CHINA ZHENGTONG AUTO SERVICES HOLDINGS LIMITED

中國正通汽車服務控股有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)
(根據開曼群島法律註冊成立的有限公司)

Stock Code 股份代號：1728

ANNUAL REPORT 2019 年報

CONTENTS

COMPANY PROFILE

China ZhengTong Auto Services Holdings Limited

China ZhengTong Auto Services Holdings Limited (the "**Company**" or "**ZhengTong**" or "**ZhengTong Auto**", and together with its subsidiaries, the "**Group**") is the leading 4S dealership group in China focusing on dealership of luxury and ultra-luxury branded automobiles such as Porsche, Mercedes-Benz, BMW, Audi, Jaguar and Land Rover, Volvo, Infiniti and Cadillac. The Group also operates dealership stores of middle market brands, such as FAW Volkswagen, Buick, Nissan, Toyota, Honda and Hyundai.

The Group has developed a forward-looking strategic network covering developed regions and fast growing provinces in China so as to lay down a solid foundation for rapid growth of the Group in the future. As at 31 December 2019, we operated 135 dealership outlets in 41 cities across 17 provinces and municipalities nationwide not only covering the developed automobile market of some of the affluent first-tier and capital cities, but also effectively expanding to second and third-tier cities and regions with rapid growth and low automobile penetration.

The Group has endeavored to provide our customers with the most superior automobile sales and after-sale services. The provision of comprehensive automobile solutions and the adoption of customer-oriented business model allow the Group to facilitate its long-term relationship with customers. To address growing demand in automobile market, the Group has also strengthened its after-sale services with an aim to deliver its customers high quality services in a rapid manner. The Group's supply chain business has been complementary to its automobile dealership and after-sale services business. Meanwhile, the Group has been exerting efforts in the development of its automobile financial services, financial leasing, insurance brokerage and other financial business, in order to complete the strategic transformation of the Group's business operation for achieving its goal of sustainable healthy growth.

FIVE YEARS' FINANCIAL SUMMARY

RESULTS

	2015	2016	2017	2018	2019
(RMB'000)					
Revenue	29,361,499	31,519,255	35,474,325	37,455,510	**35,137,794**
Profit before taxation	921,779	790,798	1,753,791	1,889,488	**1,163,064**
Income tax	(293,117)	(282,439)	(542,329)	(634,706)	**(396,359)**
Profit for the year	628,662	508,359	1,211,462	1,254,782	**766,705**
Attributable to:					
Equity shareholders of the Company	618,530	493,282	1,190,795	1,224,065	**663,862**
Non-controlling interests	10,132	15,077	20,667	30,717	**102,843**
	628,662	508,359	1,211,462	1,254,782	**766,705**

ASSETS AND LIABILITIES

	2015	2016	2017	2018	2019
(RMB'000)					
Total assets	23,679,650	27,728,910	36,939,130	44,199,218	**44,857,974**
Total liabilities	(14,990,312)	(18,786,749)	(26,585,498)	(31,873,772)	**(31,217,677)**
	8,689,338	8,942,161	10,353,632	12,325,446	**13,640,297**
Equity attributable to equity shareholders of the Company	8,588,632	8,858,331	10,200,811	12,143,276	**12,418,268**
Non-controlling interests	100,706	83,830	152,821	182,170	**1,222,029**
	8,689,338	8,942,161	10,353,632	12,325,446	**13,640,297**

PERSEVERANCE AND DETERMINATION

SPARE PARTS

SALES

Being determined to become the world's top automobile integrated services supplier

SURVEY

SERVICE

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

In 2019, the complicated market conditions witnessed a significant increase in domestic and international risks and challenges. In face of such conditions, China's overall economic performance remained stable with the preliminary audited gross domestic product at a year-to-year growth rate of 6.1%. In line with the steady improvement in development quality, the development level embraced a new height, evidenced by actual increases of 5.8% and 5.5% in per capita household disposable income and per capita consumer spending, respectively. Furthermore, the total retail sales of consumer goods in 2019 saw an improvement of 8.0% as compared to the previous year.

According to the China Association of Automobile Manufacturers, the sales of passenger vehicles reached 21,440,000 units in 2019, representing a decrease of 9.6% as compared to the previous year. Overall sales of new automobiles remained at a low level. Driven by the ongoing upgrade trend due to vehicle consumption upgrade in the domestic market, the luxury-branded automobile market maintained a rapid growth trajectory. In 2019, the accumulated sales of major luxury-branded automobiles grew by 6.5% on a year-to-year basis to 2.98 million units, with an increase in the market share to 14.1% from 12.5% in 2018. With the intensifying competition of the market of the luxury-branded automobiles, however, performance of brands started to differentiate. In respect of the major brands under the Group's dealership, the sales volume of BMW brand (including MINI) in China was 724,000 units in 2019, representing an increase of 13.1% as compared to the previous year; the sales volume of Volvo brand in China was 155,000 units in 2019, representing an increase of 18.7% as compared to the previous year; the sales volume of Audi brand in China was 689,000 units in 2019, representing an increase of 4.2% as compared to the previous year; the sales volume of Benz brand (including Smart) in China was 702,000 units in 2019, representing an increase of 4.0% as compared to the previous year; the sales volume of Porsche brand in China was 87,000 units in 2019, representing an increase of 8.0% as compared to the previous year; the sales volume of Jaguar and Land Rover brand in China was 112,000 units in 2019, representing a decrease of 2.4% as compared to the previous year.

The Group acts as a core dealer of various luxury automobile brands in China. Through close cooperation with major luxury automobile manufacturers, the Group has promptly grasped the opportunities to create customer values arising from the latest industry trend and changes in consumer preference to constantly improve its existing services and explore innovative services. In the meantime, the Group invested in network technologies and cloud-based platforms by fully identifying and tapping into customer data resources to engage in active exploration of innovative service models.

While improving traditional services such as automobile sales, repair, maintenance, sales of accessories, and insurance services, the Group made full use of its resource advantages and business development capability to develop new businesses. In particular, the introduction of financial services business had made a significant progress that financial cooperation with manufacturers was strengthened to offer customers with more personalized and competitive financial service products, which rendered strong support for the growth of the sales of new and pre-owned automobiles, financial leasing, and other areas. In the meantime, the Group remained committed to improving a comprehensive auto finance technology platform to further optimize the financial technology ("**Fintech**") aspect of online automobile finance, as well as to achieve service convenience for online and offline integrated businesses. This further consolidated the Group's differentiated strengths in automobile finance, enhancing the customer service experience.

According to the National Economic and Social Development Statistics Bulletin in 2019, as at the end of the year, the number of registered civilian vehicles in China was 261,500,000 units, among which, the number of registered private vehicles increased by 19,050,000 units to 226,350,000 units, representing an increase of 9.2% as compared to the previous year. The rapid growing number of private vehicles provided an enormous room of development for the automobile service market, including maintenance and repair, insurance services and automobile replacement. In the meantime, the automobile consumer market has become increasingly mature, with the consumer demands to be customized and diversified. In the future, the automobile service industry is expected to provide comprehensive services focusing more on one-stop solution, high quality experience and customization.

For the purposes of business transformation and service quality improvement, the Group established Zhengtong Academy in 2019, which will provide online and offline training programs focused on expertise improvement, organizational management, and leadership training. Under these programs, our employees will enhance their expertise, service quality and dealership managerial capability, which aimed at providing our customers with more professional, committed and attentive services.

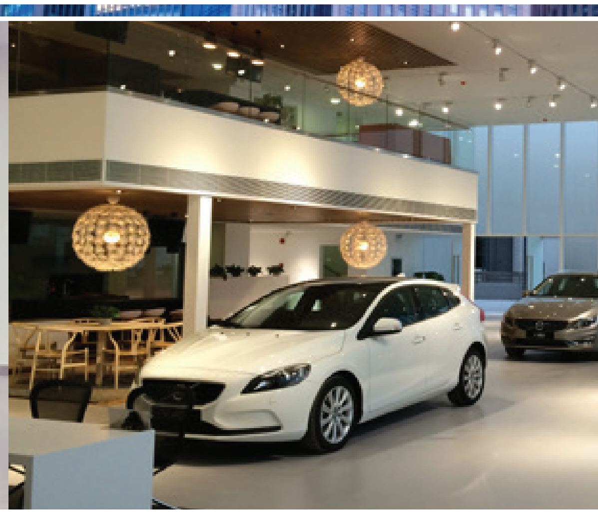
In the future, the Group will continue to persevere with fortitude and faith, incessantly striving to become a world-class provider of comprehensive automobile services. In addition to our ongoing commitments to optimize the brand structure and strategic network, the Group will further upgrade our existing dealership stores and performance capacity, explore new energy vehicle services, and vigorously uncover customer demands. To provide quality, convenient and comprehensive automobile-related services, the Group will introduce various measures, for example, conducting more research on information technology and investments in employee training, the practice of streamlined management to identify the operating capacity of existing stores, provision of systematic training aimed at enhancing employee skills and service quality to improve the profitability of our new stores, further optimization of service processes by innovating service contents and models through utilizing network and platform technologies.

In the challenging 2019, our team demonstrated their great fortitude and commitment, and the Group's remarkable performance was attributable to the dedication of employees as well as the trust and support from its business partners and shareholders. On behalf of the board ("**Board**") of directors ("**Directors**") of the Company, I would like to express my sincere gratitude to our shareholders, business partners and customers for their long-term support and trust, as well as our loyal staff for their hard work and valuable contributions to the Group over the year of 2019.

Wang Muqing
Chairman of the Board
29 April 2020

SINCERE SERVICES

Establishing a top class brand
by providing every customer
with sincere services



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group acts as a core dealer of various luxury and ultra-luxury automobile brands, and a strategic partner that maintains close collaboration with the manufacturers of those luxury automobile brands. The Group keeps abreast of the latest industry trend and market changes, analyses the changes in customers' preference and explores innovative services. Leveraging its diversified brand portfolio, reasonable sales network, comprehensive operation platform and advanced service philosophy, the Group has determined to be a world-class automobile servicing brand.

In 2019, the Group was committed to developing luxury and ultra-luxury auto brand sales and after-sales services, strengthening the upgrade of our existing dealership stores and performance capacity, and expanding the prestigious brand portfolios and the dealership networks of affluent areas. Furthermore, the Group identified and utilized the values of customer data and assets by expediting the development of network information and cloud-based platform technologies. By fully utilizing its advantages in financing and supply chains to strengthen its core competitiveness, the Group continued to optimize its business scope covering the entire life cycle of vehicles from sales of new cars to maintenance and repair, finance and insurance, and automobile replacement and leasing so as to manifest synergies among different business segments. In the meantime, we pursued the practice of streamlined management, optimized the customer service processes, and improved our performance assessment and incentive mechanism so that our operating efficiency was enhanced with lowered operating costs. Driven by the further intensifying competition in the luxury brand market, coupled with our strategic realignment of some brand operations based on market conditions, the results of the Group for 2019 had a slight decrease as compared to last year. For the year ended 31 December 2019, the Group recorded revenue and gross profit of approximately RMB35,138 million and RMB3,818 million, respectively, representing decrease of approximately 6.2% and 14.9% as compared to the corresponding year, respectively. Profit attributable to equity shareholders of the Company was approximately RMB664 million and the basic earnings per share was approximately RMB27.1 cents, representing decrease of approximately 45.8% and approximately 45.7% as compared to the corresponding year, respectively.

(I) Sales of new automobiles business

In 2019, under our prudent brand and network development strategy, we expanded our distribution network for selected luxury and ultra-luxury brands to maintain the proportion of brands with higher profitability. The revenue and profit of Group remained stable. The Group managed to strike a balance between "quantity" and "quality" in the fierce market competition. For the year ended 31 December 2019, the Group recorded sales volume of new automobiles of 103,220 units, representing a year-on-year decrease of approximately 8.3%, including 81,735 units luxury and ultra-luxury branded automobiles with a year-on-year decrease of approximately 5.4%.

During the year, major luxury automobile brands under the Group's dealership, including BMW, Mercedes-Benz, and Porsche, launched new models that offer much more competitive prices in response to the market needs, including the launch of BMW X5 and X7, Benz A-Class and S-Class, Porsche Cayenne, and other new series of luxury brands. This initiative provided the Group with tremendous support to stabilize its profitability. It is expected that the luxury vehicle market will continue to see an intensifying competition. To enhance the overall profitability of new automobile sales, the Group will maintain good collaboration with the automobile manufacturers to improve their rebate rate, and further strengthen our service standard of the extended businesses for sales of new automobiles, including finance and insurance, modification sales, and dealership licensing.

Despite the objective for further improving market share and profitability of new energy vehicles, the Group remains highly conscious of the practices of environmental protection and energy conservation. With our focus on new energy vehicles, we strengthened the promotion and sales of new energy vehicles under our licensed brands, and continued to enhance the sales proportion of new energy vehicles. To better accommodate the market, the Group conducted in-depth research on the automobile market and customers' changing needs, and actively explored new models of automobile retailing. We redoubled our efforts to reform the collection of internet leads of potential customers, carried out marketing and promotion based on market highlights in an attempt to acquire more potential customers, and boosted the telephone and internet marketing capability. With more attractive sales service and product mix in place, the customers' order conversion rate increased.

The Group was committed to utilizing advanced technology. By further developing and applying informationized and intelligent management platform (cloud platform/OMS2.1), we established a data-centric alert mechanism to carry out multi-dimensional analysis, monitor the operation of dealership stores and follow up problems in the course of operation on a real-time basis. By using the intelligent data management system to control the manufacturing quotas and available-for-sales resources in advance, we were able to adjust the sales progress and monitor the changes in inventory vehicles timely. We analyzed and adjusted the inventory structure so to ensure the reasonable scale and structure of new vehicles. As such, utilization of funds on inventories was optimized, utilization efficiency of working capital was improved, and inventory cost was reduced effectively. We also made good use of the internet technology to establish an operation management system that is more scientific and efficient for collecting accurate and visible data based on facts in a timely manner. The Group continued to streamline the processes, improved its decision-making relevance and timeliness, and accelerated the response to customers' needs. As a result, the Group constantly improved its overall operation management quality.

(II) After-sales services business

In 2019, after-sales services business of the Group (including repair and maintenance services and automobile augmented products and services) achieved sound and rapid growth. The Group served 1,517,701 units of automobiles in aggregate, representing an increase of approximately 17.1% compared to the previous year. Revenue of after-sales services of the Group amounted to approximately RMB4,771 million with an increase of 10.2% as compared to the previous year, and the gross profit was approximately RMB2,138 million with gross profit margin of after-sales services of approximately 44.8%.

With the outburst of automotive after-sales market, automobile users have become more mature, supporting the development of a more professional and branded automotive after-sales market. The after-sales service business of the Group focused on addressing customers' needs, and pursued the fundamental services quality. The Group continued to improve its customer information management and implemented classified customer management. Throughout the car ownership cycle, the Group streamlined the business procedures, and offered more customised services in order to enhance the satisfaction of customers. The Group endeavoured to satisfy the personal, exquisite and differentiated needs of customers. Sales guidelines for frontline staff were issued and "Service Contracts" for after-sales services were secured to further improve the customer retention rate. Through the advancement and upgrade of management system, the efficiency and effectiveness of business processes were enhanced and customer experience has become the sole criterion for the evaluation of procedures, model, management and control, which therefore achieved positive growth in after-sales service scale and profitability. Throughout the life cycle of customers, we continued to explore the potential demand, new business models and revenue growth drivers, while engaging in active expansion of service products or product mix. By detailing product and service categories, we fulfilled various customer demands to ensure the rapid growth of after-sales services in a right direction.

(III) Pre-owned automobile business

During 2019, a total of 14,920,000 units of pre-owned automobiles were traded, representing a year-on-year increase of 8.0%. The growth of pre-owned automobile market slowed down and the industry entered a new adjustment cycle. As one of the Group's important strategic business segments, we attached great importance to the sound and rapid development of the pre-owned automobile business. While closely tracking the trend of the pre-owned automobile market, we also integrated internal resources to fully utilize the strengths of an authorized brand dealer in automobile assessment and certification, and continued to enrich and modify the offerings of our pre-owned automobile services. Comprehensive services including automobile evaluation, retail, insurance agency, extended warranty and financial mortgage were provided, further increasing the customer service values.

In 2019, the Group focused on the promotion of automobile trade-in when selling new cars by providing competitive offers to encourage the replacement of pre-owned automobiles. The Group provided tailored services and products in accordance with their requirement of individual customers, resulting in a constant growth in average used car replacement rate in major first-tier cities. Upon the launch of the "Zhengtong Auction" online platform, the advanced information platform and regulated business procedures are utilized to deliver open and transparent vehicle information. By bidding, the automobile pricing became more reasonable, while the operating efficiency and profitability of the used cars segment was effectively improved.

