill certain requirements relating to a long-term loan of RMB139,424,000 and hence the lender has the right to require the Group to repay the loan immediately at any time prior to its original repayment dates.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (b) Basis of preparation of the financial statements (continued)

Notwithstanding these circumstances, the directors of the Company do not consider that material uncertainties related to events or conditions exits which may cast significant doubt on the Group's ability to continue as a going concern, taking into accounts the following:

1) The Group has entered into an agreement to dispose the entire share capital of Magician Investments (BVI) limited, Magician Strategic Limited and Wealthy Honor Holdings Limited (collectively, the "Target Companies") at cash consideration of RMB1.25 billion, subject to independent shareholders' approval (Note 12);

2) The vendor of Robust Cooperation Limited ("Robust") has agreed not to demand for the payment of the HK$300,000,000 cash consideration due to the vendor for a period of at least 18 months from 31 March 2020 if such a payment would cause the Group unable to settle its liabilities to other parties when they fall due;

3) The Group is actively negotiating with banks and other financial institutions for extension of its liabilities; and

4) Tong Shiping (director of the Company), Cheng Weihong and Li Lixin (directors and shareholders of the Company) has agreed to provide continuing financial support to the Group as is necessary to ensure its continuing operation for a period of at least 12 months from 31 March 2020.

Taking into account the Group's cash flow forecast for the twelve months ending 31 March 2021 prepared by management, and assuming the success of the above measures, the directors of the Company are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (b) Basis of preparation of the financial statements (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

### (c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

**HKFRS 16, *Leases***

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease,* HK(SIC) 15, *Operating leases – incentives,* and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 April 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance at 1 April 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

*a* *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 April 2019. For contracts entered into before 1 April 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

HKFRS 16, *Leases* (continued)

*b* *Lessee accounting and transitional impact*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to warehouses, retail stores and offices. For an explanation of how the Group applies lessee accounting, see Note 2(k)(i).

At the date of transition to HKFRS 16 (i.e. 1 April 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 April 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5.72%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 March 2020;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 March 2019 as an alternative to performing an impairment review.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

HKFRS 16, *Leases* (continued)

*b Lessee accounting and transitional impact (continued)*

The following table reconciles the operating lease commitments as disclosed in Note 29(b) as at 31 March 2019 to the opening balance for lease liabilities recognised as at 1 April 2019:

| | RMB'000 |
|---|---|
| Operating lease commitments at 31 March 2019 | 67,678 |
| Less: commitments relating to short-term leases and other leases with remaining lease term ending on or before 31 March 2020 exempt from capitalisation | (5,984) |
| Add: lease payments for the additional lease periods | 20,167 |
| lease payables at 31 March 2019 | 524 |
| | 82,385 |
| Less: total future interest expenses | (10,680) |
| Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 April 2019 | 71,705 |

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 financial position at 31 March 2019.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

HKFRS 16, *Leases* (continued)

*b Lessee accounting and transitional impact (continued)*

The following table summarises the impact of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

| | Carrying amount at 31 March 2019 | Capitalisation of operating lease contracts | Carrying amount at 1 April 2019 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:** | | | |
| Property, plant and equipment | 425,987 | 71,181 | 497,168 |
| **Total non-current assets** | **1,994,232** | **71,181** | **2,065,413** |
| Trade and other payables | 675,102 | (524) | 674,578 |
| Lease liabilities (current) | – | 25,433 | 25,433 |
| **Current liabilities** | **1,637,438** | **24,909** | **1,662,347** |
| **Net current assets** | **674,279** | **(24,909)** | **649,370** |
| **Total assets less current liabilities** | **2,668,511** | **46,272** | **2,714,783** |
| Lease liabilities (non-current) | – | 46,272 | 46,272 |
| **Total non-current liabilities** | **356,184** | **46,272** | **402,456** |
| **Net assets** | **2,312,327** | **–** | **2,312,327** |

*c Impact on the financial result, segment results and cash flows of the Group*

After the initial recognition of right-of-use assets and lease liabilities as at 1 April 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see Note 22(b)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a change in presentation of cash flows within the cash flow statement (see Note 22(c)).

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Changes in accounting policies (continued)

HKFRS 16, *Leases* (continued)

*d* *Lessor accounting*

The Group leases out a few of items of properties as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements in this regard.

### (d) Business combination

The Group accounts for business combination using the acquisition method when control is transferred to the Group (see Note 2(e)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill or gain on bargain purchase is accounted for in accordance with Note 2(g). Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

### (e) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(l)(iii)), unless the investment is classified as held-for-sale (or included in a disposal group that is classified as held for sale) (see Note 2(y)).

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Associate

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held-for-sale (or included in a disposal group that is classified as held for sale) (see Note 2(y)). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other cost directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(l)(iii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investee and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate (after applying the ECL model to such other long-term interests where applicable (see Note 2(l)(i)).

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated statement of profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognised in the consolidated statement of profit or loss.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interests in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in the consolidated statement of profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses (see Note 2(l)(iii)). Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(l)(iii)).

On disposal of a cash generating unit, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### (h) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries and an associate, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 31(e). These investments are subsequently accounted for as follows, depending on their classification.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Other investments in debt and equity securities (continued)

*(i) Investments other than equity investments*

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(v)(vi)).

– fair value through other comprehensive income (FVOCI) - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

*(ii) Equity investments*

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in Note 2(v)(v).

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see Note 2(k)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in Note 2(v)(iii).

### (j) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(l)(iii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(x)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives as follows:

| | **Estimated useful lives** |
|---|---|
| Leasehold land and buildings | Over the shorter of the term of lease and their estimated useful lives of 11 - 47 years |
| Leasehold improvements | Over the shorter of the term of lease and their estimated useful lives of 3 - 10 years |
| Plant and machinery | 5 - 10 years |
| Furniture, fixtures and equipment | 3 - 10 years |
| Moulds | 7 - 10 years |
| Motor vehicles | 4 - 5 years |
| Right-of-use assets | 2 - 14 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the estimated useful life of an asset and its residual value, if any, are reviewed annually. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (j) Property, plant and equipment (continued)

When a property held for own use becomes an investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on this remeasurement is recognised in profit or loss to the extent that it reversed a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the property revaluation reserve within equity. Any such revaluation surplus is transferred from the property revaluation reserve to retained profits and is not reclassified to profit or loss on the date of retirement of disposal. Any loss is recognised in profit or loss.

### (k) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

*(i) As a lessee*

*(A) Policy applicable from 1 April 2019*

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less, leases that the remaining lease term is less than 12 months and leases of low value assets which, for the Group are primarily retail stores and office equipment. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term. Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (k) Leased assets (continued)

*(i) As a lessee (continued)*

*(A) Policy applicable from 1 April 2019 (continued)*

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(j) and 2(l)(iii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'Property, plant and equipment' and presents lease liabilities separately in the consolidated statement of financial position.

*(B) Policy applicable prior to 1 April 2019*

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset, as set out in Note 2(j). Impairment losses were accounted for in accordance with the accounting policy as set out in Note 2(l)(iii). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (k) Leased assets (continued)

*(i) As a lessee (continued)*

*(B) Policy applicable prior to 1 April 2019 (continued)*

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

*(ii) As a lessor*

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 2(v)(iii).

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in Note 2(k)(i), then the Group classifies the sub-lease as an operating lease.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Credit losses and impairment of assets

*(i) Credit losses from financial instruments and lease receivables*

The Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents, and trade and other receivables).

Other financial assets measured at fair value, including non-equity investments measured at FVPL and equity investment designated at FVOCI (non-recycling), are not subject to the ECL assessment.

*Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls for trade and other receivables are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade and other receivables and lease receivables always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Credit losses and impairment of assets (continued)

*(i) Credit losses from financial instruments and lease receivables (continued)*

*Significant increases in credit risk*

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. 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 since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in fair value reserve (recycling).

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Credit losses and impairment of assets (continued)

*(i) Credit losses from financial instruments and lease receivables (continued)*

*Basis of calculation of interest income*

Interest income recognised in accordance with Note 2(v)(vi) 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 the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or past due event;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

*Write-off policy*

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

*(ii) Credit losses from financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Credit losses and impairment of assets (continued)

*(ii) Credit losses from financial guarantees issued (continued)*

Financial guarantees issued are initially recognised within "trade and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in Note 2(l)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Credit losses and impairment of assets (continued)

*(iii) Impairment of other non-current 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, including right-of-use assets;

– goodwill; and

– investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater 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).

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Credit losses and impairment of assets (continued)

*(iii) Impairment of other non-current assets (continued)*

– 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.

*(iv) Interim financial reporting and impairment*

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(l)(i) and (iii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

### (m) Inventories and other contract costs

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula or specific identification formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (m) Inventories and other contract costs (continued)

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The Group takes advantage of practical expedient in paragraph 94 of the HKFRS 15 and recognises the incremental costs of obtaining a contract as an expense if the amortisation of the asset that the Group otherwise would have recognised is one year or less.

### (n) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(v)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in Note 2(l)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(o)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(v)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(o)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(v)).

### (o) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(n)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(l)(i)).

### (p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in Note 2(l)(i).

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 2(l)(ii), 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.

(r) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(x)).

(s) Employee benefits

*(i) Short-term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

*(ii) Termination benefits*

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (t) Income tax (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note 2(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (t) Income tax (continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (u) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (v) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services, the investment in debt or equity securities or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

*(i) Sale of goods and net income from concession sales*

Revenue arising from the sales of goods and income from concession sales are recognised when the customer takes possession of and accepts the goods. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

The goods can only be returned due to product quality issue. Because the number of return is extremely low in previous years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur.

*(ii) Service fee and commission income*

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue is recognised when the related agent services are rendered at the net amount of commission received or to be received by the Group.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (v) Revenue and other income (continued)

*(iii) Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payment that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

*(iv) Customer loyalty programme*

The Group's customer loyalty programme awards customers credits which entitle the customers to the right to exchange for programme credits. The Group allocates a portion of the consideration received to programme credits. This allocation is based on the relative stand-alone selling price. The amount allocated to the loyalty programme is deferred, and is recognised as revenue when programme credits are redeemed or the likelihood of the customer redeeming the programme credits becomes remote.

*(v) Dividends*

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

*(vi) Interest income*

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) 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 (see Note 2(l)(i)).

*(vii) 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 deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities.

The results of operations which have a functional currency other than RMB are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

### (x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (y) Non-current assets held for sale and discontinued operations

*(i) Non-current assets held for sale*

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

*(ii) 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 co-ordinated 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 (see (i) above), if earlier. It also occurs if the operation is abandoned.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (y) Non-current assets held for sale and discontinued operations (continued)

*(ii) Discontinued operations (continued)*

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.

### (z) 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 the key management personnel of the Group or the Group's parent.

(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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (z) Related parties (continued)

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.

### (aa) 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.

## 3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Notes 2(b), 15, 17 and 31 contain information about the assumptions and their risk factors relating to going concern assumption, valuation of investment properties, goodwill impairment and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

### (a) Impairment of non-current assets

If circumstances indicate that the carrying amount of an asset may not be fully recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of assets as described in Note 2(l)(iii). The carrying amounts of assets are reviewed and tested for impairment, where applicable, periodically or whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods, where applicable.

### (b) Deferred taxation

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised. In determining the amount of deferred tax assets to be recognised, significant judgement is required relating to the timing and level of future taxable profits, after taking into account future tax planning strategies. The amount of deferred tax assets recognised at future dates are adjusted if there are significant changes from these estimates.