(IV) Auto finance technology segment

Shanghai Dongzheng Automotive Finance Co., Ltd. ("**Dongzheng AFC**"), a subsidiary of the Company, is an automotive finance Company regulated by the China Banking and Insurance Regulatory Commission (the "**CBIRC**", formerly known as "China Banking Regulatory Commission") focusing on the luxury vehicle market. It is principally engaged in retail loan and dealer loan businesses. Dongzheng AFC commenced listing on the Main Board of the Stock Exchange of Hong Kong Limited on 3 April 2019 and raised net proceeds of approximately HK$1,529 million from global offering (equivalent to RMB1,309 million).

Owing to the strategy of focusing on the luxury vehicle market, as at 31 December 2019, the loan portfolio of Dongzheng AFC grew to RMB10,004 million from RMB8,426 million as at 31 December 2018, representing an increase of 18.7%. In 2019, net interest income increased by approximately 22.1% to RMB536 million, while net profit of RMB389 million decreased by 14.1% as compared to 2018. In 2019, Dongzheng AFC's non-performing loan ratio was 0.44%, the loan provision rate was 1.89%, and the provision coverage ratio was 423.97%.

In addition, a completely closed-loop auto finance technology ecosystem developed by the Group has taken into shape, aiming to provide customers with one-stop auto finance and related services and offer automobile related financial products covering new automobiles and pre-owned automobiles. The platform involves services provided by the Company's subsidiaries as follows:

- Dongzheng AFC holding an auto financial license granted by the CBIRC is the only auto finance company with a dealership background in China;

- Shenzhen Zhengyuan Automobile Technology Co., Ltd. ("**Zhengyuan Technology**") specializing in big-data risk control and ABS cloud finance technology;

- Xiamen International Financial Asset Exchange Co., Ltd. ("**Xiamen International Financial Asset Exchange**") providing an online asset transaction platform; and

- Shanghai Zhengtong Dingze Financial Leasing Co., Ltd. ("**Dingze Leasing**") and Dingze Insurance Agency Co., Ltd. ("**Dingze Insurance Agency**") providing financial leasing, insurance brokerage and other related services.

The Group has been more mature and clearer in exploring the model of automobile finance consumer loan and future development direction. The burgeoning growth of auto finance market has provided a broader development for financial institutions. Under the guidance of enhanced regulatory policies, the market environment has been further purified, and the licensed financial institutions benefited from the standardization of operation. The market reshuffle will facilitate the "good money drives out the bad" for the auto finance service institutions, and will also be helpful for the licensed financial institutions' business to remain reasonable and healthy.

Covering National Offline Auto Finance Channels by Licensed Financial Institution

Dongzheng AFC obtained the financial business permit from the CBIRC and commenced its operation in March 2015. In 2019, Dongzheng AFC increased its registered capital to RMB2.14 billion and further improved its capital adequacy ratio which provided strong financial support to its loan business.

Dongzheng AFC has established a dealer network with a broad geographical coverage in China. The number of dealers within the sales network exceeded 900 as of 31 December 2019. Capitalizing on the advantages of 4S automobile distribution channels of the Group, as well as the well-established external dealership network, Dongzheng AFC has proactively expanded its business to cover over 200 mid- to high-end 4S stores in over 172 cities and cooperated with over 900 dealers. The distribution channels of Dongzheng AFC mainly focus on mid- to high-end brands and target customer base with high consumption power. Leveraging on the network advantages and reasonable marketing strategies, Dongzheng AFC provides consumers with satisfactory customers' experiences and services.

Product Design

Principal businesses of Dongzheng AFC include: (i) retail loan business, whereby retail loans, direct leasing products and other financial services will be provided to end customers, major clients, and corporate clients for purchase of vehicles; (ii) dealer loan business, whereby inventory financing services will be provided to dealers to facilitate their procurement and sale of vehicles to their end customers.

Risk Control

As regards risk management, a comprehensive risk management system has been established. In particular, the Company has formulated the relevant risk management system and operating procedures with respect to admission review, approval requirements, disbursement process, post-loan monitoring and other procedures to manage the credit risk. To constantly optimize risk management and prevent risk, the capability to identify and assess risk is enhanced by implementing measures related to staff training, screening mechanism, client visits, data analysis, etc.

Creating Comprehensive Auto Finance Fintech Platform by Professional Team

Zhengyuan Technology, established in December 2017, was committed to exploring the online auto finance Fintech field and establishing a comprehensive loan support platform, on which financial assets and capitals are highly-efficient connected to the financial technology.

Zhengyuan Technology has focused its Fintech technology core on system connection for assets-end and capital-end: by empowering the B-end, the big-data risk management system will shortlist high quality customers, and connect to insurance institutions and online electronic certifications to refine the performance guarantee of a single trade, while the ABS cloud technology ensures the high speed transfer of auto financial assets that were in line with standardized ABS among financial institutions. The fully connected systems and the information-sharing streams will allow funds with different returns and risk preferences to match quickly, and will generate a unique technology power for the auto finance industry.

Zhengyuan Technology has fully developed and launched the trading systems for the entire trading process. The core system has been fully constructed, and will enable the big-data risk management system to achieve the speedy trading approvals online. Meanwhile, end-customers were able to enjoy the speedy approval and contracted lending service on distant system because of the successful connection between systems and the China Financial Certification Authority.

Zhengyuan Technology was introducing financial institutions to carry out business linkage based on the support of Dongzheng AFC. With more capital injected, the increase of loan assets will not only be helpful in market expansion, but the increase in the number of end-customer samples will also drive the improvement of the database for its own risk control system. Currently, various trusts of the financial institutions have been integrated while account consolidation is in process.

Within the entire closed-loop financial ecosystem, trading performance guarantee is crucial in the fundamental credit enhancement step, so Zhengyuan Technology has signed a strategic cooperation agreement with the People's Insurance Company of China during the year. While the system docking is in progress, the electronic policy implements performance insurance with real-time full coverage for each loan business, and has effectively reduced the risk of capital loss, in addition to laying a foundation for subsequent assets transfer.

After Zhengyuan Technology has accomplished its assets and capital accumulation, it will empower other subsidiaries of the Group with Fintech. In an effort to realize information sharing and integrate different operations, the Group will create a multi-win situation amid the financial closed-loop ecology.

As the financial asset transaction circulation platform, Xiamen International Financial Asset Exchange is also a key part of the closed-loop. The cumulative acceptance of assets has exceeded RMB100 billion. Fundraising through ABS platform has a lower cost and higher efficiency. In order to quickly enlarge its coverage of end-customers and to create a new high in the field of inclusive auto finance industry, the Group will expand the channels of auto financing asset securitization, and accelerate assets circulation.

Financial Leasing and Insurance Brokerage have been further refined

Under the synergy effect of the Group, Dingze Leasing has made substantial progress in its business. In response to the development trend and industry rules of the small B-end of the automotive industry chain, the Company has created and launched the OCF financial concept and new financial service product U-car (U享車) at the same time. It has been recognised by the market dealer groups and 4S stores, and has achieved a great performance.

As regards the insurance brokerage, the Group further consolidated the online new insurance and renewal insurance businesses, the profitability of which is further strengthened. Meanwhile, by pursuing the "customer-oriented" business philosophy, we will provide our customers with a diversified product mix to provide various insurance demands at different stages for our vehicle consumers. At the internal level, we will scale up the integration of management and optimize the staffing structure to significantly enhance management efficiency.

(V) Supply chain business

In 2019, Shengze Jietong Supply Chain Co., Ltd. ("**Shengze Jietong**"), in accordance with the Group's business strategic development plan, actively put its efforts in the tender of transportation business for the next three years in respect of the transportation for various automobile brands of our major customers, FAW and Dongfeng Group, the specific results of which are as follows:

i. Tender results of vehicle logistics business

In 2019, Shengze Jietong obtained an overall transportation volume of approximately 609,000 vehicles for the next year, representing a strong growth of 60% year-on-year, including:

1. in December 2019, obtained an average annual transportation volume of 480,000 vehicles of Dongfeng Nissan brands (including Infiniti and Dongfeng Venucia) for the next three years, with an average annual growth rate of nearly 100%.

2. in December 2019, obtained an average annual transportation volume of 41,000 vehicles of Dongfeng Renault brands for the next three years, with an average annual growth rate of over 100%.

3. from April to September 2019, obtained an average annual transportation volume of total 85,000 vehicles of FAW Logistics (including FAW-Volkswagen, FAW Benteng, FAW Hongqi and FAW Mazda brands) for the next three years, with an average annual growth rate of over 100%.

4. in October 2019, obtained an average annual transportation volume of 9,800 vehicles in respect of Dongguan distribution business of FAW Toyota. Securing this business marks the first time that Shengze Jietong has entered the Toyota transportation system, which also means the full coverage of the three major Japanese brands, namely Nissan, Honda and Toyota. As the management standard of Toyota brand is relatively high, it provides Shengze Jietong the advantage of management technology reference for future development of other auto brand businesses, and also establishes a cooperative foundation for the expansion into the transportation business of Toyota production bases in the future.

Through the above-mentioned development of logistics business, Shengze Jietong will accelerate the achievement of the management goal of establishing a national fast logistics channel. In the meantime, due to the expansion of the logistics network, it will be easier to attract other brands to join and form a larger logistics and transportation platform.

ii. Expansion of warehousing and logistics lease area

In December 2019, FAW Logistics Co., Ltd. ("**FAW Logistics**") and Shengze Jietong signed an agreement to expand the vehicle warehousing lease area by 25%. The increase in warehousing area reflects that FAW Logistics strengthens the importance of the transfer and distribution in Central China for production bases across China, which also lays foundation for business communication in respect of Shengze Jietong's Wuhan base cooperation project in the future.

iii. Construction of Wuhan logistics base

The land purchase procedures and business design standards and other processes for the Wuhan logistics base have been completed in 2019, and the construction commenced in November 2019. It is planned that the main construction of office buildings, dormitory buildings, and spare parts warehouse structures will be completed in 2020. The whole project will consist of four dock berths, a 6-storey vehicle warehouse, an automated spare parts warehouse and two spare parts mechanized warehouses, office and living facilities. It will increase its investments in logistics facilities, which will further increase its core competitiveness and cost advantages, and get well-prepared for the expansion of the integrated logistics business of terminal operations, warehousing, PDI and transportation.

iv. Opportunities arising from the establishment of Dongfeng Logistics by Dongfeng Motor Group

Dongfeng Motor Corporation (東風汽車公司) and China Dongfeng Motor Industry Imp. & Exp. Co., Ltd. established a joint venture (i.e. Dongfeng Logistics (Wuhan) Co., Ltd. (東風物流(武漢)股份有限公司)) on 15 January 2020. Shengze Jietong holds the interests of the joint venture through its 20% equity interests in Fengshen Logistics Co., Ltd.. By taking this opportunity, Shengze Jietong could obtain better business resources and commercial conditions from Dongfeng in the future, and may have the priority to expand into the logistics sector of Dongfeng brands (vehicle, parts, warehousing, etc.).

v. Construction of informationized management

In June 2019, Shengze Jietong increased its efforts in informationized construction and planned to achieve the systematic coverage of whole process and all elements (personnel, vehicle, cargo, and warehouse) within three years. It aims to realize digital transformation and online business operation through building a vehicle transportation system which covers all customers and supports coordination among various parties including suppliers, improving the application of the spare parts WMS system and promoting projects such as the automated warehouse in Wuhan base in the future. Shengze Jietong plans to build smart operation cockpits and logistics control towers and utilize visual means and digital management to assist decision-making and scientific operation, boosting the replacement of "personnel" with "equipment" and the transformation from "sweat logistics" to "smart logistics" in the future.

In respect of sales of lubricant oil business, in the 2019, the revenue from sales was RMB329 million, representing a year-on-year increase of 20.7%. In 2020, the Company will strive to maintain steady growth amid the material impact caused by the COVID-19 epidemic and uncertainties of the market.

(VI) Comprehensive properties business

To fully utilize on the potential value of the land held by it, the Group planned to conduct construction of comprehensive property projects for its existing 4S dealership stores in 2019, which are located in Kunming and Dalian respectively. Both of these two comprehensive property projects are service apartments, which are nearly completed and have obtained the pre-sale permits for sales. The inventory cost related to real estate of the Group reflect construction costs of the above two comprehensive property projects. The Group believes that the said arrangement is a reasonable arrangement to improve the efficiency of capital utilisation and bring higher return for the shareholders of the Company (the "**Shareholders**").

(VII) Network development

Balanced and reasonable deployment of the nationwide dealership network for luxury brands complemented by ongoing optimization of the brand portfolio and dealership store network, and stable development

As a leading dealership group of luxury brands in China, the Group focuses on dealership of luxury and ultra-luxury branded automobiles, including Porsche, Mercedes-Benz, BMW, Audi, Jaguar and Land Rover, Volvo, Cadillac and Infiniti. The Group also operates dealership stores of mid-end market brands, including FAW-Volkswagen, Buick, Nissan, Toyota, Honda and Hyundai.

As at 31 December 2019, the Group operated 135 dealership stores in 41 cities across 17 provinces and municipalities in China. During the year of 2019, the Group opened a Benz 4S store in Kunming, Yunnan, while opening a Leapmotor 4S store in Tongzhou, Beijing. In the meantime, to enhance the market competitive strength and profitability of our dealership stores, the Group strategically shut down 7 dealership stores to improve our dealership store presence based on those showrooms with an underperforming profitability.

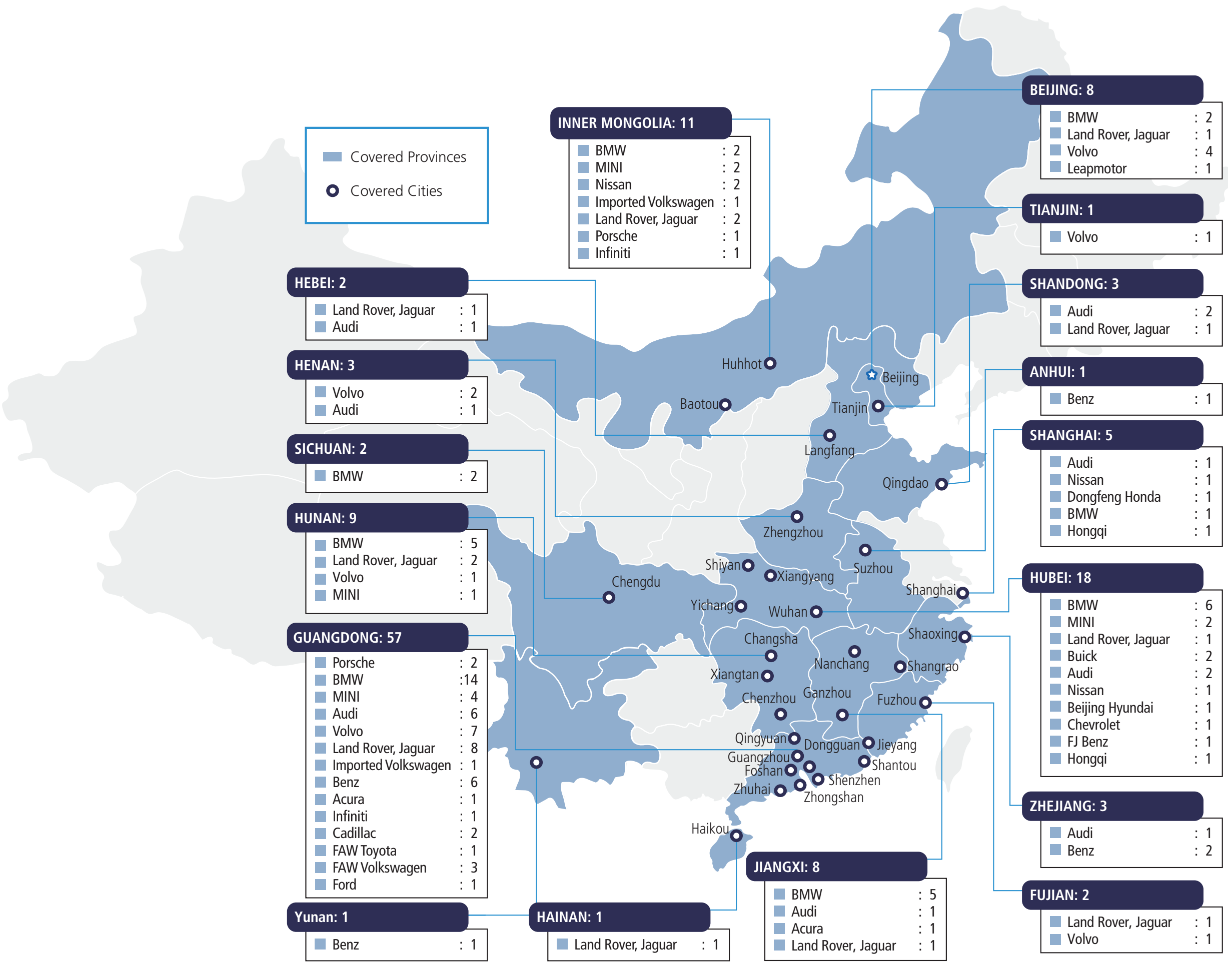
As at the date of this report, there are 10 dealership stores under development, which are franchised by core luxury automobile brands, including Porsche, Mercedes-Benz, BMW, and Audi. Authorized dealership stores to be opened can enhance our competitive advantages in traditional provinces and regions, including Guangdong, Hubei, Zhejiang and Sichuan, as well as regions with potential for rapid development, such as Chongqing, Jiangsu and Liaoning. The expansion in geographical coverage will further enhance the Group's advantages in terms of scale and channels. In addition, in response to the development trend of the automobile market, the Group paid close attention to new energy vehicle projects and repair centers and other dealership stores in order to explore new growth drivers.

The following table sets forth the details of our dealership stores as at 31 December 2019:

	Dealership stores in operation	Authorized dealership stores to be opened	Total
5S/4S store for luxury and ultra-luxury brands	101	7	108
4S store for mid- to high-end and new energy brands	14	0	14
Urban showroom for luxury and new energy brands	14	0	14
Authorized repair service centre for luxury brands	5	3	8
Pre-owned automobile centre	1	0	1
Total	135	10	145

As a leading strategic partner of manufacturers of luxury brands and ultra-luxury brands in the PRC, the Group will continue its network expansion strategies with its focus on a balanced layout of dealership stores of core luxury brands and a refined brand structure in its pursuit of prudent development. Meanwhile, the Group will integrate industry resources by seeking appropriate strategic merger and acquisition opportunities and innovative strategic operation cooperation scheme to rapidly enlarge its business scale and enhance its profitability.

BALANCED NATIONWIDE DEALERSHIP NETWORK



(VIII) Innovation of management and improvement of operational quality

In response to the industrial development trend in 2019, the Group accelerated its transformation and upgrading of automobile dealership management. We developed and utilized information technology in corporate operation and management and refined our management. The Group improved its management through innovative ideas and measures to streamline the business processes for enhancing the Group's core competitiveness.

Establishment of smart 4S stores

The Group has been committed to enhancing customer experiences with the aid of internet and information technology. To this end, the Group cooperated with Tencent Technology. The Group independently developed a new generation of Cloud Platform (雲平台) operation management intermediary system enabled by Tencent Industry, integrating data analysis, customer service, product deployment, and business management through technological means. By linking information islands and building up communication channels between front line business at stores and back office management, the order, door-to-door delivery and online payment by customers, all through one click, can be realized. The scope of business and service have been expanded and the customer experience has been greatly enhanced.

Establishment of expertise-driven organization

The Group always recognizes the importance of employee training and development. By enhancing the employees' expertise and comprehensive capability in an excellent workplace conditions and environment, we believe the employees will stay focused on providing premiere customer services. In 2019, the Group officially established the Zhengtong Academy as the learning platform for all employees, which aimed at further promoting the transformation and upgrade of dealership management, as well as providing a source of expertise and creativity for business transformation, and management and business innovation.

Improvement in operational quality

In continuing to improve service quality and customer satisfaction in 2019, the Group further enhanced the operating standard of branded dealership stores, and streamlined sales and aftersales business procedures. In addition, the Group explored new social media as a new point of contact for customers in order to continue the improvement of customer service experiences. Furthermore, the Group integrated corporate resources to rationalize the allocation of required resources based on the actual conditions and various requirements of the brand operations, which aimed at enhancing the overall operating efficiency and quality, as well as improving the asset utilization rate.

Classification management of stores

In 2019, the Group continued to optimise the operation assessment system of stores so as to conduct a scientific analysis and assessment of all key operation figures. The results can allow the managers to manage their stores at different levels. With specific measures in place, the Group optimized cost control, identified business potential, and further expanded the authority of outstanding stores in resources allocation, performance management, and decision-making so as to stimulate the initiative and motivation of the stores and enhance customers' satisfaction by offering better services. The results were very positive.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group recorded a revenue of approximately RMB35,138 million, representing a decrease of approximately 6.2% as compared to the revenue of approximately RMB37,456 million in 2018. The decrease was mainly due to a decrease in sales of new automobiles during the year.

Revenue of the Group was derived from the sales of new automobiles, after-sales services, financial services and other business. In 2019, revenue from the sales of new automobiles amounted to approximately RMB28,564 million, representing a decrease of approximately 9.4% as compared to approximately RMB31,529 million in 2018, and accounted for approximately 81.3% and 84.2% of the total revenue in 2019 and 2018, respectively. The revenue from sales of luxury and ultra-luxury branded automobiles decreased by approximately 8.4% to RMB25,986 million from approximately RMB28,383 million in 2018, accounting for approximately 91.0% and 90.0% of revenue from the sales of new automobiles in 2019 and 2018, respectively.

Revenue from the after-sales services was approximately RMB4,771 million, representing a growth of approximately 10.2% as compared to approximately RMB4,331 million in 2018. In 2019, revenue from the after-sales services accounted for approximately 13.6% of our total revenue, representing an increase of approximately 2.0 percentage points as compared to that of last year.

Cost of sales

For the year ended 31 December 2019, the Group's cost of sales decreased by approximately 5.0% to approximately RMB31,319 million as compared to approximately RMB32,969 million in 2018. In 2019, the cost of sales for new automobiles of the Group decreased by approximately 7.3% to approximately RMB27,432 million from approximately RMB29,604 million in 2018. Cost of the after-sales services increased by approximately 13.1% to approximately RMB2,633 million from approximately RMB2,328 million in 2018.

Gross profit and gross profit margin

For the year ended 31 December 2019, the Group's gross profit decreased by approximately 14.9% to RMB3,818 million from approximately RMB4,487 million in 2018, and the Group's gross profit margin decreased by approximately 1.1 percentage point to approximately 10.9% from 12.0% in 2018.

The Group's gross profit was principally generated from after-sales services business, sales of new automobiles business and automobile financing services business. In 2019, gross profit of sales of new automobiles business decreased by approximately 41.2% to approximately RMB1,132 million from approximately RMB1,925 million in 2018; gross profit margin of sales of new automobiles decreased to 4.0% from approximately 6.1% in 2018. Gross profit of sales of luxury and ultra-luxury branded automobiles decreased by approximately 41.2% as compared to last year to approximately RMB1,112 million, and gross profit margin of sales of luxury and ultra-luxury branded automobiles decreased to 4.3% from 6.7% in 2018. In 2019, gross profit of our after-sales services business was approximately RMB2,138 million, representing an increase of approximately 6.7% as compared to last year, and gross profit margin of after-sales services business decreased by approximately 1.4 percentage points to approximately 44.8% from approximately 46.2% in 2018.

Selling and distribution expenses

For the year ended 31 December 2019, the Group's selling and distribution expenses increased by approximately 6.1% to approximately RMB1,100 million from approximately RMB1,037 million in 2018. The increase in selling and distribution expenses was mainly attributable to an increase in staff cost and depreciation arising from the increase in the dealership stores.

Administrative expenses

For the year ended 31 December 2019, the Group's administrative expenses amounted to approximately RMB1,392 million, representing a decrease of approximately 15.6% over approximately RMB1,650 million in 2018. Such decline was primarily due to the fact that the exchange loss incurred from the deprecation of Renminbi during 2019 was substantially less than that of 2018.

Profit from operations

For the year ended 31 December 2019, the Group's profit from operations decreased by approximately 21.2% to approximately RMB2,178 million from approximately RMB2,763 million in 2018, and the operating profit margin was approximately 6.2%, representing a decrease of approximately 1.2 percentage point over approximately 7.4% in 2018.

Income tax expenses

For the year ended 31 December 2019, the Group's income tax expenses amounted to approximately RMB396 million and the effective tax rate was approximately 34.1% (2018: 33.6%).

Profit for the year

For the year ended 31 December 2019, the Group's profit for the year decreased by approximately 38.9% to approximately RMB767 million from approximately RMB1,255 million in 2018. During the year, profit margin was approximately 2.2%, representing a decrease of 1.2 percentage points as compared to 3.4% in 2018.

Contingent liabilities

As at 31 December 2019, the Group had no material contingent liabilities or guarantees save as those assets pledged to the bank.

Current assets and current liabilities

As at 31 December 2019, the Group's current assets amounted to approximately RMB24,136 million, representing a decrease of approximately RMB804 million as compared to the current assets of approximately RMB24,940 million as at 31 December 2018.

As at 31 December 2019, the Group's current liabilities amounted to approximately RMB25,819 million, representing an increase of approximately RMB2,017 million as compared to the current liabilities of approximately RMB23,802 million as at 31 December 2018, which was mainly due to an increase in loans and borrowings.

Cash flow

As at 31 December 2019, the Group had cash and cash equivalents amounting to approximately RMB1,497 million, representing a decrease of approximately RMB1,414 million over approximately RMB2,911 million as at 31 December 2018. The Group's transactions and monetary assets were principally denominated in Renminbi. The Group's primary uses of cash were to pay for purchases of new automobiles, spare parts and automobile accessories and automobile lubricant oil, to repay the Group's loans, borrowings and other indebtedness, to fund the Group's working capital and ordinary recurring expenses and to establish new dealership stores or to acquire dealership stores or other businesses. The Group finances its liquidity requirements through a combination of cash flows generated from the operating activities, bank loans and other financings. For the year ended 31 December 2019, the Group had net cash inflow of approximately RMB2,546 million generated from its operating activities (for the year ended 31 December 2018: net cash inflow from operating activities approximately RMB776 million), which was primarily due to the effective control of inventories.

Capital expenditure and investment

For the year ended 31 December 2019, the Group's capital expenditure and investment were approximately RMB1,782 million (2018: RMB2,815 million).

Inventory

The Group's inventories included vehicles, automobile spare parts and properties under development for sale. In general, each of the Group's dealership stores individually manages the quotas and orders for new automobiles, automobile spare parts and other inventories. In addition, the Group utilizes its information technology systems to manage its inventory, and also monitors the inventories within its whole dealership network and may transfer automobiles from one dealership store to another to rebalance inventory levels. The inventories of the Group was approximately RMB3,483 million as at 31 December 2019, decreased by approximately RMB363 million when compared with RMB3,846 million as at 31 December 2018. Such change was due to the effective control in the inventories of new automobiles by the Group based upon market situation. The Group's average inventory turnover days (excluding the impact of properties under development for sale) of 2019 decreased by 3.4 days to 40.6 days from 44.0 days for 2018. The following table sets forth our average inventory turnover days for the year indicated:

	For the year ended 31 December (day)	
	2019	2018
Average inventory turnover days (excluding the impact of properties under development for sale)	**40.6**	44.0

Risks of foreign exchange

The Group conducts its business primarily in Renminbi. Certain bank deposits and bank loans were denominated in foreign currencies. However, the Group's operating cash flow and liquidity has not been subject to significant influence from fluctuations in exchange rate. The Group used cross currency swap to hedge its US-dollar and HKD future loans repayment. As at 31 December 2019, a financial liability of RMB103 million measured at fair value was recognised by the Group on the cross currency swap, and other financial assets of RMB17 million (excluding wealth management products) measured at fair value was recognised (at 31 December 2018: a financial liability of RMB33 million measured at fair value was recognised by the Group on the cross currency swap, and other financial assets of RMB25 million (excluding wealth management products)).

Liquidity and capital resources

Working capital and capital expenditures of the Group were primarily funded through cash generated from internal operation and borrowings provided by principal banks. As at 31 December 2019, the Group's cash and bank deposits were approximately RMB3,577 million (including: pledged bank deposits and balances with central bank of approximately RMB1,399 million, time deposits of RMB681 million and cash and cash equivalents of RMB1,497 million), representing a decrease of approximately RMB2,262 million, from approximately RMB5,839 million as at 31 December 2018. As at 31 December 2019, loans and borrowings, lease liabilities (recorded due to the application of the HKFRS 16 on 1 January 2019), and bonds payable of the Group amounted to approximately RMB21,450 million (at 31 December 2018: loans and borrowings, obligations under finance leases, and bonds payable of the Group amounted to approximately RMB21,949 million). Save as loans and borrowings, lease liabilities, and bonds payable of approximately RMB12,607 million that bear fixed interest rates, other loans and borrowings bear floating interest rates. As at 31 December 2019, net gearing ratio of the Group was approximately 131.0%, and would be approximately 116.2% if the impacts under the HKFRS 16 were excluded (at 31 December 2018: approximately 130.7%, which was not restated due to the impacts of the HKFRS 16). Net gearing ratio was calculated as loans and borrowings, lease liabilities, and bonds payable less cash and bank deposits divided by total equity.

Issuance of new shares of a subsidiary

On 3 April 2019, Dongzheng AFC had completed the spin-off and separate listing on the Hong Kong Stock Exchange (the "IPO"), by issuing 533,336,000 new ordinary shares at HK$3.06 per share, the net proceeds after deducting the issuance costs amounted to approximately HK$1,511 million (approximately equivalent to RMB1,293 million). On 25 April 2019, Dongzheng AFC partially exercised the over-allotment option at HK$3.06 per share, the net proceeds after deducting the issuance costs approximately amounted to HK$18 million (approximately equivalent to RMB16 million).

Upon completion of IPO and exercise of over-allotment option, the Group's equity interest in Dongzheng AFC had been diluted from 95% to 71.04% and the Group retains control over Dongzheng AFC.

Pledged assets

The Group has pledged its assets as the security for loans and borrowings as well as bank financings to be used as working capital for daily operations. As at 31 December 2019, the pledged assets of the Group amounted to approximately RMB4,954 million (at 31 December 2018: approximately RMB5,443 million).

Material acquisition and disposal

On 30 June 2019, Wisdom Achieve Global Limited (a wholly-owned subsidiary of the Company), Joy Capital Holdings Limited (a connected person of the Company), Waterwood Santong Investment, L.P. and the Company entered into a subscription agreement ("**Subscription Agreement**"), pursuant to which it has been agreed that following completion of the Target Group Restructuring (as defined in the announcement of the Company dated 1 July 2019) and other closing conditions as set out therein being fulfilled, Joy Capital Holdings Limited and Waterwood Santong Investment, L.P. will subscribe for new shares to be issued by Wisdom Achieve Global Limited.

As additional time is required for completion of the Target Group Restructuring, pursuant to a second extension agreement entered into between the parties, the Long Stop Date (as defined in the announcement of the Company dated 30 September 2019) for the fulfilment of the conditions precedent for completion of the Subscription Agreement was extended from 31 December 2019 to 30 June 2020 (or such later date as the parties may agree in writing).

For further details, please refer to the announcements of the Company dated 1 July 2019, 7 August 2019, 30 September 2019 and 2 January 2020.

Investments held in foreign currency and hedging

For the year ended 31 December 2019, the Group did not hold any investments denominated in foreign currencies. Furthermore, the Group's working capital or liquidity did not encounter any material difficulties or material impacts as a result of the movement in exchange rate.

Employees and remuneration policies

As at 31 December 2019, the Group had a total of 10,729 employees in China (at 31 December 2018: 12,353 employees). The staff costs incurred for the year ended 31 December 2019 were approximately RMB992 million (2018: approximately RMB884 million). The Group offers competitive remuneration packages and welfare benefits, including pension, work-related compensation benefits, maternity insurance, medical and unemployment benefit plans. The Group also provided good working environment and diversified training program. The Company has adopted Share Option Schemes for granting options to eligible employees as incentives or rewards for the contribution to the Group.

FUTURE OUTLOOK AND STRATEGIES

In the coming few years, China's macroscopic economy will maintain its moderate growth with a steady increase in both household disposable income and consumer spending. Given the fact that the government continues with the release of the potential domestic demand, and introduces policies to develop new formats and models of consumption, we believe that the domestic consumer market will continue to grow expeditiously. As regards the automobile industry, in line with new records of registered car ownership, a mature domestic automobile market becomes increasingly noticeable, with market players seeking business growth in quality rather than quantity, as well as the market demand manifesting geographic and structural changes. As a result, the consumption upgrade is expected to become evident, while the luxury vehicle demand will continue to grow in the midst of increasingly fierce competition. In this case, consumers will pursue higher quality demand and expectation for automobile products and services, and auto dealers are required to constantly improve their business management and service standard amid the growing demands for professionalism and product diversity.