## 4 REVENUE AND SEGMENT REPORTING

(a) Revenue

*(i) Disaggregation of revenue*

Disaggregation of revenue by major products or service lines from continuing operations is as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000<br>(Restated) |
|---|---|---|
| **Revenue from contracts with customers within the scope of HKFRS 15** | | |
| Disaggregated by major products or service lines | | |
| – sales of goods | 1,121,211 | 2,728,979 |
| – rendering of services | 37,488 | 888 |
| | 1,158,699 | 2,729,867 |
| **Revenue from other resources** | | |
| – rental income from operating leases | 25,277 | – |
| | 1,183,976 | 2,729,867 |

Disaggregation of revenue from contracts with customers by timing of revenue recognition is disclosed as below:

| | 2020<br>RMB'000 | 2019<br>RMB'000<br>(Restated) |
|---|---|---|
| **Revenue from contracts with customers within the scope of HKFRS 15** | | |
| Disaggregated by major products or service lines | | |
| – Point in time | 1,144,039 | 2,729,867 |
| – Over time | 14,660 | – |
| | 1,158,699 | 2,729,867 |

The remaining performance obligation is part of a contract that has an original expected duration of one year or less, therefore, such information is not disclosed as a practical expedient in paragraph 121 of HKFRS 15.

The directors of the Company consider that the customer base is diversified and includes two customers from the "car-sale" segment with whom transactions have exceeded 10% of the Group's revenue from continuing operations for the years ended 31 March 2020 (2019: Nil). During the year, revenues from sales of goods to those customers amounted to approximately RMB176,230,000 and RMB140,736,000.

## 4 REVENUE AND SEGMENT REPORTING (CONTINUED)

### (a) Revenue (continued)

*(ii) Total future minimum lease payments receivable by the Group from continuing operations*

Total future minimum lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000<br>(Restated) |
|---|---|---|
| Within 1 year | 20,644 | – |
| After 1 year but within 5 years | 1,116 | – |
| | 21,760 | – |

### (b) Segment reporting

The Group manages its business by lines of business. In view of the acquisition of a new line of business as disclosed in Note 13 and the intended disposal of non-automobile business as disclosed in Note 12, the Group's reportable segments for the year ended 31 March 2020 are presented as follows:

*Continuing operations*

– Car trading platform: this segment provides imported cars platform services and property rental services.

– Car-sale: this segment carries out the trading of imported cars.

*Discontinued operations*

– Manufacturing and trading: this segment manufactures and trades plastic and metallic household products.

– Retail: this segment manages the supermarket operations and property rental services.

– Wholesale: this segment carries out the wholesale of wine and electrical appliances business.

– Investments holding: this segment manages the investments in debt and equity securities.

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

## 4 REVENUE AND SEGMENT REPORTING (CONTINUED)

### (b) Segment reporting (continued)

*(i) Segment results*

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and net income are allocated to the reportable segments with reference to revenue and net income generated by those segments and the expenses incurred by those segments. Inter-segment sales are priced with reference to prices charged to external parties for similar products or services. Other than inter-segment sales, assistance provided by one segment to another is not measured.

The measure used for reporting segment result is gross profit. The Group's operating expenses such as selling and distribution expenses and administrative expenses, and assets and liabilities are not monitored by the Group's senior executive management based on segment. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income not derived from investment in debt or equity securities, interest expenses and reconciliation of reportable segment profit to consolidated profit before tax is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 March 2020 and 2019 is set out below.

| | 2020 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Continuing operations | | | Discontinued operations | | | | | |
| | Car-sale RMB'000 | Car trading platform RMB'000 | Sub-total RMB'000 | Manufacturing and trading RMB'000 | Retail RMB'000 | Wholesale RMB'000 | Investments holding RMB'000 | Sub-total RMB'000 | Total RMB'000 |
| **Revenue from external customers** | 1,126,341 | 57,635 | 1,183,976 | 645,007 | 504,722 | 284,700 | 47,440 | 1,481,869 | 2,665,845 |
| Inter-segment revenue | – | 592 | 592 | – | – | 46,529 | – | 46,529 | 47,121 |
| **Reportable segment revenue** | 1,126,341 | 58,227 | 1,184,568 | 645,007 | 504,722 | 331,229 | 47,440 | 1,528,398 | 2,712,966 |
| **Reportable segment profit** | 36,899 | 39,269 | 76,168 | 166,858 | 134,029 | 76,905 | 47,440 | 425,232 | 501,400 |

## 4 REVENUE AND SEGMENT REPORTING (CONTINUED)

### (b) Segment reporting (continued)

*(i) Segment results (continued)*

| | 2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Continuing operations | | | Discontinued operations | | | | | |
| **(Restated)** | Car-sale<br>RMB'000 | Car trading platform<br>RMB'000 | Sub-total<br>RMB'000 | Manufacturing and trading<br>RMB'000 | Retail<br>RMB'000 | Wholesale<br>RMB'000 | Investments holding<br>RMB'000 | Sub-total<br>RMB'000 | Total<br>RMB'000 |
| **Revenue from external customers** | 2,729,867 | – | 2,729,867 | 433,928 | 461,829 | 281,844 | 52,566 | 1,230,167 | 3,960,034 |
| Inter-segment revenue | – | – | – | – | – | 38,735 | – | 38,735 | 38,735 |
| **Reportable segment revenue** | 2,729,867 | – | 2,729,867 | 433,928 | 461,829 | 320,579 | 52,566 | 1,268,902 | 3,998,769 |
| **Reportable segment profit** | 164,559 | – | 164,559 | 89,955 | 127,592 | 58,680 | 52,566 | 328,793 | 493,352 |

*(ii) Reconciliations of reportable segment revenue*

| | Continuing operations | | Discontinued operations | | Total | |
|---|---|---|---|---|---|---|
| **(Restated)** | 2020<br>RMB'000 | 2019<br>RMB'000 | 2020<br>RMB'000 | 2019<br>RMB'000 | 2020<br>RMB'000 | 2019<br>RMB'000 |
| Reportable segment revenue | 1,184,568 | 2,729,867 | 1,528,398 | 1,268,902 | 2,712,966 | 3,998,769 |
| Elimination of inter-segment revenue | (592) | – | (46,529) | (38,735) | (47,121) | (38,735) |
| Consolidated revenue | 1,183,976 | 2,729,867 | 1,481,869 | 1,230,167 | 2,665,845 | 3,960,034 |

*(iii) Geographic information*

All of the Group's revenue from continuing operations is generated from mainland China. All of the Group's non-current assets (excluding deferred tax assets) are located in Mainland China and Hong Kong as at 31 March 2020 and 2019.

## 5 OTHER INCOME

| | 2020<br>RMB'000 | 2019<br>RMB'000<br>(Restated) |
|---|---|---|
| Government grants | 3,006 | – |
| Interest income on cash at bank | 5,872 | 98 |
| Others | 51 | (133) |
| | 8,929 | (35) |

## 6 (LOSS)/PROFIT BEFORE TAXATION FROM CONTINUING OPERATIONS

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

### (a) Finance costs/(income)

| | 2020<br>RMB'000 | 2019<br>RMB'000<br>(Restated) |
|---|---|---|
| Interest on bank and other borrowings and promissory note | 69,333 | 2,085 |
| Interest on lease liabilities | 10 | – |
| Net foreign exchange loss | 33,880 | – |
| Changes in fair value of contingent consideration | – | (85,023) |
| | 103,223 | (82,938) |

## 6 (LOSS)/PROFIT BEFORE TAXATION FROM CONTINUING OPERATIONS (CONTINUED)

(b) Staff costs#

| | 2020<br>RMB'000 | 2019<br>RMB'000<br>(Restated) |
|---|---|---|
| Salaries, wages and other benefits | 7,840 | 3,631 |
| Contributions to defined contribution retirement plans | 589 | 372 |
| | 8,429 | 4,003 |

The employees of the subsidiaries of the Group established in the People's Republic of China (the "PRC") participate in defined contribution retirement benefit schemes managed by the local government authorities, whereby these subsidiaries are required to contribute to the schemes at 14% to 19% of the employees' basic salaries. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC, from the above mentioned retirement schemes at their normal retirement age.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant salaries, subject to a cap of monthly relevant salaries of Hong Kong Dollars ("HK$") 30,000. Contributions to the MPF Scheme vest immediately.

The Group has no further obligation for payment of other retirement benefits beyond the above annual contributions.

## 6 (LOSS)/PROFIT BEFORE TAXATION FROM CONTINUING OPERATIONS (CONTINUED)

(c) Other items

| | 2020<br>RMB'000 | 2019<br>RMB'000<br>(Restated) |
|---|---|---|
| Cost of inventories (Note 19) | 1,089,411 | 2,565,199 |
| Depreciation and amortisation | | |
| – owned property, plant and equipment | 2,188 | 127 |
| – right-of-use assets | 479 | – |
| Operating lease charges under HKAS 17 | – | 951 |
| Operating lease charges of short-term leases and other leases with remaining lease term ending on or before 31 March 2020 | 575 | – |
| Impairment losses on trade and other receivables (Note 31(a)) | 22,481 | – |
| Expected credit losses for financial guarantees issued | 6,222 | – |
| | 28,703 | – |

Auditors' remuneration for statutory audit service and other services accumulated to RMB5,100,000 and RMB2,250,000 respectively (2019: RMB3,300,000 and RMB1,000,000) from both continuing and discontinued operations.

## 7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

| | 2020<br>RMB'000 | 2019<br>RMB'000<br>(Restated) |
|---|---|---|
| **Current taxation:** | | |
| – Provision for the year | 10,357 | 39,397 |
| – Under-provision in respect of prior years | 523 | – |
| | 10,880 | 39,397 |
| **Deferred taxation:** | | |
| – Origination and reversal of temporary differences | (26,730) | (465) |
| **Tax expense on continuing operations** | (15,850) | 38,932 |

## 7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates of continuing operations:

| | 2020<br>RMB'000 | 2019<br>RMB'000<br>(Restated) |
|---|---|---|
| (Loss)/profit before taxation | (112,698) | 215,931 |
| Expected tax on (loss)/profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned (Notes (i), (ii) and (iii)) | (23,538) | 48,681 |
| Tax effect of non-deductible expenses | 49,664 | 4,280 |
| Tax effect of non-taxable income | (42,609) | (14,029) |
| Tax effect of unused tax losses | 110 | – |
| Under-provision in respect of prior years | 523 | – |
| Income tax | (15,850) | 38,932 |

Notes:

(i) The Hong Kong Profits Tax rate for the year ended 31 March 2020 is 16.5% (2019: 16.5%). No provision for Hong Kong Profits Tax has been made as the Company and the subsidiaries of the Group incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax for the year ended 31 March 2020 (2019: RMBNil).

(ii) The Group established in the Mainland China are subject to PRC Corporate Income Tax rate of 25% (2019: 25%).