Keeping abreast of the automobile development trend, the Group will be committed to customer services for luxury and ultra-luxury automobile brands in the domestic market by continuing to improve brand structure and strategic network, invest in the development of management and operation information systems, and focusing on employee training and development. Our business transformation will be accelerated by knowledge and information technologies, and innovative management approaches will be adopted to optimize the operating efficiency and enhance the profitability. In doing so, the Company will achieve steady and flexible operation in response to various uncertainties and risks arising from the external environment. The Group will also utilize the advantages of our financial business to develop our core competitive strengths. By upholding the fundamental business quality, as well as considering customer demands, the Group will proactively enrich service and product contents, expand service channels, and enhance service quality, with a view to providing better consumer experiences. Besides continuing to increase the percentage of maintenance and repair, finance and insurance services, modification sales, and other businesses in the profitability structure, the Group will vigorously improve the pre-owned vehicle services and quality standards, and explore the contents and models of marketing, sales, and services for new energy vehicles. These initiatives will assist the Company with rationalize its business structure in parallel with customer demands, to create higher value for Shareholders, staff and the community.

EVENTS AFTER THE REPORTING PERIOD

Issuance of US$ 12.0% Senior Notes Due 2022

The Company issued 12.0% Senior Notes due 2022 in the principal amount of US$160,000,000 and US$13,000,000, which were effective on 22 January 2020 and 17 February 2020, respectively (the "**Notes Issue**"). The Company intends to use the net proceeds of the Notes Issue to refinance certain of its existing indebtedness and for general corporate and working capital purposes.

For details, please refer to the announcements of the Company dated 16 January 2020, 21 January 2020 and 14 February 2020.

IMPACT OF 2019 NOVEL CORONAVIRUS

The COVID-19 outbreak since early 2020 has brought additional uncertainties in the global macroeconomic situation. The Group's operational performance and cash flows may be adversely affected should COVID-19 continue to have unexpected adverse impact on people's normal travel for a prolonged period or result to deferral or less spending on automobiles by consumers. The Group will continue to closely monitor the development of the COVID-19, evaluate its potential impacts, and respond swiftly on our strategy and operation executions. Up to the approval date of the financial statement, such measures are being carried out by the Group meticulously.

For business operation, the Group's subsidiaries outside Hubei province have gradually resumed normal operations since March 2020, and the subsidiaries in Hubei province have gradually resumed operations since early April 2020. On financing side, as disclosed in note 38(b) to the consolidated financial statements, the Group completed the issuance of Senior Notes due 2022 in the principal amount of US$160,000,000 and US$13,000,000 on 22 January 2020 and 17 February 2020 respectively. Also, the Group has been actively negotiating with the Group's existing banks for renewal of and extension of the existing bank facilities and expediting collection of receivables and sale of inventories. After due consideration of the Group's cash flow projections that have factored in those plans and measures taken to mitigate the liquidity pressures and improve the working capital, the Group's ability to draw down unutilised facilities and renew or refinance the banking facilities upon maturity, as well as the reasonable possible downside changes to the cash flow assumptions, the directors of the Company are satisfied, that the Group's going concern assumption will not be affected by the epidemic.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to achieving high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability. The Group also acknowledges the vital importance of good corporate governance to the success and sustainability of the Group.

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**"). The Board is of the view that throughout the year ended 31 December 2019, the Company has complied with the applicable code provisions (the "**Code Provisions**") of the CG Code.

The Company will periodically review and enhance its corporate governance practices to ensure that it will continue to comply with the requirements of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct (the "**Securities Code**") regarding the Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the Securities Code and the Model Code during the year ended 31 December 2019.

The Company has also adopted a warning to its employees regarding insider dealings ("**Insider Dealings Warning**") for their securities transactions. So far as the Company is aware, there was no incident of non-compliance of the Insider Dealings Warning by the employees.

BOARD OF DIRECTORS

Board Composition

The Board consisted of eight Directors, including five executive Directors and three independent non-executive Directors as at the date of this report.

During the year and up to the date of this report, the Board consists of the following Directors:

Executive Directors:

Mr. Wang Muqing *(Chairman)*
Mr. Wang Kunpeng *(Vice Chairman)*
Mr. Koh Tee Choong *(Chief Executive Officer)*
Mr. Li Zhubo *(Chief Financial Officer)*
Mr. Wan To
Mr. Shao Yong Jun *(resigned on 2 April 2019)*

Independent Non-executive Directors:

Dr. Wong Tin Yau, Kelvin
Dr. Cao Tong
Ms. Wong Tan Tan

The Company has listed independent non-executive Directors in all corporate communications pursuant to the Listing Rules. The latest list of Directors (by category) which specifies their roles and functions was also disclosed in the websites of the Company and the Stock Exchange pursuant to the Listing Rules.

To the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

During the year ended 31 December 2019, the Board at all times complied with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. Not less than one-third of the members of the Board was independent non-executive Directors.

The Company has received written annual confirmation of independence from three independent non-executive Directors, namely Dr. Wong Tin Yau, Kelvin, Dr. Cao Tong and Ms. Wong Tan Tan. Therefore, the Company considers all independent non-executive Directors were independent in accordance with the independence guidelines set out in the Listing Rules.

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

Responsibilities

The Board is collectively responsible for leading and managing the Company and overseeing the businesses, strategic decisions and performance of the Company. The Board has delegated the Chief Executive Officer to assign the authority and responsibility for the daily management and operation of the Group to the senior management. In addition, the Board has established Board committees (the "**Committees**") and has delegated to these Committees various responsibilities as set out in their respective terms of reference.

All Directors have performed their duties in good faith, in compliance with applicable laws and regulations and in the interests of the Company and its Shareholders at all times.

Delegation by the Board

The Board reserves its rights to make decisions on all major matters of the Company, including the formulation and monitoring of all policies and directions, overall strategies and budgets, internal control and risk management systems, major transactions (in particular those may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as advices and services of the secretary of the Company ("**Company Secretary**"), with a view to ensuring that the procedures of the Board and all applicable rules and regulations are followed. Each Director may request the Board to seek independent professional advices in appropriate circumstances at the expense of the Company.

The day-to-day management, administration and operation of the Company are delegated to the Executive Committee (previously known as Operation and Management Committee) which is the management authority of the Group. The members of such committee are the Chief Executive Officer and four Executive Directors. Its delegated functions and responsibilities are periodically reviewed by the Board. Any major transactions of the Group shall be subject to the approval of the Board.

The Company has maintained directors and executives liability and company reimbursement insurances for its Directors and executives.

Appointment and Re-election of Directors

The procedures and processes of appointment, re-election and removal of Directors are specified in the articles of association of the Company (the "**Articles**"). The Nomination Committee is responsible for reviewing the structure, size, board diversity and composition of the Board, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors. Details of the Nomination Committee are set out in the section headed "Board Committees" below.

Each of the Directors has entered into a service contract (for Executive Director) or a letter of appointment (for non-executive Director and independent non-executive Director). No Director proposed for re-election at the forthcoming 2020 annual general meeting of the Company to be held on 12 June 2020 (the "**2020 AGM**") has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

Pursuant to the Articles, at each annual general meeting ("**AGM**"), one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one-third) is required to retire from office by rotation, provided that every Director shall be subject to retirement at least once every three years. The Director to retire in every year shall be the one who has been longest in office since his/her last election but as between persons who became Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by ballot and shall be eligible to offer themselves for re-election. Any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office until the next following general meeting of the Company and shall, being eligible, be subject to re-election at such meeting.

Accordingly, Mr. Wang Kunpeng, Mr. Koh Tee Choong and Mr. Li Zhubo will retire from office by rotation at the 2020 AGM. Mr. Wang Kunpeng and Mr. Li Zhubo, being eligible, will offer themselves for re-election. Mr. Koh had notified the Company that due to health issue, he will not seek for re-election and will therefore retire from the Board after the conclusion of the 2020 AGM. Mr. Koh confirmed that he has no disagreement with the Board and there is no other matter in relation to his retirement that needs to be brought to the attention of the Shareholders.

DISCLOSURE OF DIRECTORS' INFORMATION PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Director's Position Held

Mr. Koh Tee Choong, the Chief Executive Officer, will retire from the Board after the conclusion of the 2020 AGM.

The executive Director and vice chairman of the Company, Mr. Wang Kunpeng, will be appointed as the Chief Executive Officer of the Company after the conclusion of 2020 AGM.

The Board recommended the re-appointment of the Directors proposed to be re-elected at the 2020 AGM of the Company.

Board Diversity

The Board has adopted a board diversity policy (the "**Board Diversity Policy**") in September 2013. In determining the composition of the Board, the Company considers whether a candidate will bring potential complementary benefits to the Board and contribute to the improvement of the overall competence, experience and expertise of the Board. The Company may consider the diversity of the composition of the Board in various aspects, including professional experience and qualifications, gender, age, ethnicity, and cultural and educational background, as well as any other factors that the Board from time to time deems relevant and appropriate. Selection of candidates will be based on a range of diversity perspectives, including but not limited to experience and expertise, professional experience and qualifications, gender, age, ethnicity and cultural and educational background. The Nomination Committee will review the Board Diversity Policy as and when appropriate to ensure its effectiveness.

Induction and Continuing Development of Directors

Every newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Directors' responsibilities and obligations under the Listing Rules, common law and relevant statutory requirements.

The existing Directors are continuously updated with developments in legal and regulatory regime and the business and market environments so as to facilitate the discharge of their responsibilities. The Company irregularly organized seminar for Directors and relevant management shared with them changes in Listing Rules and other regulations.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year under review, the positions of Chairman and Chief Executive Officer are held separately by Mr. Wang Muqing and Mr. Koh Tee Choong, both being executive Directors of the Company, respectively, neither of them has any financial, business, family or other relationship with each other. This separation in accordance with code provision A.2.1 of the CG Code as set out in Appendix 14 to the Listing Rules ensures that there is a clear division of responsibilities of the management of the Board and the day-to-day management of business of the Company to ensure a balance of power and authority. The Chief Executive Officer is responsible for leading the day-to-day management of the Company, implementing the strategic plans and business goals of the Company and formulating and recommending business plans and budgets to the Board.

ATTENDANCE RECORDS

The attendance of the Directors at the AGM, Board meetings and Committee meetings in 2019 was as follows:

	Meeting Attended during Tenure of Office/Held				
Members of the Board of Directors	2019 AGM	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors:					
Mr. Wang Muqing *(Chairman)*	1/1	4/4	—	1/1	1/1
Mr. Wang Kunpeng	1/1	4/4	—	—	—
Mr. Koh Tee Choong	0/1	4/4	—	—	—
Mr. Li Zhubo	0/1	4/4	—	—	—
Mr. Wan To	1/1	4/4	—	—	—
Mr. Shao Yong Jun (resigned on 2 April 2019)	—	2/2	—	—	—
Independent Non-executive Directors:					
Dr. Wong Tin Yau, Kelvin	1/1	3/4	2/2	1/1	—
Dr. Cao Tong	0/1	3/4	1/2	0/1	0/1
Ms. Wong Tan Tan	0/1	4/4	2/2	—	1/1

BOARD AND COMMITTEE MEETINGS

Board Practices and Conduct of Meetings

During the year ended 31 December 2019, the Company held a total of two Board meetings. At the Board meetings, the Board reviewed and approved the final results for the year ended 31 December 2018 and interim results for the six months ended 30 June 2019 and other significant matters of the Company.

The Company has draft agenda of each meeting of the Board and the Committees made available to Directors in advance, and serves notices of regular Board meetings at least 14 days before the date of the meetings. For other Board and Committee meetings, reasonable notices are given.

Documents in relation to the meeting together with all appropriate, complete and reliable information are sent to all Directors at least three business days before the date of each Board meeting or Committee meeting to keep the Directors abreast of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and every Director also have separate and independent access to the senior management where necessary.

Draft and final versions of minutes are circulated to Directors or relevant Committee members for comments and records respectively within a reasonable time after each meeting. Minutes of Board meetings and Committee meetings are kept by the appointed secretary of the meeting and are available for inspection by all Directors at all reasonable time.

The Articles contain provisions requiring any Director to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Director or any of his/her associates have a material interest.

BOARD COMMITTEES

The Board has established three Committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. The Remuneration Committee, the Nomination Committee and the Audit Committee are established with defined written terms of reference. These terms of reference are posted on the website of the Company and are available for inspection of shareholders upon request. These Committees are provided with sufficient resources to discharge their duties and are required to report to the Board on their decisions or recommendations. During the year ended 31 December 2019, two meetings of the Audit Committee were held, and one meeting of each of the Remuneration Committee and the Nomination Committee was held respectively.

Remuneration Committee

As at the date of this report, the Remuneration Committee comprises three members, including Chairman of the Board and executive Director, Mr. Wang Muqing, and independent non-executive Directors, Dr. Cao Tong and Dr. Wong Tin Yau, Kelvin. Dr. Cao Tong is the chairman of the Remuneration Committee.

The Remuneration Committee is primarily responsible for making recommendations to the Board on the remuneration policy and structure of the Company for all Directors and senior management and establishing a formal and transparent procedure of the formulation of the remuneration policy. The responsibilities of the Remuneration Committee also include reviewing and approving the remuneration proposals of the management with reference to the corporate goals and objectives of the Board, and ensuring that no Director or any of his/her associates participates in the determination of his/her own remuneration.

During the year ended 31 December 2019, the Remuneration Committee held one meeting to review the remuneration policies and strategies of the Group, make recommendations to the Board on remuneration of Directors and senior management.

Details of the amount of remuneration of Directors and senior management are set out in note 7 and note 8 to the consolidated financial statements.

Nomination Committee

As at the date of this report, the Nomination Committee comprises three members, including Chairman of the Board and executive Director, Mr. Wang Muqing, independent non-executive Directors, Dr. Cao Tong and Ms. Wong Tan Tan. Mr. Wang Muqing is the chairman of the Nomination Committee.

The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board and making recommendations regarding any proposed changes, identifying suitable candidates for appointment as Directors, making recommendations to the Board on the proposed appointment or re-appointment and succession of Directors and assessing the independence of independent non-executive Directors. The Nomination Committee will also review the Board Diversity Policy as and when appropriate to ensure its effectiveness and discuss any revisions that may be required in the light of the corporate strategies of the Company and recommend any such revisions to the Board for consideration and approval.

During the year ended 31 December 2019, the Nomination Committee held one meeting. The Nomination Committee has performed the following works during the year: (1) reviewing the structure, size, board diversity and composition of the Board to ensure the professional knowledge, skills and experience of the Board to meet the business needs of the Company; (2) reviewing the annual confirmation of independence of the independent non-executive Directors and assessing their independence; and (3) making recommendations to the Board on re-appointment of Directors retiring and offering themselves for re-election at the 2019 AGM.

Audit Committee

As at the date of this report, the Audit Committee comprises three members, all being independent non-executive Directors (including one independent non-executive Director with appropriate professional qualifications and accounting expertise), namely Dr. Wong Tin Yau, Kelvin, Dr. Cao Tong and Ms. Wong Tan Tan. Dr. Wong Tin Yau, Kelvin is the chairman of the Audit Committee.

The Audit Committee is primarily responsible for reviewing financial information of the Group, monitoring the independence and objectiveness of the external auditors and the effectiveness of the auditing process and making recommendations to the Board on the appointment, re-appointment and removal of the external auditors and the approval of their remuneration and terms of engagement. The Audit Committee is also responsible for reviewing the financial reporting process and financial controls, internal controls and risk management systems, including the adequacy of resources, staff qualifications and experience, training programmes and budgets of the internal audit functions as well as arrangements for concerns about possible misconducts in financial reporting, internal controls or other matters raised by employees of the Company.

The Audit Committee reviews the annual report, accounts and interim report of the Group before submission to the Board for approval.

During the year ended 31 December 2019, the Audit Committee held two meetings. The Audit Committee has performed the following works during the year: (i) reviewing the annual results for the year ended 31 December 2018 and interim results for the six months ended 30 June 2019; (ii) reviewing the financial reporting procedures and compliance procedures, the report of internal audit on internal controls and risk management system; (iii) reviewing the non-exempt continuing connected transactions entered into by the Group and non-competition undertakings made by the controlling shareholders of the Company; and (iv) reviewing the re-appointment of external auditors and providing relevant recommendations to the Board.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

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

The Board is responsible for presenting balanced, clear and understandable annual and interim reports, announcements and other disclosures prepared in accordance with the Listing Rules and other statutory and regulatory requirements.