(iii) Subsidiaries incorporated in other jurisdictions are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

## 8 DIRECTORS' EMOLUMENTS

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:

| | 2020 | | | | |
|---|---|---|---|---|---|
| **From both continuing operations and discontinued operations** | Directors' fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Discretionary bonuses RMB'000 | Retirement scheme contributions RMB'000 | Total RMB'000 |
| **Executive directors** | | | | | |
| Mr. Li Lixin | – | – | – | – | – |
| Mr. Cheng Jianhe | – | – | – | – | – |
| Ms. Jin Yaxue | – | 450 | 630 | 13 | 1,093 |
| Mr. Tong Shiping | – | – | – | – | – |
| **Non-executive director** | | | | | |
| Ms. Cheng Weihong | – | – | – | – | – |
| **Independent non-executive directors** | | | | | |
| Mr. He Chengying | 214 | – | – | – | 214 |
| Mr. Cheung Kiu Cho Vincent | 214 | – | – | – | 214 |
| Mr. Shin Yick Fabian | 236 | – | – | – | 236 |
| Mr. Kwong Kwan Tong | 214 | – | – | – | 214 |
| | 878 | 450 | 630 | 13 | 1,971 |

## 8 DIRECTORS' EMOLUMENTS (CONTINUED)

| | 2019 | | | | |
|---|---|---|---|---|---|
| From both continuing operations and discontinued operations | Directors' fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Discretionary bonuses RMB'000 | Retirement scheme contributions RMB'000 | Total RMB'000 |
| **Executive directors** | | | | | |
| Mr. Li Lixin | – | – | – | – | – |
| Mr. Cheng Jianhe | – | – | – | – | – |
| Ms. Jin Yaxue | – | 410 | 300 | 13 | 723 |
| Mr. Tong Shiping (appointed on 18 July 2018) | – | – | – | – | – |
| Mr. Tong Xin (resigned on 18 July 2018) | – | – | – | – | – |
| **Non-executive directors** | | | | | |
| Ms. Cheng Weihong (appointed on 28 September 2018) | – | – | – | – | – |
| Mr. Lau Kin Hon (resigned on 31 December 2018) | – | – | – | – | – |
| **Independent non-executive directors** | | | | | |
| Mr. He Chengying | 137 | – | – | – | 137 |
| Mr. Cheung Kiu Cho Vincent | 137 | – | – | – | 137 |
| Mr. Shin Yick Fabian | 157 | – | – | – | 157 |
| Mr. Kwong Kwan Tong (appointed on 28 September 2018) | 86 | – | – | – | 86 |
| | 517 | 410 | 300 | 13 | 1,240 |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2019: one) is a director whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the remaining four (2019: four) individuals are as follows:

| **From both continuing operations and discontinued operations** | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | 2,484 | 2,480 |
| Discretionary bonuses | 562 | 627 |
| Retirement scheme contributions | 54 | 56 |
| | 3,100 | 3,163 |

The emoluments of the employees who are not director and who are amongst the five highest paid individuals of the Group are within the following bands:

| | 2020 | 2019 |
|---|---|---|
| (In HK$) | | |
| Nil – 1,000,000 | 3 | 3 |
| 1,000,001 – 1,500,000 | 1 | 1 |

## 10 OTHER COMPREHENSIVE INCOME

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | 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 |
| Equity investment at FVOCI: | | | | | | |
| Net movement in fair value reserve (non-recycling) (Note 26(b)) | 190,271 | (47,568) | 142,703 | (95,291) | 23,823 | (71,468) |
| Exchange differences on translation into presentation currency | (4,961) | – | (4,961) | (4,891) | – | (4,891) |
| Other comprehensive income | 185,310 | (47,568) | 137,742 | (100,182) | 23,823 | (76,359) |

## 11 (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

The calculation of basic loss per share for the year ended 31 March 2020 is based on the following loss attributable to ordinary equity shareholders of the Company and the weighted average number of ordinary shares in issue during the year.

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Continuing operations RMB'000 | Discontinued operations RMB'000 | Total RMB'000 | Continuing operations RMB'000 | Discontinued operations RMB'000 | Total RMB'000 |
| (Loss)/profit for the year attributable to equity shareholders of the Company | (96,848) | (57,610) | (154,458) | 176,999 | 33,701 | 210,700 |

Weighted average number of ordinary shares:

| | 2020 '000 | 2019 '000 |
|---|---|---|
| Issued ordinary shares at 1 April | 7,544,020 | 5,678,038 |
| Effect of issuance of ordinary shares (Note 27(c)) | 335,616 | 945,772 |
| Effect of contingently issuable shares | – | 920,210 |
| Weighted average number of ordinary shares at 31 March | 7,879,636 | 7,544,020 |

### (b) Diluted (loss)/earnings per share

There were no potential dilutive ordinary shares during the year ended 31 March 2020.

The calculation of diluted earnings per share for the year ended 31 March 2019 is based on the following profit attributable to ordinary equity shareholders of the Company (diluted) and the weighted average of 7,544,020,000 ordinary shares (diluted) (see Note 11(a)).

Profit attributable to ordinary equity shareholders of the Company (diluted):

| | 2019 | | |
|---|---|---|---|
| | Continuing operations RMB'000 | Discontinued operations RMB'000 | Total RMB'000 |
| Profit attributable to ordinary equity shareholders | 176,999 | 33,701 | 210,700 |
| After tax effect of changes in fair value of contingent consideration | (85,023) | – | (85,023) |
| Profit attributable to ordinary equity shareholders (diluted) | 91,976 | 33,701 | 125,677 |

## 12 DISCONTINUED OPERATIONS

During the year ended 31 March 2020, management committed to a plan to expand its automobile business and sell the non-automobile business to provide the Group with an immediate cash inflow for settling its indebtedness and strengthening the Group's liquidity and financial position, as well as to address or mitigate the effect caused by the challenging global economic climate and uncertain business environment amid the COVID-19 outbreak and the intensified tension caused by the ongoing trade issues between the United States and the PRC.

On 28 May 2020, the Group entered into an agreement with Mr. Li Lixin, an executive director and a shareholder of the Company (the "Purchaser"), pursuant to which the Group agreed to sell and the Purchaser agreed to purchase the entire share capital of the Target Companies at a consideration of RMB1.25 billion (the "Disposal"). The Completion of the Disposal is subject to fulfillment of conditions set out in the agreement, including independent shareholders' approval.

The Target Companies and their subsidiaries (collectively, the "Disposal Group") represented (i) the manufacturing and trading segment, (ii) retail segment, (iii) wholesale segment and (iv) investments holding segment of the Group (collectively, the discontinued operations). Accordingly, the consolidated results of the discontinued operations for the period from 1 April 2019 to 31 March 2020 have been presented as discontinued operation in the consolidated financial statements in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and the comparative figures of the consolidated statement of profit or loss and corresponding notes have been restated to show the discontinued operation separately from continuing operations, and the assets and liabilities of the Disposal Group are classified as held for sale at 31 March 2020.

It is impracticable to disclose the gain or loss on the proposed disposal as it is subject to the financial positions of the Disposal Group at the date of disposal.

## 12 DISCONTINUED OPERATIONS (CONTINUED)

(a) Results of discontinued operations

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| **Revenue** | 1,481,869 | 1,230,167 |
| Cost of sales | (1,056,637) | (901,374) |
| **Gross profit** | 425,232 | 328,793 |
| Other income | 12,540 | 41,242 |
| Selling and distribution expenses | (85,423) | (85,129) |
| Administrative expenses | (115,727) | (109,173) |
| Impairment losses on financial assets and guarantee contracts | (219) | (2,113) |
| Finance costs | (54,193) | (51,544) |
| Net valuation loss on investment properties (Note 15) | (111,050) | (59,226) |
| Impairment losses on property, plant and equipment (Note 14) | (59,821) | – |
| Impairment loss on goodwill (Note 17) | (43,313) | – |
| **(Loss)/profit before taxation** | (31,974) | 62,850 |
| Income tax | (25,636) | (29,149) |
| **(Loss)/profit for the year from discontinued operations** | (57,610) | 33,701 |
| **Basic and diluted (loss)/earnings per share (RMB cent)** | (0.73) | 0.45 |

(b) The net cash flows incurred by the discontinued operations are as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Net cash generated from operating activities | 407,428 | 11,295 |
| Net cash (used in)/generated from investing activities | (191,591) | 174,498 |
| Net cash generated from/(used in) financing activities | 204,754 | (178,521) |
| Net cash inflow | 420,591 | 7,272 |

## 12 DISCONTINUED OPERATIONS (CONTINUED)

### (c) Assets and liabilities of disposal groups held for sale

At 31 March 2020, the non-current assets and disposal groups held for sale were stated at the lower of carrying amount and fair value less costs to sell, comprising the following assets and liabilities:

| | 2020<br>RMB'000 |
|---|---|
| Property, plant and equipment (Note 14) | 409,636 |
| Investment properties (Note 15) | 660,000 |
| Deferred tax assets (Note 26(b)) | 13,818 |
| Inventories | 146,453 |
| Trade and other receivables | 310,654 |
| Prepayments | 21,624 |
| Non-equity investments (Note 31(e)) | 1,091,363 |
| Restricted bank deposits | 84,860 |
| Cash and cash equivalents | 568,807 |
| Assets held for sale | 3,307,215 |
| Trade and other payables | 483,338 |
| Bank and other loans (Note 22(b)) | 1,345,594 |
| Lease liabilities (Note 22(b)) | 52,598 |
| Income tax payable (Note 26(a)) | 30,637 |
| Deferred tax liabilities (Note 26(b)) | 199,815 |
| Liabilities held for sale | 2,111,982 |
| Net assets held for sale | 1,195,233 |

## 13 BUSINESS COMBINATION

On 2 March 2019, the Company entered into an acquisition agreement with Valuable Peace Limited (the "Vendor"), which is held by a close family member of two directors of the Company. Pursuant to the agreement, the Company agreed to acquire 100% interests in Robust from the Vendor through 1) the issuance of 500,000,000 ordinary shares in the Company (Note 27(c)); 2) the issuance of interest-free promissory note of HK$400,000,000 due for payment in three years; and 3) the payment of cash of HK$300,000,000. The directors of the Company consider that the automotive industry, especially the parallel importation industry is a fast growing market and by completing the acquisition, the Company will be able to further diversify the Group's existing business to strive for greater growth potential.

Upon completion of the above acquisition on 31 July 2019, the Group recorded a negative goodwill of RMB258,235,000. In the opinion of the directors of the Company, negative goodwill was recognised as a result of bargain purchase, decline in market price of the consideration shares and the increase of the net asset value of Robust and its subsidiaries (the "Robust Group") between the date the consideration was determined and the date of completion of the acquisition. The negative goodwill is calculated as below:

| | RMB'000 |
|---|---|
| Fair value of identifiable net assets acquired: | |
| Property, plant and equipment (Note 14) | 72,237 |
| Investment properties (Note 15) | 1,599,120 |
| Trade and other receivables and prepayments | 2,923,020 |
| Cash and cash equivalents | 15,409 |
| Restricted bank deposits | 499,144 |
| Trade and other payables | (2,461,129) |
| Bank and other loans (Note 22(b)) | (1,101,840) |
| Income tax payable (Note 26(a)) | (33,437) |
| Deferred tax liabilities (Note 26(b)) | (338,926) |
| | 1,173,598 |
| Satisfied by: | |
| Fair value of consideration shares issued upon completion (Note 27(c)) | 351,561 |
| Present value of consideration promissory note to be issued upon completion | 300,132 |
| Cash consideration (Note (i)) | 263,670 |
| Total consideration | 915,363 |
| Negative goodwill (Note (vii)) | 258,235 |

## 13 BUSINESS COMBINATION (CONTINUED)

Notes:

(i) Up to the date of issue of these financial statements, the Company has not paid the cash consideration of HK$300,000,000 to the Vendor.

(ii) The fair values of the properties acquired at the acquisition date were determined using the market approach. The fair value measurement falls into Level 3 of the fair value hierarchy.

(iii) From the date of the above acquisition to 31 March 2020, the acquisition contributed revenue of RMB57,634,000 and net loss of RMB73,533,000 to the Group for the year ended 31 March 2020. Had the above acquisition been completed on 1 April 2019, the directors of the Company estimated the consolidated revenue and consolidated net loss from continuing operations for the year ended 31 March 2020 would have been RMB1,238,474,000 and RMB96,848,000, respectively, assuming the fair value of consideration payable remains the same.

(iv) The Group incurred acquisition-related costs of RMB15,443,000 relating to external legal fees, due diligence costs, valuation and audit costs. These costs have been included in "Administrative expenses" in the consolidated statement of profit or loss during the year ended 31 March 2020.

(v) The trade and other receivables comprise gross contractual amounts of RMB2,947,709,000 of which provision for credit loss of RMB24,689,000 has been made at the acquisition date.