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

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance duties:

(a) to develop and review the policies and practices on corporate governance of the Group;

(b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group;

(c) to review and monitor the policies and practices on compliance with any requirements, directions and regulations that may be prescribed by the Board or contained in any constitutional documents of the Group or imposed by the Listing Rules, the applicable laws and other applicable organisational governance standards;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Group; and

(e) to review the Group's compliance with the corporate governance code from time to time adopted by the Group and the disclosure in the corporate governance report to be contained in the Company's annual reports.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditor of the Company in respect of its reporting responsibilities for the financial statements is set out in the section headed "Independent Auditor's Report" on page 73.

The remuneration received by the Company's auditors, KPMG, during the year ended 31 December 2019 is set out below:

Category of Services	Fee Paid/Payable RMB
Audit Services	**10,300,000**
Non-audit Services	**220,000**
Total	**10,520,000**

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for maintaining sound and effective risk management and internal control systems to safeguard the investments of the Shareholders and the assets of the Company.

The Board monitors the risk management and internal control systems principally through the Internal Audit Department of the Group, and is committed to conducting, at least annually, a review of the effectiveness of the risk management and internal control systems of the Group, including adequacy of resources, qualifications and experience of the accounting and financial reporting personnel of the Company, and the training programmes and budget thereof.

The Board, through the Audit Committee, has conducted a review on the risk management and internal control systems of the Group for the year ended 31 December 2019. Such review covered the finance, operation, supervision and risk management of the Group. The Board confirmed that the risk management and internal control systems of the Company are sound, effective and sufficient.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective and ongoing communication with Shareholders is essential for enhancing investor relations and investors' understanding of the business performance and strategies of the Group. The Company also recognises the importance of transparency and timely disclosure of corporate information, which enables effective evaluation of the performance of the Group by Shareholders and investors.

The Company facilitates communication between the Board and the Shareholders through general meetings, and it communicates with the Shareholders, investors and the general public through annual reports, interim reports and other corporate announcements.

The Company strives to maintain a high level of investor access through a range of investor relations activities, including teleconferences, one-to-one meetings, roadshows, press conferences and site visits. The Company also regularly meets with institutional investors from overseas and Mainland China to keep the investors abreast of the major developments and strategies of the Group.

To facilitate communication, the Company maintains a website at http://www.zhengtongauto.com, where updates on the Company's structure, the Board, business developments and operations, financial information, corporate governance practices and other information are posted.

COMPANY SECRETARY

The Company Secretary of the Company is an external service provider. Her primary corporate contact person is Mr. Raphael Ng, compliance manager of the Company. With the assistance of the compliance manager being an employee of the Company, the Company Secretary shall provide assistance to the Board and facilitate efficient information circulation within the Board and, in compliance with the policies and procedures of the Board, provide advises on governance matters to the Board, facilitate induction of Directors and their trainings and continuous professional development. The Company Secretary confirmed that she has undertaken no less than 15 hours of relevant professional training during the year under review.

RIGHTS OF SHAREHOLDERS

A summary of certain rights of the Shareholders which shall be disclosed by the Company in accordance with the mandatory disclosure requirement under Paragraph O of the CG Code is set out below:

Procedures for shareholders to convene an extraordinary general meeting ("EGM")

1. One or more Shareholders ("**Requisitionist(s)**") holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company carrying voting right at general meetings shall have the right to request the Board to convene an EGM in respect of any business transaction specified in such requisition.

2. Such requisition shall be made in writing and delivered to the Board at the principal place of business of the Company in Hong Kong at Unit 5905, 59/F, The Center, 99 Queen's Road Central, Hong Kong or via email at ir@zhengtongauto.com.

3. The EGM shall be held within two months after the deposit of such requisition.

4. If the Board fails to convene such meeting within twenty-one (21) days of such deposit, the Requisitionist(s) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to the Requisitionist(s) by the Company.

Procedures for Shareholders to submit proposals at general meetings

1. A Shareholder of the Company should lodge a written notice of his/her proposal ("**Proposal**") together with his/her detailed contact information at the principal place of business of the Company in Hong Kong at Unit 5905, 59/F, The Center, 99 Queen's Road Central, Hong Kong.

2. The request will be verified with the Hong Kong branch share registrar of the Company and upon its confirmation that the request is proper and in order, the Board will be required to include the Proposal in the agenda of the general meeting.

3. The notice period given to all Shareholders of the Company for consideration of the Proposal to be raised by the Shareholder concerned at the general meeting varies with the nature of such Proposal:

   (a) At least 14 clear days' and 10 clear business days' notice in writing if the Proposal constitutes an ordinary resolution of the Company in an EGM;

   (b) At least 21 clear days' and 10 clear business days' notice in writing if the Proposal constitutes a special resolution of the Company in an EGM;

   (c) At least 21 clear days' and 20 clear business days' notice in writing if the Proposal shall be passed in an AGM.

Procedures for Shareholders to make enquiries to the Company

For matters in relation to the Board, the Shareholders of the Company may contact the Company at Unit 5905, 59/F., The Center, 99 Queen's Road Central, Hong Kong or via email at ir@zhengtongauto.com.

For matters in relation to the share registration, such as share transfer and registration, change of name or address, loss of share certificates or dividend warrants, the registered Shareholders of the Company may contact Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar and transfer office of the Company at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

CONSTITUTIONAL DOCUMENTS

There was no change to the Memorandum of Association of the Company and Articles during the year under review. The latest consolidated version of the Memorandum of Association and Articles is available on the websites of the Company and the Stock Exchange.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT

1 INTRODUCTION

Basis of Preparation

This report has been prepared in accordance with the Environmental, Social and Governance Guidelines ("**ESG Guidelines**") issued by the Hong Kong Stock Exchange with reporting period covered from 1 January 2019 to 31 December 2019, parts contents of which provided a brief review and introduction on previous relevant activities and relevant information before the release of this report.

Business of the Group

The Group is committed to developing a one-stop automobile service platform mainly for (i) the sales of luxury and ultra-luxury branded automobiles; (ii) after-sales services (including maintenance, repair and sales of auto parts); (iii) post-market businesses (including auto financing, insurance brokerage, finance leasing, pre-owned automobiles trading, e-commerce platform and other highly value-added businesses); and (iv) supply chain business, covering automobile logistics and trading of auto maintenance supplies. As of the end of the reporting period, the Group had 135 4S shops and 5S shops.

ESG Strategy of the Group

The Group highly values the harmonious relationship among people, operating results and environment, which is crucial to its stable growth and sustainable development. In the pursuit of business and profit growth, the concept of sustainability is incorporated in every aspect of our operation through the adoption of effective and comprehensive policies and measures for the achievement of our mission in respect of the environment and community. It is our objective to enhance the corporate governance of the Group, to share our results with the suppliers, customers, employees and other stakeholders and to minimize the negative impact of our operation on the environment.

Reporting Period

This ESG report is the fourth report since the first ESG report released in 2017.

Scope of the Report

This report focuses on the operating environment and social policies in relation to the sales, after-sales services, post-market businesses and supply chain businesses of luxury and ultra-luxury brand and other brand vehicles, which are mainly engaged by the Group in the PRC during the reporting period. The social elements of the statistics of key performance indicator and other factors cover all business segments of the Group. The environmental elements of the statistics cover the business segments having the most significant impacts on the environment, the automobiles sales and after-sales services, or the 4S/5S shops. As the Group only started to conduct systematic survey of the environment factors and vehicle recalls in recent years, 29 significant shops were selected by taking into account their locations, operation history, automobiles brands and sales. The survey forms a strong basis for future expansion of the survey.

Involvement of Stakeholders

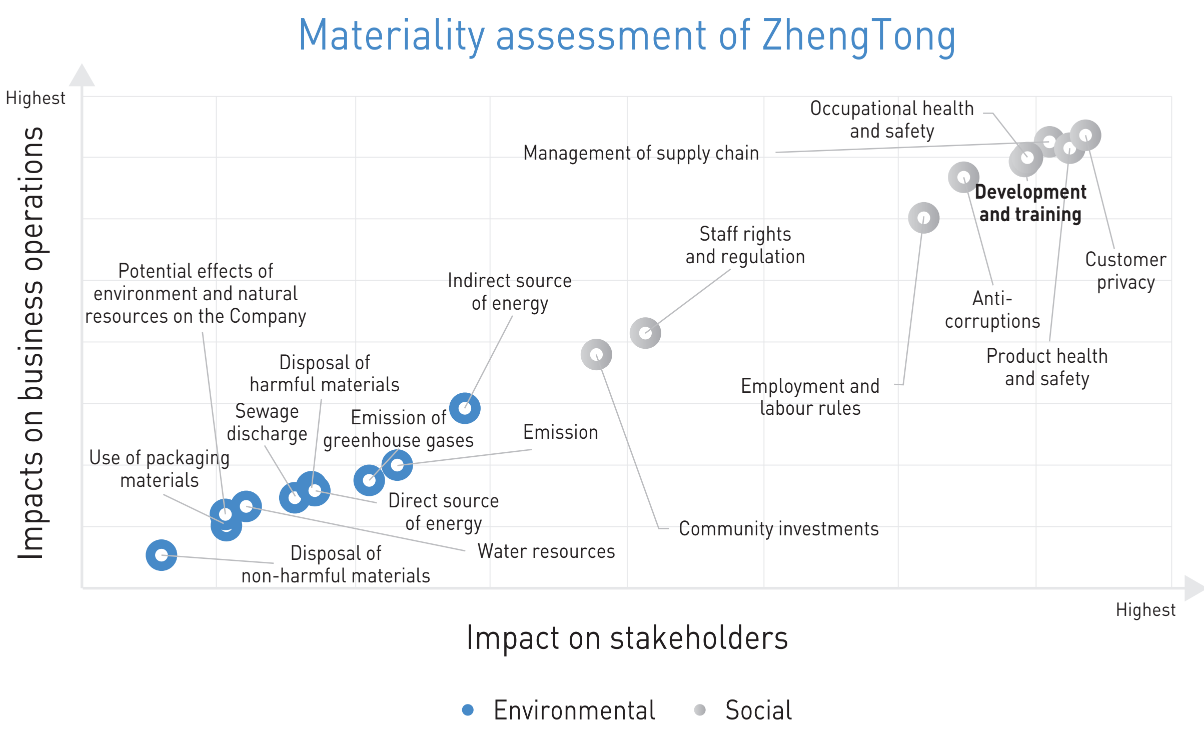
Stakeholders of the Group in respect of environmental, social and governance interests can be classified as internal and external stakeholders, which mainly involve internal staff (from the management to front-line employees), suppliers, customers, shareholders, investors, governments and communities where the businesses are operated. The stakeholders involved included the directors and senior management of the Group as strategic decision makers and designers, and the middle management and general staff working in the front line of operation. In the process of preparing this annual report, in addition to interviews, stakeholder's participation and materiality assessment were also conducted by means of online questionnaire, which provided better technical support for expanding the participation base.

There were over 100 subsidiaries of the Group participated in the online questionnaire survey.

The Group periodically reviews and updates the materiality assessment so as to ensure that the report can fully reflect the latest progress of the Group in sustainable development. In the future, external stakeholders may also be invited when the situation warrants for comprehensive assessment, which will be reflective of the expectations and concerns from more stakeholders.

Materiality Assessment

Based on interview with the stakeholders and questionnaire collected, the following materiality matrix has been prepared by the Company.



2 ENVIRONMENTAL PROTECTION

The Group is dedicated to an environmentally friendly operation so as to reduce emissions and energy consumption, ultimately minimizing the negative impacts of operating activities on the environment. The construction and operation of operating premises of the Group, such as maintenance centres and showrooms, and product marketing campaigns held outside its operating premises have complied with all applicable laws and regulations with regard to environmental protection.

Waste disposal

Certain wastes are generated from after-sales repair and maintenance of vehicles involved in our business operation. The Group seeks to reduce the discharge of pollutants with various means from different dimensions and channels.

First, to reduce the generation of harmful waste, the Group has been in active response to and in compliance with administrative rules introduced by the government and industry, including adopting environmental materials. For instance, the Group has for many years required our business outlets to use water-based paints from a famous brand in the spray booth, instead of oil-based paints which were commonly used for vehicle painting. Such practice can improve the quality of maintenance works on the one hand and is safe for the health of maintenance staff and the surrounding conditions on the other hand. For the paint surface treatment of vehicles, the dry polishing process will gradually substitute the wet polishing approach, which not only improves the work efficiency and the paint surface treatment effects, but also greatly reduces the generation of sewage.

Second, the Group strictly controls the disposal of wastes. Special venues for the temporary disposal of waste are set up in each 4S shop/5S shop, and different containers are arranged for different types of waste. Warning signs are placed outside the venues and the containers to prevent staff and customers from undue exposure. Each of our 4S shops/5S shops has entered a disposal agreement with qualified hazardous waste management providers to ensure that our disposal process is in strict compliance with national and local environmental policies without any unauthorized or direct discharge of waste. The qualification of the vendors will be regularly checked on relevant websites by the administration department of each district to ensure that they are authorized by the government to handle wastes of the 4S shops/5S shops of the Group to prevent any potential hazards.

	Emissions in total	Emissions per Unit
Solid waste — batteries	335.48 tonnes	11.57 tonnes/shop
Solid waste — others	130.63 tonnes	4.5 tonnes/shop
Liquid waste	564,000 liters	19,400 liters/shop

Third, the Group strives to adopt technical means designed for preliminary treatment of the generated emissions, so as to further reduce environmental impacts. In order to reduce environmental impacts of exhaust gas, each shop actively introduces and installs the VOCS photo-oxygen purification equipment to the premises where exhaust gas is generated during the maintenance process, including the paint room, and is then treated and discharged. The shop will also be equipped with facilities for emission equipment to monitor the rationality of emission data in real time. There are three levels of design in the VOCS system: the first level of mechanical filtration prevents particulate matter (such as painting mist, etc.) from entering the photocatalyst clean room, which helps to reduce the impact on the treatment effect and the life of equipment (such as high-performance UV tubes, and nano-photocatalysts). The second level of high-performance nano-photocatalysts purification decomposes and oxidizes the organic matter and odor pollutants in the exhaust gas into low molecular compounds, water and carbon dioxide under the synergy of hydroxyl radicals, active oxygen and ozone generated by the purifier. The third level of gas-phase molecular sieve enhances the treatment effect and achieves up-to-standard emission by further efficiently treating the exhaust gas that has not been decomposed in the previous processes.

In addition, the generated wastewater will be pre-treated by taking measures such as wastewater oil filtering and tertiary sedimentation tank filtration, which will be discharged to the municipal sewage pipeline after meeting the standards. Subject to actual conditions, each shop will separate rainwater and sewage so that rainwater can be recycled after simple treatment to maximize the use of resources.

Besides repair process, the emissions of nitrogen oxides, sulfides and particulate matter from providing rescue vehicles, test-drive automobiles and scooters to customers and vehicles for daily use of the Group were 655.13 kilograms, 11.44 kilograms and 48.24 kilograms, respectively, during 2019. Greenhouse gas emissions from generating electricity for the abovementioned vehicles and business premises was 18,157.35 tonnes of carbon dioxide equivalent.

Fourth, waste classification is first introduced in areas such as Shanghai and Beijing. In this regard, each of the 4S/5S shops is in strict compliance with national and local regulations and rules. On the one hand, publicity, education waste notices are posted inside and outside of our shops, and on-site supervision enable our employees to develop the habit of waste classification. On the other hand, control the number of trash cans and inform customers.

Use of resources

4S shops or 5S shops of the Group are the major users of energy, including electricity and gas for kitchens and heating in northern China.