(vi) On the acquisition date, the directors of the Company do not consider it probable that a claim will be made against the Group under the guarantees. The exposure of Robust Group at the end of 31 July 2019 under the guarantees is approximately RMB2,291 million, being the aggregate banking facilities granted to third party customers of the Company by banks.

(vii) Net cash inflow arising on acquisition

| | RMB'000 |
|---|---|
| Cash and cash equivalents acquired | 15,409 |

## 14 PROPERTY, PLANT AND EQUIPMENT

### (a) Reconciliation of carrying amount

| | Leasehold land and buildings RMB'000 | Leasehold improvements RMB'000 | Plant and machinery RMB'000 | Furniture, fixtures and equipment RMB'000 | Moulds RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| At 1 April 2018 | 849,782 | 121,202 | 71,053 | 78,440 | 120,445 | 7,384 | 1,248,306 |
| Exchange adjustments | – | 16 | – | 54 | – | – | 70 |
| Additions | – | 7,830 | 27,498 | 3,506 | 19,216 | 1,699 | 59,749 |
| Transfer to investment properties | (548,253) | – | – | – | – | – | (548,253) |
| Disposals | – | (1,866) | (4,788) | (18,465) | – | (1,407) | (26,526) |
| At 31 March 2019 | 301,529 | 127,182 | 93,763 | 63,535 | 139,661 | 7,676 | 733,346 |
| **Accumulated depreciation and impairment losses:** | | | | | | | |
| At 1 April 2018 | (179,340) | (83,955) | (25,577) | (62,522) | (40,275) | (3,779) | (395,448) |
| Exchange adjustments | – | (13) | – | (48) | – | – | (61) |
| Charge for the year | (15,651) | (14,155) | (6,641) | (5,873) | (12,508) | (1,151) | (55,979) |
| Transfer to investment properties | 121,867 | – | – | – | – | – | 121,867 |
| Written back on disposals | – | 1,045 | 3,392 | 16,900 | – | 925 | 22,262 |
| At 31 March 2019 | (73,124) | (97,078) | (28,826) | (51,543) | (52,783) | (4,005) | (307,359) |
| **Net book value:** | | | | | | | |
| At 31 March 2019 | 228,405 | 30,104 | 64,937 | 11,992 | 86,878 | 3,671 | 425,987 |

## 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Reconciliation of carrying amount (continued)

| | Leasehold land and buildings RMB'000 | Leasehold improvements RMB'000 | Plant and machinery RMB'000 | Furniture, fixtures and equipment RMB'000 | Moulds RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| At 31 March 2019 | 301,529 | 127,182 | 93,763 | 63,535 | 139,661 | 7,676 | 733,346 |
| Impact on initial application of HKFRS 16 (Note (i)) | 71,181 | – | – | – | – | – | 71,181 |
| At 1 April 2019 | 372,710 | 127,182 | 93,763 | 63,535 | 139,661 | 7,676 | 804,527 |
| Exchange adjustments | 36 | 16 | – | 16 | – | – | 68 |
| Additions | 2,619 | 7,856 | 21,079 | 3,101 | 22,963 | 2,382 | 60,000 |
| Additions through acquisition of subsidiaries (Note 13) | 68,880 | – | 915 | 395 | – | 2,047 | 72,237 |
| Transfer from investment properties (Note 15) | 16,340 | – | – | – | – | – | 16,340 |
| Disposals | – | – | (3,181) | (2,011) | – | (2,004) | (7,196) |
| Classified as assets of disposal groups held for sale (Note 12) | (374,703) | (134,588) | (112,576) | (63,256) | (162,624) | (8,055) | (855,802) |
| At 31 March 2020 | 85,882 | 466 | – | 1,780 | – | 2,046 | 90,174 |
| **Accumulated depreciation and impairment losses:** | | | | | | | |
| At 1 April 2019 | (73,124) | (97,078) | (28,826) | (51,543) | (52,783) | (4,005) | (307,359) |
| Exchange adjustments | (6) | (15) | – | (11) | – | – | (32) |
| Charge for the year | (32,743) | (14,078) | (12,578) | (3,834) | (23,209) | (1,542) | (87,984) |
| Impairment loss (Note (iv)) | – | – | – | – | (59,821) | – | (59,821) |
| Written back on disposals | – | – | 2,341 | 1,945 | – | 1,433 | 5,719 |
| Classified as assets of disposal groups held for sale (Note 12) | 103,935 | 110,705 | 39,063 | 52,946 | 135,813 | 3,704 | 446,166 |
| At 31 March 2020 | (1,938) | (466) | – | (497) | – | (410) | (3,311) |
| **Net book value:** | | | | | | | |
| At 31 March 2020 | 83,944 | – | – | 1,283 | – | 1,636 | 86,863 |

## 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### (a) Reconciliation of carrying amount (continued)

(i) The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 April 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. See Note 2(c).

(ii) At 31 March 2020, property certificates of certain properties classified as assets of disposal groups held for sale with an aggregate net book value of RMB14,871,000 (31 March 2019: RMB15,338,000) are yet to be obtained.

(iii) Certain of the Group's leasehold land and buildings were pledged against bank loans drawn by the Group (see Note 24(a)).

(iv) During the year ended 31 March 2020, due to the negative impact to the manufacturing and trading segment (the "Manufacturing and trading cash generating units ("CGU")") caused by the COVID-19 outbreak and the ongoing trade friction between the United States and the PRC, the directors of the Company concluded indicators of impairment losses on the Manufacturing and trading CGU exist. The directors of the Company determined the recoverable amount of the Manufacturing and trading CGU on the basis of value-in-use calculation. This calculation uses cashflow projection based on cash flow estimated by management covering a 5-year period. Cash flows beyond the forecast period are extrapolated using an estimated growth rate of 3%. The cash flows are discounted using a discount rate of 18.9%. The discount rate used is pre-tax and reflect specific risks relating to the Manufacturing and trading CGU. An impairment loss of RMB59,821,000 on the Group's property, plant and equipment were recognised in "loss for the year from discontinued operations" during the year ended 31 March 2020.

### (b) Right-of-use assets

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

| | 31 March 2020 RMB'000 | 1 April 2019 RMB'000 |
|---|---|---|
| Leasehold premises held for own use, carried at depreciated cost | | |
| – Included in "Property, plant and equipment" | 183 | 71,181 |
| – Included in "Assets held for sale" | 51,753 | – |
| | 51,936 | 71,181 |

## 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) Right-of-use assets (continued)

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Depreciation charge of right-of-use assets | 479 | – |
| Interest on lease liabilities (Note 6(a)) | 10 | – |
| Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 March 2020 | 575 | – |
| Total minimum lease payments for leases previously classified as operating leases under HKAS 17 | – | 951 |

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balance on 1 April 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 April 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 2(c).

During the year, additions to right-of-use assets were RMB2,655,000. This amount primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Notes 22(c) and 25, respectively.

## 15 INVESTMENT PROPERTIES

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| **Valuation:** | | |
| At 1 April | 771,050 | 403,890 |
| Additions through acquisition of subsidiaries (Note 13) | 1,599,120 | – |
| Reclassified from property, plant and equipment (Note 14) | – | 426,386 |
| Fair value adjustments included in the consolidated statement of profit or loss: | | |
| – Discontinued operations (Note 12(a)) | (111,050) | (59,226) |
| – Continuing operations | (41,233) | – |
| Reclassified to property, plant and equipment (Note 14) | (16,340) | – |
| Reclassified as assets of disposal group classified as held for sale (Note 12(c)) | (660,000) | – |
| At 31 March | 1,541,547 | 771,050 |

Notes:

(i) Fair value hierarchy

At the end of the reporting period, the Group's investment properties are measured at fair value on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 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.

## 15 INVESTMENT PROPERTIES (CONTINUED)

Notes: (continued)

(i) Fair value hierarchy (continued)

The fair value measurement of the Group's investment properties fall into level 3 of the fair value hierarchy described above.

During the year ended 31 March 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2019: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties were revalued as at 31 March 2020. The valuations were carried out by a qualified independent surveyor, Knight Frank Petty Limited, who has among their staff Members of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued. The Group's Chief Financial Officer has discussed with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each annual reporting date.

(ii) Valuation techniques and inputs used in Level 3 fair value measurements

The fair value of investment properties located in Ningbo, Mainland China, which have been classified as assets of disposal groups held for sale at 31 March 2020, is determined using income capitalisation approach. The significant unobservable input used in the fair value measurement is yield rate, ranged from 6.25% to 6.5% for the year ended 31 March 2020 (2019: 5.75% to 6%). The fair value measurement is negatively correlated to the yield rate.

The fair value of investment properties located in Tianjin, Mainland China, which were acquired through acquisition of subsidiaries during the year ended 31 March 2020, is determined using market comparison approach. The significant unobservable input used in the fair value measurement is sales price per square meter of the buildings, ranged from RMB19,432 to RMB28,108 at 31 March 2020. The fair value measurement is positively correlated to the price per square meter.

(Expressed in RMB unless otherwise indicated)

## 16 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

| Name of company | Place of establishment/ incorporation | Particulars of registered/issued and paid-up capital | Proportion of ownership interest: The Group's effective interest | Held by the Company | Held by subsidiaries | Principal activities |
|---|---|---|---|---|---|---|
| Da Mei (Ningbo) Electrical Appliance Limited (i)(iii)(iv) 達美（寧波）電器有限公司 | The PRC | Registered and paid-up capital of United States dollar ("US$") 49,217,379 | 100% | - | 100% | Manufacture and sale of household electrical appliances and plastic products |
| Ningbo New JoySun Corp (i)(ii)(iv) 寧波新江厦股份有限公司 | The PRC | Registered and paid-up capital of RMB60,000,000 | 100% | - | 100% | Wholesale of household products and wine, operation of department stores, and provision of financing to group companies |
| Ningbo New JoySun HVAC equipment Limited (i)(ii)(iv) 寧波新江厦暖通設備有限公司 | The PRC | Registered and paid-up capital of RMB10,000,000 | 100% | - | 100% | Wholesale and installation of household electrical appliances and HVAC equipment |
| Ningbo New JoySun Supermarket Chain Limited (i)(ii)(iv) ("New JoySun Supermarket") 寧波新江厦連鎖超市有限公司 | The PRC | Registered and paid-up capital of RMB30,000,000 | 100% | - | 100% | Operation of supermarkets |
| Ningbo New JoySun Logistic Limited (i)(ii)(iv) 寧波新江厦物流有限公司 | The PRC | Registered and paid-up capital of RMB5,000,000 | 100% | - | 100% | Provision of transportation and logistic services to group companies |
| Xiangshan Lisi Department Store Limited (i)(ii)(iv) 象山利時百貨有限公司 | The PRC | Registered and paid-up capital of RMB20,000,000 | 100% | - | 100% | Operation of department store |

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

| Name of company | Place of establishment/ incorporation | Particulars of registered/issued and paid-up capital | Proportion of ownership interest: The Group's effective interest | Held by the Company | Held by subsidiaries | Principal activities |
|---|---|---|---|---|---|---|
| Ningbo Lisi Household Products Company Limited (i)(iii)(iv) 寧波利時日用品有限公司 | The PRC | Registered and paid-up capital of HK$50,000,000 | 100% | - | 100% | Manufacturing and trading of plastic and metallic household products |
| Tianjin Calistar Automall Operation Management Co., Ltd. (i)(iii) 天津開利星空汽車城運營管理有限公司 | The PRC | Registered and paid-up capital of RMB100,000,000 | 100% | - | 100% | Trading and sales of Imported cars and providing related services, and the provision of agency services for trading of cars |
| Tianjin Binhai International Auto Mall Co., Ltd. (i)(ii) 天津濱海國際汽車城有限公司 | The PRC | Registered and paid-up capital of RMB350,000,000 | 100% | - | 100% | operation of parallel imported car trading platform |
| Tianjin Prominent Hero International Logistics Co., Ltd. (i)(iii) 天津英之杰國際物流有限公司 | The PRC | Registered and paid-up capital of USD10,000,000 | 100% | - | 100% | Investment holding and provision of ancillary services related to parallel imported car trading platform |

(i) The English translation of the names are for reference only and the official names of these entities are in Chinese.

(ii) These companies are domestic limited liability companies established in the mainland China.

(iii) These companies are wholly foreign owned enterprises established in the mainland China.

(iv) These companies are classified as held for sale as at 31 March 2020 (see Note 12).

## 17 GOODWILL

| | RMB'000 |
|---|---|
| **Cost:** | |
| At 1 April 2018, 31 March 2019 | 1,373,157 |
| Classified as assets of disposal groups held for sale | (43,313) |
| At 31 March 2020 | 1,329,844 |
| **Accumulated impairment losses:** | |
| At 1 April 2018, 31 March 2019 | (693,391) |
| Impairment loss | (283,302) |
| Classified as assets of disposal groups held for sale | 43,313 |
| At 31 March 2020 | (933,380) |
| **Carrying amount:** | |
| At 31 March 2020 | 396,464 |
| At 31 March 2019 | 679,766 |

**Impairment tests for cash-generating units containing goodwill**

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to operating segment as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Manufacturing and trading | – | 43,313 |
| Car-sale | 396,464 | 636,453 |
| | 396,464 | 679,766 |

## 17 GOODWILL (CONTINUED)

The recoverable amounts of these CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets prepared by management of the Company covering a five-year period. The assumptions used in the value-in-use calculations are as follows:

| | Manufacturing and trading | | Car-sale | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Long-term growth rate | 3.0% | 2.0% | 3.0% | 2.5% |
| Discount rate (pre-tax) | 18.9% | 14.7% | 14.5% | 14.1% |

Impairment loss of RMB239,989,000 has been recognised in "impairment loss on goodwill" of the continuing operations during the year ended 31 March 2020 to reduce the carrying value of the car-sale CGU to its recoverable amount, due to the impact of the implementation of Limits and Measurement Methods for Emissions from Light-duty Vehicles (CHINA VI), COVID-19 outbreak and recent trade friction between the governments of the PRC and the United States on car-sale CGU. Any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

The carrying amount of the Manufacturing and trading CGU was determined to be higher than its recoverable amount due to the negative effect caused by the COVID-19 outbreak and the ongoing trade friction between the government of the PRC and the United States and an impairment loss of RMB43,313,000 was recognised in "loss for the year from discontinued operations" during the year ended 31 March 2020 (2019: Nil).

## 18 OTHER INVESTMENTS

| | Note | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Equity securities designated at FVOCI (non-recycling)** | | | |
| – Unlisted equity investment | (i) | – | 109,420 |
| **Financial assets measured at FVPL** | | | |
| – Non-equity investments | (ii) | – | 786,758 |
| | | – | 896,178 |

Notes:

(i) The unlisted equity investment has been disposed of through the disposal of the subsidiary holding the equity investment during the year ended 31 March 2020. The change in fair value of the unlisted equity investment, net off tax, has been recognised in other comprehensive income and accumulated in the fair value reserve (non-recycling). Upon disposal of the subsidiary holding the equity investment, the amount accumulated in fair value reserve (non-recycling) is transferred directly to accumulated losses. Other than the unlisted equity investment, this disposed subsidiary did not have other material assets or liabilities at the date of disposal.

(ii) The non-equity investments represent wealth management products issued by financial institutions with variable returns. The non-equity investments had been classified as assets of disposal groups held for sale (see Note 12(c)).

## 19 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Raw materials | – | 30,776 |
| Work in progress | – | 13,621 |
| Finished goods | – | 19,677 |
| Merchandises | 280,178 | 366,923 |
| | 280,178 | 430,997 |

(b) An analysis of the amount of inventories recognised as an expense and included in the results of continuing operations in the consolidated statement of profit or loss is as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Carrying amount of inventories sold | 1,077,194 | 2,565,199 |
| Write down of inventories | 12,217 | – |
| | 1,089,411 | 2,565,199 |

## 20 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

| | 31 March 2020 RMB'000 | 31 March 2019 RMB'000 |
|---|---|---|
| Trade receivables from: | | |
| – Third parties | 173,822 | 64,423 |
| – Companies under the control of a shareholder of the Company (Note (a)) | – | 207,541 |
| Bills receivable | – | 2,696 |
| | 173,822 | 274,660 |
| Less: loss allowance | (21,489) | (2,868) |
| | 152,333 | 271,792 |
| Amounts due from related companies: | | |
| – Amounts due from companies under the control of shareholders of the Company (Note (b)) | – | 4,326 |
| – Amount due from an associate | – | 6,200 |
| | – | 10,526 |
| Less: loss allowance | – | (6,200) |
| | – | 4,326 |
| Other receivables: | | |
| – Advances to third parties | 1,319,368 | 892 |
| – Others | 4,510 | 3,491 |
| | 1,323,878 | 4,383 |
| Less: loss allowance | (25,681) | (693) |
| | 1,298,197 | 3,690 |
| Financial assets measured at amortised cost | 1,450,530 | 279,808 |

## 20 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

| | 31 March 2020 RMB'000 | 31 March 2019 RMB'000 |
|---|---|---|
| Deposits: | | |
| – Deposits for operating leases expenses paid to third parties | 203 | 3,672 |
| – Deposits for parallel importation of cars to a company under the control of a non-controlling shareholder of the Company | – | 50,000 |
| – Others | 3,753 | 4,657 |
| | 3,956 | 58,329 |
| Trade and other receivables | 1,454,486 | 338,137 |
| Prepayments: | | |
| – Prepayments to suppliers | 613,222 | 473,454 |
| – Others | 4,415 | 1,317 |
| | 617,637 | 474,771 |
| | 2,072,123 | 812,908 |

Notes:

(a) The balance mainly related to transactions under an export agency agreement entered into between the Group and a company under the control of a shareholder of the Company and is classified as assets of disposal groups held for sale at 31 March 2020 (Note 12(c)).

(b) The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

The amount of deposits expected to be recovered or recognised as expense after more than one year is RMBNil (2019: RMB50,000,000). All of the other trade and other receivables are expected to be recovered or recognised as expenses within one year.

## 20 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

**Ageing analysis**

Included in trade and other receivables are trade and bills receivables (net of loss allowance) with the following ageing analysis (based on earlier of the invoice date and revenue recognition) as of the end of the reporting period:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Within 1 month | 35,383 | 81,290 |
| More than 1 month but less than 3 months | 53,234 | 83,071 |
| Over 3 months | 63,716 | 107,431 |
| | 152,333 | 271,792 |

Further details on the Group's credit policy and credit risk arising from trade debtors are set out in Note 31(a).

## 21 RESTRICTED BANK DEPOSITS

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Pledged deposits for issuance of bank bills | 207,172 | 84,903 |
| Pledged deposits for issuance of letter of credit | 35,455 | 31,770 |
| | 242,627 | 116,673 |

## 22 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Cash at bank and on hand | 17,305 | 164,381 |

The Group's operations in the PRC conduct their businesses mainly in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

## 22 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities

| | Bank and other loans RMB'000 (Note 24) | Interest payable RMB'000 (Note 23) | Lease liabilities RMB'000 (Note 25) | Promissory note RMB'000 (Note 13) | Total RMB'000 |
|---|---|---|---|---|---|
| **At 31 March 2019** | 1,064,604 | 5,450 | – | – | 1,070,054 |
| Impact on initial application of HKRS 16 (Note) | – | – | 71,705 | – | 71,705 |
| **At 1 April 2019** | 1,064,604 | 5,450 | 71,705 | – | 1,141,759 |
| **Changes from financing cash flows:** | | | | | |
| Proceeds from new bank and other loans | 1,005,203 | – | – | – | 1,005,203 |
| Repayment of bank and other loans | (777,392) | – | – | – | (777,392) |
| Capital element of lease rentals paid | – | – | (19,322) | – | (19,322) |
| Interest element of lease rentals paid | – | – | (3,210) | – | (3,210) |
| Other borrowing costs paid | – | (98,895) | – | – | (98,895) |
| Total changes from financing cash flows | 227,811 | (98,895) | (22,532) | – | 106,384 |
| **Exchange adjustments** | 12,014 | – | – | 12,314 | 24,328 |
| **Other changes:** | | | | | |
| Arising from acquisition of subsidiaries (Note 13) | 1,101,840 | – | – | 300,132 | 1,401,972 |
| Bank charges and other finance costs | – | 13,287 | – | – | 13,287 |
| Interest expenses | – | 96,100 | 3,210 | 10,939 | 110,249 |
| Increase in lease liabilities from entering into new leases during the period | – | – | 215 | – | 215 |
| Total other changes | 1,101,840 | 109,387 | 3,425 | 311,071 | 1,525,723 |
| **At 31 March 2020** | 2,406,269 | 15,942 | 52,598 | 323,385 | 2,798,194 |
| Reclassification to liabilities of disposal groups classified as held for sale (Note 12(c)) | (1,345,594) | (6,538) | (52,598) | – | (1,404,730) |
| | 1,060,675 | 9,404 | – | 323,385 | 1,393,464 |

## 22 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

### (b) Reconciliation of liabilities arising from financing activities (continued)

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 April 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. See Note 2(c).

| | Bank and other loans RMB'000 (Note 24) | Interest payable RMB'000 (Note 23) | Total RMB'000 |
|---|---|---|---|
| **At 1 April 2018** | 1,513,175 | 5,180 | 1,518,355 |
| **Changes from financing cash flows:** | | | |
| Proceeds from new bank and other loans | 733,282 | – | 733,282 |
| Repayment of bank and other loans | (1,197,223) | – | (1,197,223) |
| Other borrowing costs paid | – | (53,359) | (53,359) |
| Total changes from financing cash flows | (463,941) | (53,359) | (517,300) |
| **Exchange adjustments** | 15,370 | – | 15,370 |
| **Other changes:** | | | |
| Interest expenses (Note 6(a)) | – | 37,965 | 37,965 |
| Other finance costs (Note 6(a)) | – | 15,664 | 15,664 |
| Total other changes | – | 53,629 | 53,629 |
| **At 31 March 2019** | 1,064,604 | 5,450 | 1,070,054 |

## 22 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

### (c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following, these amounts relate to lease rentals paid.

| | 2020<br>RMB'000 | 2019<br>RMB'000<br>(Note) |
|---|---|---|
| Within operating cash flows | 8,831 | 31,649 |
| Within financing cash flows | 22,532 | – |
| | 31,363 | 31,649 |

Note: The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach and adjusted the opening balances at 1 April 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the Group as a lessee of RMB31.6 million were classified as operating activities in the consolidated cash flow statement. Under HKFRS 16, except for short-term lease payments, all other rentals paid on leases are now split into capital element and interest element (see Note 22(b)) and classified as financing cash outflows. Under this approach, comparative information is not restated. See Note 2(c).

## 23 TRADE AND OTHER PAYABLES

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Trade payables to: | | |
| – Third parties | 971 | 164,488 |
| – Companies under the control of shareholders of the Company | – | 42,731 |
| | 971 | 207,219 |
| Bills payable (Note (iii)) | 791,999 | 87,124 |
| | 792,970 | 294,343 |
| Amounts due to related companies: | | |
| – Companies under the control of shareholders of the Company (Note (i)) | 764 | 33,500 |
| Accrued charges and other payables: | | |
| – Accrued expenses | 11,666 | 20,999 |
| – Payables for staff related costs | 559 | 48,776 |
| – Deposits from customers and suppliers | | |
| – Third parties | 519 | – |
| – Company under the control of shareholder of the Company | 24,782 | 12,667 |
| – Payables for interest expenses (Note 22(b)) | 9,404 | 5,450 |
| – Payables for miscellaneous taxes | 3,593 | 5,086 |
| – Expected credit loss for financial guarantee granted | 40,560 | – |
| – Payables for acquisition of subsidiaries (Note 13) | 274,260 | – |
| – Others | 10,002 | 23,743 |
| | 375,345 | 116,721 |
| Financial liabilities measured at amortised cost | 1,169,079 | 444,564 |
| Contract liabilities (Note (ii)) | 292,656 | 230,538 |
| | 1,461,735 | 675,102 |

## 23 TRADE AND OTHER PAYABLES (CONTINUED)

Notes:

(i) The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

(ii) The entire contract liabilities balance at the beginning of the year 2019 and 2020 has been recognised as revenue during the year.