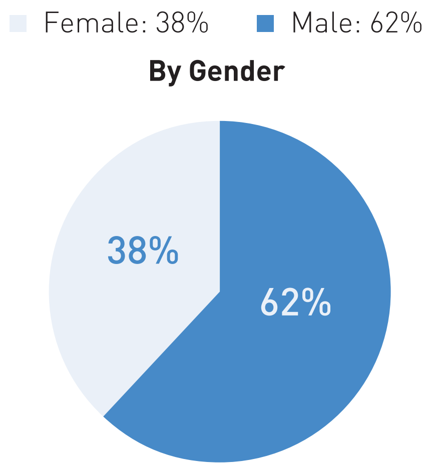
	Consumption in total	Consumption per Unit
Electricity	16,417,300 kWh	There is no proper denominator. Taking into account the the principle of economic benefits, the Group has not calculated the consumption per unit of these resources as the calculation is not meaningful.
Natural gas (For canteen)	51,500 cubic meters	
Natural gas (For heating)	308,600 cubic meters	
Liquefied gas	17,800 liters	
Diesel oil — spray booths	2,200 liters	
Diesel oil — vehicles	13,800 liters	10.42 liters/100 km
Gasoline	761,100 liters	8.81 liters/100 km

3 EMPLOYMENT AND LABOUR PRACTICE

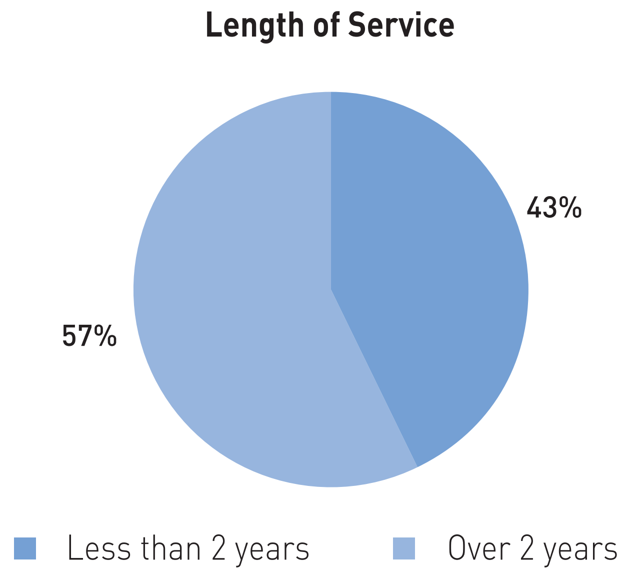
Employees have always been our major concern and are regarded as the most powerful and effective driving force behind the sustainable development of the Group. The Group has established standardized recruitment procedures, providing our employees with competitive compensation packages and fair and just promotion opportunities at a non-discriminatory workplace. We have always insisted on providing multiple channels and diversified training programs to different employees to improve their work performance, life satisfaction, and the sense of belonging at the Company, laying a solid foundation for a talent pool required for the future development of the enterprise.

3.1 Employment

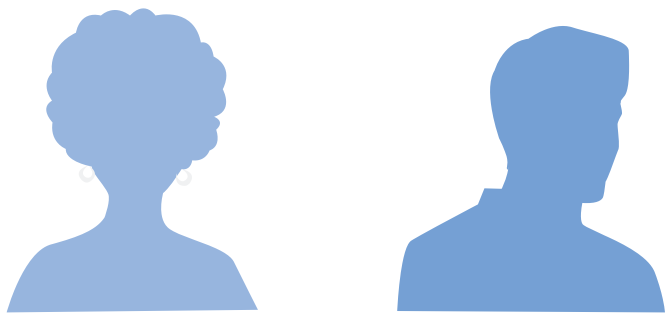
The remunerations and benefit packages for the employees of the Group were determined based on the market condition and their respective responsibilities and performance.



We recognize the rights of our employees to customary values and practices, while respecting the rights to ethnicity, social class, nationality, religion, physical health, disability, gender, sex orientation, workers' union, and political views. In any circumstance, no managerial personnel is permitted to adopt any form of coercion, intimidation, insult, or exploitation against our employees, including posture, language abuse, and physical contact. The principle of equal opportunity has been applicable throughout all stages of employment, in particular recruitment, training, career development and promotion. During the reporting period, the Group has complied with all relevant labour laws and regulations and strictly followed through national labour laws and regulations and local labour regulations, such as the Labour Law of the People's Republic of China, Labor Contract Law of the People's Republic of China and Social Insurance Law of the People's Republic of China.



To improve the employment rates of the local markets where the subsidiaries are located, except certain necessary experienced staff seconded from other 4S shops or 5S shops, the Group will hire local employees as far as possible for new 4S shops or 5S shops. During the reporting period, the Group had additional 293 fresh graduates in total for 2019. As at the end of the reporting period, the Group had a total of 10,729 employees.



As at 31 December 2019 the Group had a total of 10,729 employees

293 additional fresh graduates jointed the Group for 2019

The young force represents a vital factor in the future development of a business, thereby leading the business to a prosperous tomorrow. Zhengtong provides the young professionals with tremendous employment opportunities, as well as a platform for young professionals to seek self-improvement and learning. During the reporting year, 1 out of seven general brand managers were of the post-80s generation, and there are quite a few number of middle management who were of the post-90s generation. As at the end of the reporting period, 57% and 27% of the employees have worked in the Group for more than two years and five years, respectively.

To build up a human resources management team which can understand the thoughts of youngsters, the Group constantly provides targeted trainings to relevant staff at their positions.

3.2 Health and Safety

The Group recognizes the importance of employee health and workplace safety, and considers occupational health and safety as part of our important social responsibilities. We particularly take safety control seriously in order to minimize any accidents that may cause casualties during the operation. In 2019, the Group remained in strict compliance with the relevant laws and regulations such as the "Production Safety Law of the People's Republic of China" (《中華人民共和國安全生產法》), "Prevention and Control of Occupational Diseases Law of the PRC" (《中華人民共和國職業病防治法》) and "Administrative Regulations on Personal Protection Equipment of Employers" (《用人單位勞動防護用品管理規範》), and strives to provide employees with a safe, healthy and comfortable workplace.

In the preparation and revision of safety guidelines, the Group has identified the major safety risks in operation and has proposed specific risk control measures based on the characteristics of the risk. In highly dangerous areas, such as maintenance workshop, professional protection gear is provided to staff of high risk positions. Staff working in dangerous areas are strictly required to put on the safety equipment at all time. Meanwhile, the Group is in the process to use new materials which are more environmentally friendly, nonharmful or less harmful (e.g. the use of water-based paint for painting) so as to minimize personal damage that these operations may cause to the staff.

Pandemic Combat

Following the outbreak of COVID-19 in 2020, every individual is taken by storm. The Group has immediately and proactively taken actions to implement a series of measures to protect the health and safety of employees. The Group has first engaged various functional departments, including administration, human resources, finance and operation to safeguard the provision of masks and other anti-pandemic equipment at each shop. When our operation resumes, our canteen adopts social distancing for diners, body temperature is measured and recorded on each day, and health codes are inspected. In the meantime, the health status of our employees and their family members is registered, while all public venues are disinfected regularly. In addition to physical health, the Group arranges psychological counseling to provide emotional support to our employees. At the spiritual level, we convey the caring message to our employees, including weekly phone calls to those employees in isolation as a gesture of solicitude. The Group believes that each employee is part of the Zhengtong family.

Fire Safety

Fire accidents are ruthless, and thus fire safety is critical to the safety of life and property of our employees and customers. To address fire accidents, the Group always persists in preventative measures as the major defense, while aggressively promoting the fire prevention awareness and making good preparation for fire extinguishing equipment. On the other hand, we designate fire control responsible officers, and ensure that evacuation routes and safety exits are constantly accessible. The electrical appliance and wiring must be in strict compliance with the regulations. Furthermore, the fire extinguishing equipment and other fire control facilities must be in good condition and subject to regular and thorough inspection. During the reporting year, the Group arranged a total of 230 fire drills, and all people in the relevant shops took part in the drills. Through fire fighting simulations and evacuation drills, the safety awareness and emergency response ability of our staff and customers have been raised.

During the reporting period, the Group continued to organize different types of health and safety educational programmes in order to raise the awareness of our staff in this respect, including trainings, safety knowledge quizzes and competitions. The Group also regularly examined the compliance of safety guidelines of the 4S/5S shops and vehicle maintenance workshops. During the year, the Group conducted a total of 345 in-house safety inspections with three rounds for each shop so as to ensure all certificates required by laws and regulations have been obtained or renewed. In addition, we also accept external safety supervision. During the reporting period, we accumulatively accepted 575 external safety examinations.

The Group has conscientiously insisted on compliance with the requirements of healthy and safe works. During the reporting period, there was no such incident that had adverse impacts on the health and safety of our employees due to substandard workplaces, nor was there any major safety accident.

3.3 Development and Trainings

Against the fierce market competition, an enterprise must maintain a talent pool of high-caliber professionals as the pillar to support the long-term sustainable development. Despite high-quality talents being sourced from external recruitment, internal development and training plays a greater role. Training significantly improves and enhances an employee's knowledge, expertise and attitude, which also helps our employees understand and accept our corporate values. Besides, training helps boost the working capability of our employees, while the business gains a competitive advantage. As the automobile retail business is labor-intensive in nature, the human resources department of the Group has introduced a complete series of programs for different business and positions. Vertically, introduction program, promotion training program and advanced training program are developed for new recruits, candidates for promotion and senior management respectively. Horizontally, the training of sales executives and after-sales technicians is concentrated on sales skills and maintenance technique respectively. Through training, examination and assessment, the Group has built a quality service team.

Various marketing and technical training sessions for new car models were also arranged by the maintenance centres of different brands of vehicles. The Group actively organized our staff to participate in such trainings to ensure that our customers are provided with the sales, repair and maintenance services using the latest technologies.

To cope with the steady growing business, the Group strived to maintain its high quality services by developing its human resources. The Group organized a "senior manager training program" in 2019, the ninth session of such programs since 2009. Members of the middle management from various departments as well as 4S or 5S shops are selected to attend lectures given by senior management, department heads, experienced general shop managers of the Group and external experts. During the reporting period, training courses of the ninth session of "senior manager training program" of the Group were organized in October and commenced in November and were attended by accumulating 50 person-time. The total lecture time was 24 hours. Furthermore, during the reporting period, the Group organized 8 "Pilot Programme" training sessions regarding general manger during which, over 300 attendees received a total lecture time of 64 hours.

Zhengtong College (正通學院)

The Group established Zhengtong College in 2019, which is an internal college managed by Zhengtong Group. Our internal self-built learning platform utilizes internal and external lecturers, courses and other resources to roll out online and offline learning projects for various positions, which will constantly provide the Company with talents.

Positioned as an employee growth consultant, business development partner, and business transformation catalyst, Zhengtong College aims to become a comprehensive, systematic, and professional training institution rooted in Zhengtong, and envisions transforming into an incubation base for Zhengtong talents and the accelerator for business growth. To ultimately establish as a learning organization, Zhengtong College seeks to evolve into the most respected training institution in the automobile circulation industry.

There are more than 100 internal lecturers at Zhengtong College. There are more than 1,300 internal and external online courses. The total course duration lasts more than 150 hours, which covers the topics of improving the capabilities of new employees and on-the-job employees at their positions. Following the launch of Zhengtong College on August 15, 2019, more than 4,700 users have logged on with a total of more than 198,248 learning hours.

4 ANTI-CORRUPTION

Any misconduct in business operation, including graft, and accepting or committing bribery, will severely damage our reputation, and seriously disrupts the proper management and operation of a business, damaging the integrity of a company. These misconducts will impede the sustainable and healthy development of a business. As a result, the Group always holds its clearly uncompromising position to oppose any form of fraud or corruption. In addition, the Group has adopted a series of measures to prevent and punish actions involving corruption. We have adopted a preventive approach through system building and education. The establishment of anti-corruption system aims to strengthen the restriction and supervision through deterrent punishment, effective prevention and stringent security mechanisms that eliminate corruption. Our legal department also arranges relevant training programs for our staff to promote the prevention of corruption and uphold moral uprightness and integrity with zero tolerance to corruption. During the reporting period, the legal department carried out a total of 113 incorruptibility training sessions for 678 participants, and achieved positive results.

In addition, the Group strictly complies with the Labor Law of the People's Republic of China, the Anti-unfair Competition Law of the People's Republic of China, the Law of the People's Republic of China on Anti-money Laundering, the Interim Provisions Governing Prohibition of Commercial Briberies, and other relevant laws and regulations to strictly prohibit bribery by our staff so as to make contribution to a healthy business environment for the whole society.

The Group has adopted a zero tolerance policy to strictly prohibit corruption in all aspects of our operation. The Group believes that the strict compliance and implementation of regulatory systems can maintain the proper business management and can safeguard the career of our staff. Our workforce is expanding with more and more youngsters who may be inexperienced and be easily tempted. The Group will repeatedly educate our staff to uphold our moral values and regularly help staffs to review relevant training, so that they can remember, respect and observe the law and discipline. During the reporting period, the Group did not aware of any corruption incident.

5 SUPPLY CHAIN MANAGEMENT

The automobile dealership represents an intermediary that connects to both the downstream and the upstream players, as it deals with massive upstream suppliers and directly caters to end users in the downstream. Supply chain plays an integral role in the automobile sales and after-sales services of the Group. The stable supply of automobiles and spare parts has always been a guarantee that the Group is able to render quality products and services to consumers.

Automobile brands and Zhengtong are two different stakeholders on the same benefit chain. Automobile brands provide products, while Zhengtong directly faces customers. Both have common interests and share the concerns. Automobile brands and Zhengtong work together to identify market development initiatives and strategic planning. Furthermore, Zhengtong taps into its own advantages in terminals and regions to deepen its market presence in the regional distribution, which will assist with its own development while delivering the strategic objectives to automobile brands. The business relationship between automobile suppliers and the Group was more prone to mutual selection. Due to our long history of reputation in providing quality products and services, offering efficient sales channels and communications methods for automobiles suppliers and focusing on employee interests and environmental protection, our Group is able to acquire the dealership of many renowned automobile brands and maintain stable business relations.

In the meantime, the Group also collaborates with various automobile brands and other suppliers on social and environmental aspects for the purposes of making contribution to the sustainability of the entire industry and community. Regarding after-sales service, the Group collaborates closely with service providers and arrange regular meetings to enhance communication. Our Group also regularly undertakes evaluations on our suppliers' performance in environmental and social responsibility aspects. For the suppliers of spare parts and other items, our Group has stringent criteria for selection of suppliers, including requirements of environmental and social responsibilities regarding "Prohibition of Child Labour", "Health and Safety" and "Environmental Protection". The Group has entered into "integrity agreement" with each of our suppliers to show our determination and require them to comply with our anti-corruption policy. Suppliers who do not comply with such requirements will have unfavourable assessment. In addition, for suppliers that require the related industrial qualifications, we will confirm and ensure all of these suppliers and manufacturers have obtained all of the qualifications as required by their respective industries.

6 PRODUCT LIABILITIES

Dealership in stores

"Offering supreme driving experience to our customers" is the mission and principle of all employees of our Group. To continue to offer better experience for customers when purchasing and using their cars, we have further strengthened the depth of services to improve the service quality and diversified our offerings to provide more comprehensive services for customers.

In 2019, the transition of the vehicle emission standard from China V standard to China VI standard has become a hot topic in the automotive industry, and it has also caused great confusion for many consumers. In order to better answer queries of consumers, the Group conducted relevant policy training for employees during the transition from China V standard to China VI standard, and actively and transparently introduced the latest policies and regulations to consumers to help them understand the impact of the change to the policy on car purchase and help consumers make car purchase decisions that suit them. Through this measure, the Group not only helped to promote the transition from China V standard to China VI standard, but also promoted the inventory circulation of some vehicles with China V standard to a certain extent, which reduced the waste of resources due to vehicle disposals.

The Group attaches great importance to cooperation with automobile brands to jointly improve customers' automobile living standards. For example, in the course of cooperation with BMW, we fully recognize and strongly support its brand strategy promotion campaign with the core theme of "BMW Joy" launched in China. We hope to work with BMW to enhance the customer's all-round experience. In some BMW stores of the Group, customers who purchase and repair cars will establish a WeChat after-sales interaction group with the store before leaving. Customers will promptly give feedback on their own experience of buying and using cars and make queries through the WeChat group, which consists of relevant sales and after-sales personnel, as well as store leaders.

Supporting services

Employees of Zhengtong always uphold the mission of "offering supreme driving experience to our customers" and strive to provide our customers with high quality services. We have continuously spared no effort to fulfil the vision of the Group of "being a world-class automobile services brand".

The Group has maintained a clear price list for the products and services provided by the Company at all 4S/5S stores. During the reporting period, all stores were equipped with one or two large-scale electronic displays showing the prices and warranty information of all accessories and services offered in the stores. Customers may compare the information shown on the displays with the promotion made by sales representatives, and may provide feedbacks on any inconsistent information. It is ensured that all customers are provided with transparent and fair information of prices.