(iii) Bills payable of RMB245,499,000 as at 31 March 2020 were due on or before 31 March 2020 but were not yet repaid at the end of the reporting period. Up to the date of approval of these consolidated financial statements, these overdue bills were fully repaid.

All of the trade and other payables are expected to be settled or recognised as revenue within one year or are repayable on demand.

Included in trade and other payables are trade and bills payables with the following ageing analysis (based on the invoice date) as of the end of the reporting period:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Within 1 month | 971 | 135,574 |
| Over 1 month but within 3 months | – | 108,972 |
| Over 3 months but within 6 months | 266,500 | 44,333 |
| Over 6 months | 525,499 | 5,464 |
| | 792,970 | 294,343 |

## 24 BANK AND OTHER LOANS

The Group's bank and other loans are analysed as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| **Bank loans:** | | |
| – Unsecured and guaranteed (Note (iii)) | 57,000 | – |
| – Secured and guaranteed (Notes (ii) and (iv)) | 448,566 | 885,950 |
| | 505,566 | 885,950 |
| **Loans from other financial institutions:** | | |
| – Secured and guaranteed (Note (iii)) | 547,343 | – |
| **Loans from third parties:** | | |
| – Unsecured and unguaranteed | – | 5,448 |
| **Loans from shareholders and companies under the control of shareholders of the Company:** | | |
| – Unsecured and unguaranteed (Note (i)) | 7,766 | 173,206 |
| | 1,060,675 | 1,064,604 |

Notes:

(i) At 31 March 2020, the loans from companies under the control of shareholders of the Company are interest-free (31 March 2019: 0% to 3.78% per annum) and are repayable before February 2021 (31 March 2019: February 2020).

(ii) At 31 March 2020, a bank loan of RMB129,838,000 were due on or before 31 March 2020 but was not yet renewed or repaid at the end of the reporting period. Up to the date of approval of these consolidated financial statements, this bank loan was fully repaid.

(iii) Subsequent to 31 March 2020 and up to the date of approval of these consolidated financial statements, bank and other loans which have fallen due according to the repayment schedule as stated in the loan agreements but have not been renewed or repaid amounted to RMB394,290,000. The renewal of the above loans are under negotiation, subject to approval of the bank and other financial institution.

(iv) At 31 March 2020, the Group failed to fulfill certain covenants of a long-term loan of RMB139,424,000 and the lender has the right to require the Group to repay the loan immediately at any time prior to its original repayment dates. The outstanding loan balance was classified as current liabilities at the end of the reporting period.

(v) Certain bank loans are secured by the leasehold land and buildings and cars of third parties.

## 24 BANK AND OTHER LOANS (CONTINUED)

(a) The Group's bank and other loans are repayable as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Within 1 year or on demand | 1,060,675 | 942,004 |
| After 1 year but within 2 years | – | 80,000 |
| After 2 years but within 5 years | – | 42,600 |
| | – | 122,600 |
| | 1,060,675 | 1,064,604 |

All of the bank and other loans are carried at amortised cost.

(b) Certain of the Group's bank loans from continuing operations are secured by the Group's leasehold land and buildings, investment properties and trade receivables. The aggregate carrying values of the leasehold land and buildings, investment properties and trade receivables pledged are analysed as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| **Pledged for bank loans:** | | |
| Leasehold land and buildings | 67,675 | 174,540 |
| Investment properties | 1,541,547 | 756,650 |
| Trade receivables | – | 3,300 |
| | 1,609,222 | 934,490 |

(c) At 31 March 2020, the Group's banking facilities amounted to RMB1,199,000,000 (31 March 2019: RMB50,000,000) were utilised to the extent of RMB1,064,671,000 (31 March 2019: RMB47,655,000).

## 25 LEASE LIABILITIES

The remaining contractual maturities of the Group's lease liabilities at the end of the current reporting period and at the date of transition to HKFRS 16 are as follows:

| | At 31 March 2020 | | At 1 April 2019 | |
|---|---|---|---|---|
| | Present value of the minimum lease payments RMB'000 | Total minimum lease payments RMB'000 | Present value of the minimum lease payments RMB'000 | Total minimum lease payments RMB'000 |
| Within 1 year | – | – | 25,433 | 25,987 |
| After 1 year but within 2 years | – | – | 19,649 | 21,286 |
| After 2 years but within 5 years | – | – | 16,394 | 19,696 |
| After 5 years | – | – | 10,229 | 15,416 |
| | – | – | 46,272 | 56,398 |
| | – | – | 71,705 | 82,385 |
| Less: total future interest expenses | | – | | (10,680) |
| Present value of lease liabilities | | – | | 71,705 |

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 April 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 March 2019 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in Note 2(c).

## 26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**(a) Movements in current taxation in the consolidated statement of financial position are as follows:**

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Balance of income tax payable at 1 April | 20,332 | 17,318 |
| Additions through acquisition of subsidiaries (Note 13) | 33,437 | – |
| Provision for income tax for the year | 66,478 | 60,039 |
| Over-provision in respect of prior years | (191) | (446) |
| Income tax paid | (62,242) | (56,579) |
| Reclassified as liabilities of disposal groups classified as held for sale (Note 12(c)) | (30,637) | – |
| Balance of income tax payable at 31 March | 27,177 | 20,332 |

## 26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

### (b) Deferred tax assets and liabilities recognised:

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

| | Assets | | | | | | | Liabilities | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Deferred tax arising from: | Unused tax losses RMB'000 | Accrued operating lease expenses RMB'000 | Impairment losses on property, plant and equipment RMB'000 | Credit loss allowance RMB'000 | Inventory provision RMB'000 | Accrued expenses RMB'000 | Total RMB'000 | Fair value adjustments on property, plant and equipment and investment properties and related depreciation RMB'000 | Tax allowance in excess of depreciation on property, plant and equipment RMB'000 | Fair value adjustments on other investments RMB'000 | Total RMB'000 |
| At 1 April 2018 | 28,768 | 3,154 | 826 | 297 | – | 230 | 33,275 | (223,339) | (15,922) | (34,924) | (274,185) |
| (Charged)/credited to the consolidated statement of profit or loss | (25,727) | (44) | (54) | 559 | – | – | (25,266) | 16,156 | 315 | 307 | 16,778 |
| Credited to reserves (Note 10) | – | – | – | – | – | – | – | – | – | 23,823 | 23,823 |
| At 31 March 2019 | 3,041 | 3,110 | 772 | 856 | – | 230 | 8,009 | (207,183) | (15,607) | (10,794) | (233,584) |
| Addition through acquisition of subsidiaries (Note 13) | 5,861 | – | – | 14,678 | – | – | 20,539 | (354,961) | (4,504) | – | (359,465) |
| Credited/(charged) to the consolidated statement of profit or loss | 5,875 | (50) | 8,919 | 7,232 | 3,054 | – | 25,030 | 30,857 | 2,738 | (2,124) | 31,471 |
| Charged to reserves (Note 10) | – | – | – | – | – | – | – | – | – | (47,568) | (47,568) |
| Written back from disposal of the subsidiary | – | – | – | – | – | – | – | – | – | 57,375 | 57,375 |
| Classified as (assets)/liabilities of disposal groups held for sale (Note 12(c)) | – | (3,060) | (9,691) | (837) | – | (230) | (13,818) | 184,283 | 12,421 | 3,111 | 199,815 |
| At 31 March 2020 | 14,777 | – | – | 21,929 | 3,054 | – | 39,760 | (347,004) | (4,952) | – | (351,956) |
| Set-off of deferred tax assets and liabilities pursuant to set-off provision | | | | | | | (36,706) | | | | 36,706 |
| Net deferred tax assets/liabilities | | | | | | | 3,054 | | | | (315,250) |

## 26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

### (c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(t), the Group has not recognised deferred tax assets in respect of unused tax losses arising from certain subsidiaries of the Group of RMB441,000 (31 March 2019: RMB94,568,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Except for the amount of RMBNil (31 March 2019: RMB80,371,000) which will not expire under the relevant tax legislation, the remaining unused tax losses at 31 March 2020 will expire on or before 31 December 2025.

### (d) Deferred tax liabilities not recognised

At 31 March 2020, temporary differences relating to the undistributed profits of certain subsidiaries of the Group established in the PRC amounted to RMB189,714,000 (31 March 2019: RMB1,815,559,000). Deferred tax liabilities of RMB9,486,000 (31 March 2019: RMB90,778,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

## 27 CAPITAL, RESERVES AND DIVIDENDS

### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

## 27 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(a) Movements in components of equity (continued)

The Company

| | Share capital RMB'000 (Note 27(c)) | Share premium RMB'000 (Note 27(d)(i)) | Capital redemption reserve RMB'000 (Note 27(d)(i)) | Contributed surplus RMB'000 (Note 27(d)(iii)) | Exchange reserve RMB'000 (Note 27(d)(iv)) | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **At 1 April 2018** | 49,074 | 636,173 | 1,341 | 226,796 | (20,648) | (1,524,964) | (632,228) |
| **Changes in equity for the year ended 31 March 2019:** | | | | | | | |
| Profit and total comprehensive income | – | – | – | – | – | 62,409 | 62,409 |
| Issuance of ordinary shares on acquisition of subsidiaries (Note 27(c)) | 16,420 | 1,707,650 | – | – | – | – | 1,724,070 |
| | 16,420 | 1,707,650 | – | – | – | 62,409 | 1,786,479 |
| **At 31 March 2019 and 1 April 2019** | 65,494 | 2,343,823 | 1,341 | 226,796 | (20,648) | (1,462,555) | 1,154,251 |
| **Changes in equity for the year ended 31 March 2020:** | | | | | | | |
| Loss and total comprehensive income | – | – | – | – | – | (298,597) | (298,597) |
| Issuance of ordinary shares on acquisition of subsidiaries (Note 27(c)) | 4,394 | 347,167 | – | – | – | – | 351,561 |
| Waiver of payable by subsidiaries | – | – | – | – | – | 509,824 | 509,824 |
| | 4,394 | 347,167 | – | – | – | 211,227 | 562,788 |
| **At 31 March 2020** | 69,888 | 2,690,990 | 1,341 | 226,796 | (20,648) | (1,251,328) | 1,717,039 |

## 27 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

### (b) Dividends

The directors of the Company did not recommend the payment of a final dividend for the year ended 31 March 2020 (2019: RMBNil).