The Group continues to improve our services with focus on fulfilling customers' needs and requirement. We have created a friendly and convenient consumption environment, and actively responded to the potential demands of customers based on their feedbacks. In 2020, the spread of new coronavirus diseases has brought great inconvenience to the travel of the residents, and also caused difficulties for customers to buy and use cars. Under the premise of ensuring safety, the Group and its stores have taken a series of measures to help customers solve practical problems based on their actual situations. For example, Wuhan Luze Land Rover shop, together with Jaguar and Land Rover brands, replaced new batteries for free for those consumers with damaged car batteries in the regions affected by the epidemic in Wuhan. In addition, a number of stores of the Group have launched cloud car-watching activities in different regions, and conducted online cloud sales and provided cloud after-sales services. For customers who were inconvenient to go out for vehicle maintenance, we provided free door-to-door pickup and delivery service, and maintained real-time communication with customers through photos and videos throughout the vehicle maintenance process, so that customers could keep abreast of the situation.

Customer Privacy

Customer privacy is not only concerned with the information security of customers, but also commercial confidentiality of our Company. To ensure the long-term sound and stable development of our Group and to safeguard the personal information of our customers effectively, the Group has implemented strict measures for information management and control to protect customers' privacy with regards to systems and equipment:

1. No USB flash drives and external email systems are allowed to be used with the computers in all stores;

2. All mails sent by the company email shall be inspected by the internal checking system;

3. All general staff may only input information of the specific customers they served to our system and shall have no authority to access information of other customers;

4. The authority to access customer information is only vested to a limited number of management members, and all of them have entered into confidential agreements with our Group;

5. A confidentiality agreement is entered into with the customers, and the customer care and return visit can only be carried out upon the obtain of the customers' consent and authorization. During the customer's return visit, we will also confirm with the customers whether there is any information leakage.

The above measures have strengthened the confidential awareness of our staff of the Group, greatly mitigated the concerns of our customers or potential customers and safeguarded customer privacy effectively. There has been no divulgement of customer privacy for the Group during the reporting period.

Vehicle recalls

The research, development and manufacture of automobiles involve systematic and complicated processes, and potential deficiencies or problems may exist during the course. Therefore, timely recall of defective vehicles is an important method of the automobile industry to eliminate defects and also a necessary measure to ensure product quality and the safety of life and properties of customers. Zhengtong has always believed that recalls are truly responsible to consumers, and in most cases, recalls are aimed at active recalls and goodwill recalls for the purpose of not affecting the safety of vehicles. As a distributor who closely cooperates with manufacturers, Zhengtong plays a primary role in the recalls, and giving prompt notifications and proper recalls arrangement are important safeguards for customers and road safety. During the reporting period, a total of 23,512 vehicles were recalled by 29 4S stores with assistance from our Group. We have improved the automobile consumer safety index and increased communications and interactions with customers through recalls, which was a win-win result for the Group and consumers.

New energy automobile

New energy automobile is an important direction for the sustainable development of automobiles. In response to the current national policy, our Group focuses on the sales of new energy automobiles in order to contribute to environmental protection with our own resources. The Group has actively cooperated with various automobile brands and set up charging stations inside and outside our showrooms. Zhengtong continues to increase the proportion of new energy automobiles sold in its daily operations, and each of our stores are also actively striving to obtain the qualifications needed to sell new energy automobiles. In the process of sales at stores, we will make full vehicle introductions for potential consumers of new energy automobiles, and will actively assist new energy automobile owners to obtain relevant licenses and install new energy charging equipment. In addition, many stores' test drive activities have also begun to include new energy automobiles, allowing more consumers to experience new energy automobiles in person. In 2019, Shanghai Qibao Shop of the Group cooperated with BMW to carry out the "Green, Love and Caring (綠心關愛)" activity, during which users who purchased BMW new energy products can plant specified types of saplings in the new energy village. For each BMW new energy vehicle purchased, each customer can plant 2 saplings, as well as a gift box for new energy automobile customers when delivery as a souvenir. We actively promoted new energy automobiles and publicize the concept of environmental protection through public welfare activities.

7 COMMUNITY INVESTMENTS

Zhengtong always regards the philosophy of "business wealth from the society and for the society" as an important part of its corporate culture, and constantly explores how to better integrate with society. Community investment is the driving force for the Company's continuous development in the future and participating in social welfare can shape a good corporate culture and public image. Therefore, Zhengtong has always implemented the saying of "April showers bring May flowers" with concrete actions, proactively participated in local community development, organized and encouraged its employees to take part in a wide range of charity activities.

Engagement in Pandemic Combat

Following the outbreak of COVID-19, every individual is taken by storm. Faced with various needs arising from the epidemic prevention and control warfare, the Group has immediately and proactively taken actions, and, based on its own advantages, supported and safeguarded the pandemic combat.

Zhengtong is very moved and grateful to the medical staff and volunteers who participated in the fight against the epidemic during the outbreak. Convergence of love brings together anti-epidemic forces; for perseverance in love, we see the respected medical staff and volunteers rush contrarianly to combat the pandemic. Because of the guardianship of these selfless and dedicated angels, winter has been overcome and spring has arrived. Therefore, Zhengtong has cooperated with various brands to provide many discounts and conveniences in the purchase and use of cars for medical and nursing staff and their families who have made great contributions to the fight against the epidemic. For example, Shenzhen Baotai BMW shop provided life-time free testing and free 4-year unlimited-kilometer warranty for car-purchasing medical staff; Wuhan Luze Land Rover shop replaced batteries for free for those countermarching people. In addition, each of our stores also actively responded to the call of various places, and joined with auto club and other individuals and groups to participate in the transfer of medical staff and the delivery of epidemic prevention and living materials for medical staff and communities.

MVPKID Basketball Game

As the Group has established footage across China in various provinces and cities with different conditions, we always encourage the 4S/5S shops to organise charity events based on the local needs.

At the beginning of 2019, a New Year's basketball game called "MVPKID Basketball Game" was fiercely launched in Changsha, Hunan. The champions of Melbourne, Australia, Huateng Sports in Quzhou, Zhejiang and Lu Xi foreign language school in Jiangxi, were invited to this event, and played a peak matchup with 120 teams from various primary schools in different cities and regions in Hunan. These children from different regions with different skin colors and different cultures learned about the art of basketball together, and expressed their friendship amidst their joyful laughters during the festive New Year celebration in Changsha.

During the game, the well-trained players displayed their vitality and passion. After the game, the young players became well acquainted with each other in a short time, practiced speaking English in the simplest way and took group photos happily. The coaches also shared and talked about their respective experiences.

As a sponsor of MVPKID Basketball Game, the exclusive custom-made uniforms of Hunan SCAS Volvo shop (湖南中汽南方沃爾沃) were very eye-catching in the themed MV and TV special reports of MVPKID. They always occupied the visual C position in the lens and became a must-have and unique landscape for MVPKID Basketball Game.

The event with large number of participants and large scope was promoted among the public through live broadcasts of pictures, Woaolanqiu app (我奥直播), Mango TV, and Hunan Satellite TV, and became one of the most important kids' basketball events in Hunan and even the PRC. As the sole designated official supplier of vehicles and uniforms for this event, Hunan SCAS will maintain its original aspiration and continue to support this event with love and power.

INDEX OF DISCLOSURES

Aspects	Major Category, Aspects, General Disclosure and Key Performance Indicator ("KPI") Descriptions	Index Chapter	Page
A. Environmental			
A1: Emissions	General Disclosure	2	37–38
	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer. relating to waste gas and greenhouse gas emissions, discharges into water and land, and generation of hazardous and nonhazardous waste. Note: Air emissions include the emissions of nitrogen oxides, sulfur oxides and other pollutants restricted by the national laws and regulations. Greenhouse gas include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. Hazardous wastes shall be those defined by the national regulations.		
	KPI A1.1 Types of emissions and respective emission data.		37–38
	KPI A1.2 Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume and per facility).		37–38
	KPI A1.3 Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume and per facility).		37–38
	KPI A1.4 Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume and per facility).		note 1
	KPI A1.5 Description of measures to reduce emissions and results achieved.		37–38
	KPI A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.		37–38

Aspects	Major Category, Aspects, General Disclosure and Key Performance Indicator ("KPI") Descriptions		Index Chapter	Page
A2: Use of Resources	General Disclosure Policies on the effective use of resources, including energy, water and other raw materials. Note: The resources may be used for/in production, storage, transportation, buildings, and electronic equipment.			38
	KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in'000s) and intensity (e.g. per unit of production volume and per facility).		38
	KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume and per facility).		note 2
	KPI A2.3	Description of energy use efficiency initiatives and results achieved.		38
	KPI A2.4	Description of whether there are any issues in acquiring suitable water sources, water efficiency initiatives and results achieved.		note 2
	KPI A2.5	Total packaging material used for finished products (in tonnes) and, where appropriate, volume per production unit.		note 3
A3: Environment and Natural Resources	General Disclosure Policies on minimising the issuer's significant impact on environmental and natural resources.		2	note 4
	KPI A3.1	Description of the significant impacts of business activities on the environment and natural resources and the actions taken to manage them.		note 4

Aspects	Major Category, Aspects, General Disclosure and Key Performance Indicator ("KPI") Descriptions	Index Chapter	Page
B. Social			
B1: Employment	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer. relating to compensation and dismissal, recruitment and promotion, working hours, leaves, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	3.1	39–41
	KPI B1.1 Total workforce by gender, employment type, age group and geographical region.		39–41
	KPI B1.2 Employee turnover rate by gender, age group and geographical region.		note 5
B2: Health and Safety	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer. relating to providing a safe working environment and protecting employees from occupational hazards.	3.2	41–42
	KPI B2.1 Number and rate of work-related fatalities.		note 5
	KPI B2.2 Number of working days lost due to work-related injuries.		note 5
	KPI B2.3 Description of occupational health and safety measures adopted, and how they are implemented and monitored.		41–42

Aspects	Major Category, Aspects, General Disclosure and Key Performance Indicator ("KPI") Descriptions	Index Chapter	Page
B3: Development and Training	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. Note: Training refers to the occupational training, including internal and external programs at the expenses of the employers.	3.3	42–43
	KPI B3.1 The percentage of employees trained by gender and employee category (e.g. senior management and middle management).		note 6
	KPI B3.2 The average training hours completed per employee by gender and employee category.		note 6
B4: Labor Standards	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer. relating to prevention of child or forced labor.	3.1	note 7
	KPI B4.1 Description of measures to review employment practices to avoid child and forced labor.		note 7
	KPI B4.2 Description of steps taken to eliminate the irregular practices when discovered.		note 7
B5: Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain.	5	44
	KPI B5.1 Number of suppliers by geographical region.		note 5
	KPI B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.		44

Aspects	Major Category, Aspects, General Disclosure and Key Performance Indicator ("KPI") Descriptions	Index Chapter	Page
B6: Product Liabilities	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer. relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	6	44–47
	KPI B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons.		note 5
	KPI B6.2 Number of complaints on products and services and the follow-up measures.		44–47
	KPI B6.3 Description of practices relating to observing and protecting intellectual property rights.		note 5
	KPI B6.4 Description of quality assurance process and recall procedures.		44–47
	KPI B6.5 Description of consumer data protection and privacy policies, and how they are implemented and monitored.		44–47
B7: Anti-corruption	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer. relating to bribery, extortion, fraud and money laundering.	4	43–44
	KPI B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.		43–44
	KPI B7.2 Description of preventive measures and whistleblowing procedures, and how they are implemented and monitored.		43–44

Aspects	Major Category, Aspects, General Disclosure and Key Performance Indicator ("KPI") Descriptions		Index Chapter	Page
B8: Community Investment	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take the communities' interests into consideration.		7	47–48
	KPI B8.1	Key areas of contribution (e.g. education, environmental concerns, labor needs, health, culture and sport).		47–48
	KPI B8.2	Resources contributed (e.g. money or time) to the key areas.		note 5

Note 1: As the Group mainly focuses on providing services, the emission of non-hazardous waste is not important to the Group.

Note 2: As the water used at 4S/5S shops for the Group's car washing business is recycled, consumption of water resources is insignificant to the Group.

Note 3: Automobiles sold by the Group are packed by the manufacturers, over which the Group has no control.

Note 4: The Group's business activities are involved less natural resources, so it is not applicable.

Note 5: The Group has not yet disclosed the key performance indicators in these social areas.

Note 6: The Group disclosed other quantitative training data, please refer to page 34.

Note 7: The Group opposes the use of child labor and forced labor, and it is impossible for the Group to employ any child labor due to its business mode. As such, this item is not applicable to the Group and no disclosure is made.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

DIRECTORS

Executive Directors

Mr. WANG Muqing (王木清先生), aged 69, is the founder of the Group and has served as a non-executive Director of the Company since 9 July 2010 and was re-designated as an executive Director on 30 March 2015. Mr. Wang was appointed as the chairman of the Board on 28 August 2013. He was appointed as a member of the Nomination Committee and a member of the Remuneration Committee on 8 April 2016, and was appointed as the chairman of the Nomination Committee on 13 December 2016. He is also the controlling shareholder of the Company. He started his automobile trading business in 1996 and engaged in automobile dealership business. Mr. Wang founded the Group in 1999. Mr. Wang holds directorships in numerous major subsidiaries of the Group, including (but not limited to) Wuhan Zhengtong United Industrial Investment Group Co., Ltd., ZhengTong Automobile Investment Holding (Wuhan) Co., Ltd., and Shenzhen SCAS Investment Group Co., Ltd.

Mr. WANG Kunpeng (王昆鵬先生), aged 48, obtained a bachelor's degree in professional vehicle engineering from Jilin University of Technology, the PRC. Mr. Wang Kunpeng has been an executive Director since 20 July 2010 and served as a member of the Remuneration Committee from 20 July 2010 to 8 April 2016. He has held several senior management positions with the Group and its major subsidiaries after joining the Group in 2006, including the chief executive officer of the Group. Mr. Wang was re-designated as the vice chairman of the Board on 6 January 2017 and ceased to serve as the chief executive officer. He is currently responsible for the strategic planning of the Group. Before joining the Group, Mr. Wang worked for FAW-Volkswagen Sales Company Ltd., a company engaged in distribution-related activities with respect of Volkswagen automobiles, from 1997 to 2006, responsible for the management of the sale, after-sales services and logistics services relating to Audi and Volkswagen branded automobiles.

Mr. KOH Tee Choong (許智俊先生), aged 61, obtained a master's degree in business administration from Durham University in the United Kingdom. Mr. Koh has been an executive Director of the Company since 21 March 2017. He joined the Company on 6 January 2017 and was appointed as the chief executive officer. He is responsible for the strategic planning and overall business management of the Group. He is also an non-executive director of Dongzheng AFC. Prior to joining the Group, he worked for BMW China in 2006 and had served as the vice president sales and president. From 1989 to 1996, Mr. Koh held senior management positions in several international companies. Mr. Koh served as the regional manager of BMW Group China from 1997 to 2004 and was responsible for business in Mainland China, Hong Kong and Macau regions. Mr. Koh served as the managing director of BMW Concessionaires (HK) Ltd., a member of Sime Darby Group, from 2004 to 2006 and was responsible for businesses in Hong Kong and Macau regions.

Mr. LI Zhubo (李著波先生), aged 50, obtained an executive master of business administration degree from Wuhan University, the PRC. Mr. Li has been an executive Director of the Company since 20 July 2010. He joined the Group in 1999 and is currently the chief financial officer of the Group, responsible for financial planning and financial management of the Company. Before joining the Group, Mr. Li has engaged in financial management in automobile dealership industry with nearly 25 years of experience in financial management in automobile dealership industry.

Mr. WAN To (尹濤先生), aged 47, obtained a master's degree in business administration from the University of Leeds in the United Kingdom. He has been an executive Director of the Company since 16 November 2015. Mr. Wan had been assistant to chief executive officer and general manager of the network development department of the Company since joining the Group in January 2008. Since April 2013, he has been vice president of the Company and is currently in charge of the investments and development of the Company. Since December 2013, Mr. Wan has also been serving as executive director of Shenzhen SCAS Investment Group Co., Ltd, a wholly-owned subsidiary of the Company. Prior to joining the Group, Mr. Wan worked with BMW Brilliance Automotive Ltd. from 2003 to 2006. Mr. Wan has nearly 19 years' experience in marketing and investment for Chinese and foreign-invested auto dealers.