### (c) Share capital

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | No. of shares '000 | HK$'000 | No. of shares '000 | HK$'000 |
| **Authorised:** | | | | |
| Ordinary shares at HK$0.01 each | 10,000,000 | 100,000 | 10,000,000 | 100,000 |

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | No. of shares '000 | RMB'000 | No. of shares '000 | RMB'000 |
| **Ordinary shares, issued and fully paid:** | | | | |
| At 1 April | 7,544,020 | 65,494 | 5,678,038 | 49,074 |
| Issuance of ordinary shares on acquisition of subsidiaries (Note 27(c)) | 500,000 | 4,394 | 1,865,982 | 16,420 |
| At 31 March | 8,044,020 | 69,888 | 7,544,020 | 65,494 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

## 27 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (continued)

On 28 September 2018, the Company issued 1,865,981,820 new ordinary shares to Mighty Mark Investments Limited ("Mighty Mark") as the third tranche consideration shares ("Tranche C consideration shares") for acquisition of 100% equity interests in Mega Convention Group Limited ("Mega Convention") from Mighty Mark, at a price of HK$1.05 each (determined based on the closing price of the Company's ordinary shares on the Stock Exchange on 28 September 2018). HK$18,660,000 (equivalent to approximately RMB16,420,000) of the deemed proceeds from the Tranche C consideration shares were credited to the Company's share capital. The remaining deemed proceeds from the Tranche C consideration shares of HK$1,940,621,000 (equivalent to approximately RMB1,707,650,000) were credited to the Company's share premium account.

On 8 August 2019, the Company issued 500,000,000 new ordinary shares to the Vendor for acquisition of 100% equity interests in Robust from the Vendor as disclosed in Note 13. The fair value of the ordinary shares issued is determined based on the closing price on the acquisition date (31 July 2019) of HK$0.8 per share.

(d) Nature and purpose of reserves

*(i) Share premium and capital redemption reserve*

The application of the share premium and capital redemption reserve accounts is governed by Section 40 and Section 42A of the Bermuda Companies Act 1981, respectively.

*(ii) Statutory reserves*

In accordance with the articles of association of the subsidiaries of the Group established in the PRC, these subsidiaries were required to set up certain statutory reserves, which were non-distributable. The statutory reserves can only be utilised for predetermined means upon approval by the relevant authority.

## 27 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

### (d) Nature and purpose of reserves (continued)

*(iii) Contributed surplus*

The contributed surplus of the Group represented the difference between the nominal value of the aggregate share capital of the subsidiaries at the date on which they were acquired by the Group and the nominal value of the Company's shares issued as consideration for the acquisition took place during a reorganisation of the Group in 1995.

Pursuant to a resolution passed by the Directors of the Company on 16 December 2015, the Company proposed to transfer full amount from share premium accounts to contributed surplus accounts of the Company.

Upon completion of the above transfer, which was approved by the equity shareholders of the Company at the Company's Special General Meeting on 15 February 2016, an amount of HK$715.3 million (equivalent to approximately RMB580.2 million) was transferred from share premium accounts to contributed surplus accounts of the Company.

*(iv) Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations which have a functional currency other than RMB into RMB. The reserve is dealt with in accordance with the accounting policy set out in Note 2(w).

*(v) Fair value reserve (non-recycling)*

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investment designated at FVOCI under HKFRS 9 that is held at the end of the reporting period and is dealt with in accordance with the accounting policies set out in Note 2(h).

*(vi) Other reserve*

The balance of other reserve represents the difference between the consideration paid and the carrying values of the non-controlling interests of New JoySun Supermarket acquired by the Group in April 2016.

## 27 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

### (e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes bank and other loans, and trade and other payables) plus unaccrued proposed dividends/distributions, less cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends/distributions.

During 2020, the Group's strategy was to maintain the adjusted net debt-to-capital ratio at a stable level. In order to improve the Group's capital structure, the Group may adjust the amount of dividends/distributions paid to equity shareholders, issue new shares, raise new debt financing or sell assets to reduce debt.

The Group's adjusted net debt-to-capital ratio at 31 March 2020 and 2019 was as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Trade and other payables | 1,945,073 | 675,102 |
| Bank and other loans | 2,406,269 | 1,064,604 |
| Lease liabilities | 52,598 | – |
| Promissory note | 323,385 | – |
| Total debts | 4,727,325 | 1,739,706 |
| Less: Cash and cash equivalents | (586,112) | (164,381) |
| Adjusted net debt | 4,141,213 | 1,575,325 |
| **Total equity and adjusted capital** | 2,647,172 | 2,312,327 |
| **Adjusted net debt-to-capital ratio** | 156% | 68% |

## 28 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the balances and transactions disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions (for both continuing and discontinued operations):

### (a) Transactions with companies under the control of shareholders of the Company

| | Note | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|---|
| Sales of goods | | 2,797 | 2,457 |
| Rental income from operating leases | | 39 | – |
| Services income from operating leases | | 39 | – |
| Purchase of goods | | 175,601 | 771,457 |
| Import and export handling charges | | 5,713 | 4,535 |
| Rental payment | | 13,529 | 13,843 |
| Interest expenses | (i) | 1,726 | 232 |
| Net increase in non-interest bearing advances received from related parties | (ii) | 90,140 | 3,038 |
| Net increase in loans received from related parties | (iii) | 22,798 | 13,691 |

Notes:

(i) Interest expenses represented interest charges on loans received from related parties.

(ii) The amounts are unsecured and have no fixed terms of repayment.

(iii) The loans are unsecured, bear interest ranging from 0% to 7.00% (2019: 0% to 3.78%) per annum and are repayable before February 2021 (2019: February 2020).

The Group's bank loans of RMB1,053 million as at 31 March 2020 (2019: RMB49 million) were guaranteed by shareholders of the Company, directors of the Company, close family members of a shareholder of the Company and/or companies under the control of shareholders of the Company.

(b) During the year ended 31 March 2020, the Group recognised sales agency fee of RMB2,175,000 from a customer which has common management personnel with a subsidiary of the Group.

### (c) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 8 and the highest paid employees as disclosed in Note 9, is as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Short-term employee benefits | 6,033 | 5,151 |
| Contributions to defined contribution retirement plans | 123 | 118 |
| | 6,156 | 5,269 |

Total remuneration is included in "staff costs" (see Note 6(b)) and "(loss)/profit for the year from discontinued operations".

## 29 COMMITMENTS

### (a) Capital commitments

At 31 March 2020, the outstanding capital commitments of the Group not provided for in the consolidated financial statements were as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Commitments in respect of plant and machinery | | |
| – Contracted for | 85 | 115 |

### (b) Operating lease commitments

At 31 March 2019, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | 2019<br>RMB'000 |
|---|---|
| Within 1 year | 23,617 |
| After 1 year but within 5 years | 29,995 |
| After 5 years | 14,066 |
| | 67,678 |

The Group is the lessee in respect of a number of properties under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 April 2019 to recognise lease liabilities relating to these leases (see Note 2(c)). From 1 April 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in Note 25.

## 30 CONTINGENT LIABILITIES

### (a) Assets pledged

At 31 March 2019, the Group pledged certain leasehold land and buildings and investment properties to secure bank loans borrowed by a company under the control of a shareholder of the Company. The carrying values of the leasehold land and buildings and investment properties are analysed as follows:

| | 2019<br>RMB'000 |
|---|---|
| Leasehold land and buildings | 3,191 |
| Investment properties | 14,400 |
| | 17,591 |

As at the end of the reporting period, the directors of the Company do not consider it probable that a claim will be made against the Group under the pledge. The exposure of the Group at 31 March 2019 under the pledge is RMB18,000,000, being the aggregate principal amount of the bank loans drawn by a related company of the Group.

### (b) Financial guarantees issued

During the year ended 31 March 2020, the Group has guaranteed the banking facilities of some major customers.

At 31 March 2020, the directors of the Group do not consider it probable that a claim will be made against the Group under the guarantees. The exposure of the Group at 31 March 2020 under the guarantees is approximately RMB2,187 million, being the aggregate banking facilities granted to third party customers of the Group by banks.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group considers its exposure to equity price risk arising from its equity investments in other entities to be insignificant.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables and non-equity investments. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivables is limited because the counterparties are banks and financial institutions with high credit standing, for which the Group considers to have low credit risk.

In respect of non-equity investments, the Group's strategy is to place the investments with well-known funds management companies or financial institutions. Accordingly, the Group considers its exposure to credit risk to be low in this respect.

Except for the pledges of certain of the Group's properties for bank loans drawn by a related company and the financial guarantees given by the Group as set out in Note 30, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these pledges is disclosed in Note 30.

*Trade and other receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and debtor rather than the industry or country in which the customers and debtors operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers and debtors. At 31 March 2020, 24.4% (31 March 2019: 19.6%) and 73.7% (31 March 2019: 63.7%) of the total trade and bills receivables was due from the Group's largest trade debtor and the five largest trade debtors respectively.

Individual credit evaluations are performed on all customers and debtors requiring credit over a certain amount. These evaluations focus on the customer's and debtor's past history of making payments when due and current ability to pay, and take into account information specific to the customer and debtor as well as pertaining to the economic environment in which the customer and debtor operates. Credit terms of up to six months from the date of billing for certain business or separately negotiated repayment schedules may be granted to customers and debtors, depending on credit assessment carried out by management on an individual customer basis. Normally, the Group does not obtain collateral from customers and debtors.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

### (a) Credit risk (continued)

*Trade and other receivables (continued)*

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.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 March 2020:

| | 2020 | | |
|---|---|---|---|
| | Expected loss rate % | Gross carrying amount RMB'000 | Loss allowance RMB'000 |
| Current (not past due) | 0.20% | 152,554 | (313) |
| 1 – 30 days past due | 0.26% | 7 | (0) |
| 31 – 90 days past due | 0.63% | 14 | (0) |
| More than 90 days past due | 99.67% | 21,247 | (21,176) |
| | | 173,822 | (21,489) |

| | 2019 | | |
|---|---|---|---|
| | Expected loss rate % | Gross carrying amount RMB'000 | Loss allowance RMB'000 |
| Current (not past due) | 0.40% | 254,620 | (1,029) |
| 1 – 30 days past due | 2.29% | 9,299 | (213) |
| 31 – 90 days past due | 11.44% | 4,562 | (522) |
| More than 90 days past due | 31.70% | 3,483 | (1,104) |
| | | 271,964 | (2,868) |

Expected loss rates are based on actual loss experience adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

### (a) Credit risk (continued)

*Trade and other receivables (continued)*

Movement in the loss allowance account in respect of trade and other receivables during the year are as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Adjusted balance at 1 April | 9,761 | 7,648 |
| Decrease from disposal of a subsidiary | (6,200) | – |
| Addition through acquisition of subsidiaries | 24,689 | – |
| Impairment losses recognised during the year | | |
| – Continuing operations | 22,481 | – |
| – Discontinued operations | 219 | 2,113 |
| Reclassified as assets of disposal group classified as held for sale | (3,780) | – |
| At 31 March | 47,170 | 9,761 |

### (b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, 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 the reporting period) and the earliest dates the Group can be required to pay.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

### (b) Liquidity risk (continued)

For the bank loan subject to repayment on demand clauses which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the contractual repayment schedule and, separately, the impact to the timing of the cash outflows if the bank was to invoke its unconditional rights to call the loan with immediate effect.

| | 2020 Contractual undiscounted cash outflow | | | | |
|---|---|---|---|---|---|
| **Continuing operations** | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | Total RMB'000 | Carrying amount at 31 March RMB'000 |
| Trade and other payables measured at amortised cost | 1,169,079 | – | – | 1,169,079 | 1,169,079 |
| Bank and other loans | 943,293 | 54,129 | 100,021 | 1,097,443 | 1,060,675 |
| Promissory note | – | – | 365,680 | 365,680 | 323,385 |
| | 2,112,372 | 54,129 | 465,701 | 2,632,202 | 2,553,139 |
| Adjustments to disclose cash flows on bank loans based on lender's right to demand repayment | 139,740 | (54,129) | (100,021) | (14,410) | |
| | 2,252,112 | – | 365,680 | 2,617,792 | |

| | 2019 Contractual undiscounted cash outflow | | | | |
|---|---|---|---|---|---|
| | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | Total RMB'000 | Carrying amount at 31 March RMB'000 |
| Trade and other payables measured at amortised cost | 444,564 | – | – | 444,564 | 444,564 |
| Bank and other loans | 966,314 | 87,193 | 43,968 | 1,097,475 | 1,064,604 |
| | 1,410,878 | 87,193 | 43,968 | 1,542,039 | 1,509,168 |

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from interest bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period.

| | 2020 | | 2019 | |
|---|---|---|---|---|
| **Continuing operations** | Effective interest rate % | RMB'000 | Effective interest rate % | RMB'000 |
| **Fixed rate borrowings:** | | | | |
| Bank and other loans | 9.79% | 1,060,675 | 5.06% | 1,064,604 |
| **Fixed rate borrowings as a percentage of total borrowings** | | 100% | | 100% |

(d) Currency risk

The Group is exposed to currency risk primarily through sales, purchases, borrowings and business combination which give rise to receivables, payables, loans, promissory notes, lease liabilities and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily US$, RMB, HK$, CAD and EUR. The Group manages this risk as follows:

*(i) Recognised assets and liabilities*

In respect of receivables, payables and borrowings denominated in foreign currencies, the Group ensures that the exposure is kept to an acceptable level, by buying and selling foreign currencies at spot rates where necessary to address short-term imbalances.

*(ii) Exposure to currency risk*

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rates at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk (continued)

*(ii) Exposure to currency risk (continued)*

| **From continuing operations** | 2020 Exposure to foreign currencies | |
|---|---|---|
| | US$ RMB'000 | HK$ RMB'000 |
| Cash and cash equivalents | 76 | 209 |
| Trade and other payables | – | (280,516) |
| Bank and other loans | – | (7,766) |
| Promissory notes | – | (323,385) |
| Lease liabilities | – | (253) |
| Gross exposure arising from recognised assets and liabilities | 76 | (611,711) |

| **From continuing operations and discontinued operations** | 2019 Exposure to foreign currencies | |
|---|---|---|
| | US$ RMB'000 | HK$ RMB'000 |
| Cash and cash equivalents | 541 | 5,046 |
| Trade and other payables | – | (8,905) |
| Bank and other loans | (5,448) | (173,206) |
| Gross exposure arising from recognised assets and liabilities | (4,907) | (177,065) |

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

### (d) Currency risk (continued)

*(iii) Sensitivity analysis*

The following table indicates the instantaneous change in the Group's results after tax and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between HK$ and US$ would be materially unaffected by any changes in movement in value of the US$ against other currencies.

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Increase/ (decrease) in foreign exchange rates | (Increase)/ decrease in loss after tax and (increase)/ decrease in accumulated losses RMB'000 | Increase/ (decrease) in foreign exchange rates | (Decrease)/ increase in profit after tax and (increase)/ decrease in accumulated losses RMB'000 |
| US$ | 10% | 8 | 10% | (491) |
| | (10%) | (8) | (10%) | 491 |
| HK$ | 10% | (61,171) | 10% | (17,707) |
| | (10%) | 61,171 | (10%) | 17,707 |

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' results after tax and retained profits measured in the respective functional currencies, translated into RMB at the exchange rates ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis as 2019.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

### (e) Fair value measurement

*(i) Financial assets and liabilities measured at fair value*

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 HKFRS 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 disclosed in Note 15.

| Continuing operations | Fair value at 31 March 2020 RMB'000 | Fair value measurements as at 31 March 2020 categorised into level 3 RMB'000 | Fair value at 31 March 2019 RMB'000 | Fair value measurements as at 31 March 2019 categorised into level 3 RMB'000 |
|---|---|---|---|---|
| **Recurring fair value measurements** | | | | |
| Non-equity investments (Note 18) | – | – | 786,758 | 786,758 |
| Equity Investment (Note 18) | – | – | 109,420 | 109,420 |

Information about Level 3 fair value measurements

| | 2019 | | |
|---|---|---|---|
| | **Valuation techniques** | **Significant unobservable inputs** | **Range** |
| Non-equity investments | Discounted cash flow model | Discount rate | 4.5%-6.4% |
| Equity investment | Market comparable companies | Discount for lack of marketability | 24.0% |

The fair value of non-equity investments is determined using the discounted cash flow model and the significant unobservable input used in the fair value measurement is discount rate, ranged from 4.5% to 6.4% for the year end 31 March 2019. The fair value measurement is negatively correlated to the discount rate. As at 31 March 2019, it is estimated that with all other variables held constant, an increase/decrease in the discount rate by 5% would have decreased/increased the Group's profit after tax by RMB1,104,000.

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

### (e) Fair value measurement (continued)

*(i) Financial assets and liabilities measured at fair value (continued)*

Fair value hierarchy (continued)

The fair value of equity investment is determined using the enterprise value/earnings before interests and taxes ratio of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability. As at 31 March 2019, it is estimated that with all other variables held constant, a decrease/increase in discount for lack of marketability by 5% would have increased/decreased the Group's other comprehensive income by RMB1,727,000.

The movements during the year in the balance of the Level 3 fair value measurement are as follow:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Unlisted non-equity investments: | | |
| At 1 April | 786,758 | 766,075 |
| Payment for purchases | 1,078,910 | 132,800 |
| Changes in fair value recognised in profit during the year | 8,495 | (1,227) |
| Proceeds from sales | (782,800) | (110,890) |
| Reclassified as assets of disposal group classified as held for sale | (1,091,363) | – |
| At 31 March | – | 786,758 |

The unlisted equity investment has been disposed of through the disposal of the subsidiary holding the equity investment during the year ended 31 March 2020. The change in fair value of the unlisted equity investment, net off tax, has been recognised in other comprehensive income and accumulated in the fair value reserve (non-recycling). Upon disposal of the subsidiary holding the equity investment, the amount accumulated in fair value reserve (non-recycling) is transferred directly to accumulated losses.

*(ii) Fair value of financial assets and liabilities carried at other than fair value*

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 March 2020 and 2019.

## 32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

At 31 March 2020
(Expressed in RMB)

| | Note | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | 228 | 105 |
| Investments in subsidiaries | | 2,323,080 | 2,077,298 |
| | | 2,323,308 | 2,077,403 |
| **Current assets** | | | |
| Other receivables | | 8,755 | 602 |
| Cash and cash equivalents | | 262 | 5,039 |
| | | 9,017 | 5,641 |
| **Current liabilities** | | | |
| Other payables | | 284,135 | 750,139 |
| Bank and other loans | | 7,766 | 178,654 |
| | | 291,901 | 928,793 |
| **Net current liabilities** | | (282,884) | (923,152) |
| **Non-current liabilities** | | | |
| Long-term payables | | 323,385 | – |
| **NET ASSETS** | | 1,717,039 | 1,154,251 |
| **CAPITAL AND RESERVES** | 27 | | |
| Share capital | | 69,888 | 65,494 |
| Reserves | | 1,647,151 | 1,088,757 |
| **TOTAL EQUITY** | | 1,717,039 | 1,154,251 |

(Expressed in RMB unless otherwise indicated)

## 33 COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

The comparative consolidated statement of profit or loss has been re-presented as the manufacturing and trading segment, retail segment, wholesale segment and investments holding segment were classified as discontinued operations during the year (Note 12).

## 34 IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors of the Company consider that the Company has no controlling shareholder at 31 March 2020 as no shareholder holds over half of the Company's ordinary shares.

## 35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2020 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| Amendments to HKFRS 3, *Definition of a business* | 1 January 2020 |
| Amendments to HKAS 1 and HKAS 8, *Definition of material* | 1 January 2020 |
| Amendments to HKFRS 16, *COVID-19-Related Rent Concessions* | 1 June 2020 |

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

# SCHEDULE OF INVESTMENT PROPERTIES

Details of the principal investment properties of the Group as at 31 March 2020 are as follows:

| Location | Use |
|---|---|
| *Property Interests for Investment (For Continuing Operation)* | |
| Tianjin Binhai International Automobile City, No. 86 Tianbao Avenue, Binhai New District, Tianjin, The PRC | A vehicle convention and logistics for rental |
| Cali Building, No. 188 Tianbao Avenue, Binhai New District, Tianjin, The PRC | A office cum retail for rental |
| *Property Interests for Investment (For Discontinued Operation)* | |
| JoySun Department Store Jiangdong, Nos. 301-305 East Zhongshan Road, Jiangdong District, Ningbo, Zhejiang Province, The PRC | A partial portion of the shopping arcade for rental |
| Lisi Department Store Xiangshan, No. 165 Jianshe Road, Dandong Street, Xiangshan County, Ningbo, Zhejiang Province The PRC | A partial portion of the shopping arcade for rental |
| A portion of New JoySun Supermarket Jiangshan, No. 26 Renmin Road, Jiangshan Town, Yinzhou District, Ningbo, Zhejiang Province, The PRC | A partial portion of the shopping arcade for rental |
| A portion of New JoySun Supermarket Hengxi, Renmin Road, Hengxi Town, Yinzhou District, Ningbo, Zhejiang Province, The PRC | A partial portion of the shopping arcade for rental |

# SCHEDULE OF INVESTMENT PROPERTIES

| Location | Use |
| --- | --- |
| New JoySun Supermarket Gaoqiao Warehouse, Gaofeng Village, Gaoqiao Town, Yinzhou District, Ningbo, Zhejiang Province, The PRC | A partial portion of the shopping arcade for rental |
| A portion of New JoySun Supermarket Gaoqiao, Gaofeng Village, Gaoqiao Town, Yinzhou District, Ningbo, Zhejiang Province, The PRC | A partial portion of the shopping arcade for rental |
| A portion of New JoySun Supermarket Dongwu, Dong Village, Dongwu Town, Yinzhou District, Ningbo, Zhejiang Province, The PRC | A partial portion of the shopping arcade for rental |
| New JoySun Supermarket Dasong, Xicheng Village, Zhanqi Town, Yinzhou District, Ningbo, Zhejiang Province, The PRC | A partial portion of the shopping arcade for rental |
| A portion of New JoySun Supermarket Yunlong, No. 1100 Qifa Commercial Plaza, Yunlong Town, Yinzhou District, Ningbo, Zhejiang Province, The PRC | A partial portion of the shopping arcade for rental |

*Note:* All the investment properties disclosed above are held on long-term lease.

# 5-YEAR FINANCIAL SUMMARY

(Expressed in RMB unless otherwise indicated)

## GENERAL INFORMATION

The consolidated results and the assets and liabilities of the Group of the last five financial years, as extract from the Group's published audited accounts and reclassified as appropriate, are set as below:

| | 2020 | 2019 (Restated) | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Continuing operations:** | | | | | |
| Revenue | 1,183,976 | 2,729,867 | 3,885,647 | 1,239,692 | 1,085,709 |
| (Loss)/profit before taxation | (112,698) | 215,931 | (899,067) | (646,436) | (279,808) |
| Income tax | 15,850 | (38,932) | (39,925) | (10,322) | 304,820 |
| (Loss)/profit for the year from continuing operations | (96,848) | 176,999 | (938,992) | (656,758) | 25,012 |
| **Discontinued Operations** | | | | | |
| (Loss)/profit from discontinued operations | (57,610) | 33,701 | – | – | – |
| (Loss)/profit for the year attributable to equity shareholders of the Company | (154,458) | 210,700 | (938,992) | (656,758) | 25,012 |
| Assets and liabilities | | | | | |
| Total assets | 7,947,376 | 4,305,949 | 4,680,833 | 4,037,758 | 3,561,758 |
| Total liabilities | (5,300,204) | (1,993,622) | (4,326,655) | (2,883,672) | (1,821,973) |
| Net assets | 2,647,172 | 2,312,327 | 354,178 | 1,154,086 | 1,739,785 |

Note: The Group discontinued the operation of manufacturing and trading segment, retail segment, wholesale segment and investments holding segment during the year ended 31 March 2020. The comparative figures for the year 2019 have been restated accordingly.

CHINA AUTOMOBILE NEW RETAIL (HOLDINGS) LIMITED
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