Independent Non-executive Directors

Dr. WONG Tin Yau, Kelvin (黃天祐博士), JP, aged 59, has served as an independent non-executive Director since 17 November 2010. Dr. Wong also serves as the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Dr. Wong is currently the chairman of Financial Reporting Council and was its member from 2015 to 2018. Besides being a member of the Corruption Prevention Advisory Committee of Independent Commission Against Corruption, he served as a non-executive director of the Securities and Futures Commission from 2012 to 2018, chairman of Investor and Financial Education Council from 2017 to 2018, chairman of The Hong Kong Institute of Directors from 2009 to 2014, and members of the Main Board and GEM of the Stock Exchange of Hong Kong Limited from 2007 to 2013. From 2010 to 2016, he was a member of Standing Committee on Company Law Reform. Dr. Wong obtained his master's degree in business administration from Andrews University in Michigan, the United States in 1992 and a Ph.D. in business administration from The Hong Kong Polytechnic University in 2007. He is an executive director and a deputy managing director of COSCO SHIPPING Ports Limited (stock code: 1199), responsible for the strategic planning, management of capital markets and investor relations. Dr. Wong held various positions in various listed companies in Hong Kong. Dr. Wong is currently an independent non-executive director of I.T Limited (stock code: 999) and JS Global Lifestyle Company Limited (stock code:1691). Dr. Wong served as an independent non-executive directors at Asia Investment Finance Group Limited (currently known as China Cloud Copper Company Limited)(stock code: 0033) from October 2016 to February 2018, Mingfa Group (International) Company Limited (stock code: 0846) from September 2018 to March 2019, and Huarong International Financial Holdings Limited (stock code: 0993) from October 2015 to December 2019. All the aforementioned companies are listed on the Stock Exchange. Dr. Wong is an independent non-executive director at Xinjiang Goldwind Science & Technology Co., Ltd. a company listed in Hong Kong and Shenzhen (stock code: 2208 and 002202.SZ), Shanghai Fosun Pharmaceutical (Group) Co., Ltd., a company listed in Hong Kong and Shanghai (stock code: 2196 and 600196.SH), and Yangtze Optical Fibre and Cable Joint Stock Limited Company*, a company listed in Hong Kong and Shanghai (stock code: 6869 and 601869.SH). From April 2015 to February 2020, he served as an independent non-executive director of Bank of Qingdao Co., Ltd., a company listed in Hong Kong and Shenzhen (stock code: 3866 and 002948.SZ).

Dr. CAO Tong (曹彤先生), aged 51, has been appointed as an independent non-executive Director since 8 April 2016. Dr. Cao is also the chairman of the Remuneration Committee, a member of the Audit Committee and a member of the Nomination Committee of the Company. Dr. Cao is currently the chairman of Shenzhen Hande Financial Technology Holdings Co., Ltd.* (深圳瀚德金融科技控股有限公司), Xiamen International Financial Technology Co.,Ltd. (廈門國際金融技術有限公司) and Shenzhen Han De Chuang Ke Financial Investment Co., Ltd. (深圳瀚德創客金融投資有限公司) respectively. Dr. Cao is also a chairman of Beijing Tepia Technology Co., Ltd.* (北京太比雅科技股份有限公司). From March 2019 to September 2019, Dr. Cao served as a chairman for Whole Easy Internet Technology Co., Ltd.* (眾應互聯科技股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (stock code: 002464.SZ). He worked with the planning and treasury department of the Beijing Branch of the People's Bank of China from July 1990 to January 1994. He had also been the deputy general manager of the planning and treasury department, the general manager of business department, the assistant to the president and the vice president of the Beijing Branch, the general manager of the personal banking department of the head office and deputy head of the Shenzhen management department of China Merchants Bank from January 1994 to December 2004. He had also been the assistant to the president and the vice president of China CITIC Bank Corporation Limited, a company listed on the Stock Exchange (stock code: 998) from December 2004 to August 2013 and had been an executive director from December 2011 to September 2013. He also served as the president of WeBank Co., Ltd. in Qianhai, Shenzhen from November 2014 to September 2015. He has nearly 28 years' experience in finance industry. Dr. Cao obtained his master's degree in economics from Renmin University of China in July 1999. He further obtained a Ph.D. in finance from Dongbei University of Finance and Economics in June 2011 and a Ph.D. in business administration from Arizona State University, the United States in July 2015.

Ms. WONG Tan Tan (王丹丹女士), aged 43, has served as an independent non-executive Director since 13 December 2016. Ms. Wong also serves as a member of the Audit Committee and Nomination Committee of the Company. Ms. Wong had served as a financial commissioner of the financial department and a senior manager of the marketing department at UTStarcom (USA) from March 2001 to February 2005, and served as an assistant to the chief executive officer at the Beijing headquarters of UTStarcom from February 2005 to April 2006. From May 2006 to September 2016, she was a chief representative and an executive director of the Beijing Office of J.P. Morgan Chase & Co. Ms. Wong studied business administration at Vanguard University in Costa Mesa, California, the United States from 1997 to 1998. From 1998 to 2000, she studied at the University of Southern California, Gordon S. Marshall School of Business, the United States, where she obtained a bachelor's degree in business administration, majoring in finance.

* *For identification purpose only*

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL PLACE OF BUSINESS

The Company is an exempted company incorporated in the Cayman Islands with limited liability. Its registered office is located in the Cayman Islands and its operating headquarters is located in Beijing, the PRC.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities and other particulars of the subsidiaries of the Company are set out in note 15 to the consolidated financial statements.

BUSINESS MODEL AND STRATEGIES

The principal business of the Group comprises 4S dealership business, supply chain business and financial services business. The Group has concentrated on luxury and ultra-luxury branded automobile sales in China, and has made significant effort to its traditional after-sales services and post-market businesses in sectors of financing, insurance brokerage, pre-owned automobiles and beyond. The operations strategies implemented by the Group in the year under review were set out in the "Business Review" of the section headed "Management Discussion and Analysis" on Pages 10 to 19 of this annual report.

SUBSIDIARIES

Please refer to note 15 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated financial statements.

BUSINESS REVIEW

Business performance, financial review, business review as well as prospects and strategies of the Group are set out in the section "Management Discussion and Analysis" in this report. Certain key financial indicators are provided in the section "Five Years' Financial Summary" in this report. Since the end of the financial year under review, save as disclosed in this annual report, there is no significant events that have an impact on the Group.

DIVIDEND

Given the severity of the COVID-19 epidemic development across the world and its unfathomable impact on the local and global economy in the foreseeable future, the Board has decided that no dividends shall be paid out of the remaining profits for 2019 after thorough consideration. The Group considers such temporary suspension of dividends is a reasonable move under current situation and feels optimistic about the prospects of economic recovery from COVID-19 and resumption of our dividends policy.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 9 June 2020 to Friday, 12 June 2020, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible for attending and voting at the forthcoming annual general meeting, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4: 30 p.m. on Monday, 8 June 2020.

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 3 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 11 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 30 to the consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The single largest customer and the top five customers in aggregate of the Group accounted for 2.24% and 5.60% of the Group's total sales for the year ended 31 December 2019 respectively. The single largest supplier and the top five suppliers in aggregate of the Group accounted for 28.56% and 72.95% of the Group's total purchases for the year respectively.

As far as the Directors are aware, neither the Directors, their close associates, nor shareholders who own more than 5% of the number of issued shares of the Company as at 31 December 2019 had any interest in any of the five largest suppliers and customers disclosed above.

RETIREMENT BENEFIT SCHEMES

Details of retirement schemes of the Group are set out in note 28 to the consolidated financial statements in the annual report. In addition to contributing into retirement benefit schemes organised by the PRC municipal government, the Group also makes contributions into mandatory provident fund scheme ("**MPF Scheme**") set up under the Mandatory Provident Fund Schemes Ordinance for all the Group's qualifying employees in Hong Kong. Contributions into MPF Scheme are made 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000.

RESERVES

Details of the movements in the reserve of the Group and the Company during the year ended 31 December 2019 are set out in the Consolidated Statement of Changes in Equity on page 85 and note 30(a) to the consolidated financial statements.

At 31 December 2019, distributable reserves of the Company amounted to RMB2,085 million (31 December 2018: RMB3,013 million). The Board proposed not to declare a final dividend for the year of 2019 (2018: HK$0.14 per share), in order to maximize the liquidity of the Group, in light of the severity of the COVID-19 epidemic development across the world and its unfathomable impact on the local and global economy in the foreseeable future.

In 2019, the Company paid an interim dividend of HK$0.10 (approximately RMB0.088) per ordinary share (2018: HK$0.10) for the six months ended 30 June 2019.

DIRECTORS

The Directors during the year ended 31 December 2019 were as follows:

Executive Directors:

Mr. Wang Muqing *(Chairman)*
Mr. Wang Kunpeng *(Vice Chairman)*
Mr. Koh Tee Choong *(Chief Executive Officer)*
Mr. Li Zhubo *(Chief Financial Officer)*
Mr. Wan To
Mr. Shao Yong Jun (resigned on 2 April 2019)

Independent Non-executive Directors:

Dr. Wong Tin Yau, Kelvin
Dr. Cao Tong
Ms. Wong Tan Tan

The biographical information of the Directors are set out in the section headed "Directors' and Senior Management's Profiles" of this annual report.

Mr. Wang Kunpeng, Mr. Koh Tee Choong and Mr. Li Zhubo will retire from office by rotation at the 2020 AGM. Mr. Wang Kunpeng and Mr. Li Zhubo, being eligible, will offer themselves for re-election. Mr. Koh had notified the Company that due to health issue, he will not seek for re-election. Mr. Koh confirmed that he has no disagreement with the Board and there is no other matter in relation to his retirement that needs to be brought to the attention of the Shareholders.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the 2020 AGM has a service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Other than disclosed in the section "Continuing Connected Transactions" in this report, no transaction, arrangement or contracts of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director or an entity connected with him/her had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section "Continuing Connected Transactions" in this report, no contract of significance had been entered into between the Company or any of its subsidiaries, and any controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed under the section "Continuing Connected Transactions" in this report, none of the Directors or their respective associates has any interests in a business, which competes or may compete with the business of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

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

CONTINUING CONNECTED TRANSACTIONS

During 2019, the Group has entered into the following lease agreements and property management agreements as well as property development and management services agreement which constituted non-exempt continuing connected transactions subject only to the announcement, reporting and annual review requirements under Chapter 14A of the Listing Rules.

(1) Lease Agreements and Property Management Agreements

(i) Lease Agreements

On 10 April 2019, the Group renewed the lease agreements ("**2019 Lease Agreements**") with the respective connected persons as lessors (as defined below as the "**Connected Lessors**") in relation to the lease of the office, 4S stores, garage as well as logistics and storage of the Group for a three years period from 1 January 2019 to 31 December 2021. Pursuant to the 2019 Lease Agreements, the Group shall pay the Connected Lessors an amount of approximately RMB28.10 million quarterly during the lease term.

The Connected Lessors, namely, 湖北熙可實業有限公司 (Hubei Xike Industry Co., Ltd.) ("**Hubei Xike**"), 北京寶澤汽車科技發展有限公司 (Beijing Baoze Automobile Technology Development Co., Ltd.) ("**Beijing Development**"), 武漢聖澤捷運貿易有限公司 (Wuhan Shengze Jieyun Trading Co., Ltd.) ("**Wuhan Shengze Jieyun**"), 武漢聖澤捷眾物流有限公司 (Wuhan Shengze Jiezhong Logistics Co., Ltd.) ("**Wuhan Shengze Jiezhong**"), 長沙聖澤瑞寶電子產品貿易有限公司 (Changsha Shengze Ruibao Electronics Trading Co., Ltd.) ("**Changsha Shengze**"), 內蒙古聖澤鼎傑汽車貿易有限公司 (Inner Mongolia Shengze Dingjie

Automobile Trading Co., Ltd.) ("**Inner Mongolia Shengze Automobile Trading**"), 武漢江融投資有限公司 (Wuhan Jiangrong Investment Co., Ltd.) ("**Wuhan Investment**"), are directly or indirectly wholly-owned by family members of Mr. Wang Muqing, an executive Director and the controlling shareholder of the Company.

The table below sets out the details of the 2019 Lease Agreements and the term of all such agreements are from 1 January 2019 to 31 December 2021:

	Location	Gross floor area (sq.m)	Use	Lessor	Lessee (being subsidiaries of the Company)	Quarterly rental (RMB)
1.	4S shop the basement and levels 1, 2, 3, 4 and 5 on No. 59 West Third Ring South Road, Feng Tai District, Beijing, the PRC	19,633.40	The Group's head office, operation of 4S businesses and garage	Beijing Development	北京寶澤行汽車銷售服務有限公司 (Beijing Baozehang Automobile Sales Services Co., Ltd.*) ("**Beijing Baozehang**")	6,663,973
2.	4S shop the basement and levels 1, 2, 3, 4 and 5 on No. 59 West Third Ring South Road, Feng Tai District, Beijing, the PRC	1,472.09	Office	Beijing Development	北京恒毅盈通廣告傳媒有限公司(Beijing Hengyi Ying Tong Advertising Media Co., Ltd.*) ("**Beijing Hengyi**")	519,850
3.	4S shop the basement and levels 1, 2, 3, 4 and 5 on No. 59 West Third Ring South Road, Feng Tai District, Beijing, the PRC	5,224.92	Office	Beijing Development	鼎澤保險代理有限公司 (Dingze Insurance Agency*)	1,763,949
4.	4S Store, No.40, Xingan North Road Yi, New District, Hohhot, Inner Mongolia Autonomous Region, the PRC (Note 2)	4,662.00	Operation of 4S businesses	Inner Mongolia Shengze Automobile Trading	呼和浩特市英菲汽車銷售服務有限公司 (Huhhot Yingfei Automobile Sales Services Co., Ltd.*)	55,303
5.	4S Store, No.42, Xingan North Road, New District, Hohhot, Inner Mongolia Autonomous Region, the PRC	4,615.29	Operation of 4S businesses	Inner Mongolia Shengze Automobile Trading	內蒙古鼎傑汽車貿易有限公司 (Inner Mongolia Dingjie Automobile Trading Co., Ltd.*)	593,815
6.	4S Store, No.40, Xingan North Road Yi, New District, Hohhot, Inner Mongolia Autonomous Region, the PRC	10,199.00	Operation of 4S businesses	Inner Mongolia Shengze Automobile Trading	呼和浩特市祺寶汽車銷售有限公司 (Huhhot Qibao Automobile Sales Services Co., Ltd.*)	2,624,458
7.	4S Store, No.40, Xingan North Road Jia, New District, Hohhot, Inner Mongolia Autonomous Region, the PRC	7,439.00	Operation of 4S businesses	Inner Mongolia Shengze Automobile Trading	呼和浩特市捷運行汽車銷售服務有限公司 (Huhhot Jieyunhang Automobile Sales Services Co., Ltd.*)	2,952,818
8.	4S Store, No.688, Changsha Avenue, Yuhua District, Changsha, Hunan, the PRC	4,498.26	Operation of 4S businesses	Changsha Shengze	長沙瑞寶汽車銷售服務有限公司 (Changsha Ruibao Automobile Sales Services Co., Ltd.*)	694,090

	Location	Gross floor area (sq.m)	Use	Lessor	Lessee (being subsidiaries of the Company)	Quarterly rental (RMB)
9.	No. Te 6 Huangpu Technological Park, Jiangan District, Wuhan City, Hubei Province, the PRC	4,661.59	Operation of 4S businesses	Hubei Xike	湖北博誠汽車銷售服務有限公司 (Hubei Bocheng Automobile Sales Services Co., Ltd.*)	654,146
10.	No. Te 6 Huangpu Technological Park, Jiangan District, Wuhan City, Hubei Province, the PRC	6,541.52	Operation of 4S businesses	Hubei Xike	武漢開泰汽車銷售服務有限公司 (Wuhan Kaitai Automobile Sales Services Co., Ltd.*)	913,147
11.	Shiqiao Village, Houhu County, Jiangan District, Wuhan City, Hubei Province, the PRC	18,600.00	Operation of 4S businesses	Wuhan Investment	湖北奧澤汽車銷售服務有限公司 (Hubei Aoze Automobile Sales Services Co., Ltd.*)	4,030,434
12.	Shiqiao Village, Houhu County, Jiangan District, Wuhan City, Hubei Province, the PRC	2,556.00	Operation of 4S businesses	Wuhan Investment	武漢寶澤汽車銷售服務有限公司 (Wuhan Baoze Automobile Sales Services Co., Ltd.*)	553,860
13.	Lot 6C2 Wuhan Economic and Technological Development Zone, Wuhan City, Hubei Province, the PRC	120,951.22	Operation of logistics and storage businesses	Wuhan Shengze Jieyun	聖澤捷通供應鏈有限公司 (Shengze Jietong*)	5,278,996
14.	Lot 5C2 Wuhan Economic and Technological Development Zone, Wuhan City, Hubei Province, the PRC	10,422.59	Operation of Logistics and storage businesses	Wuhan Shengze Jiezhong	聖澤捷通供應鏈有限公司 (Shengze Jietong*)	715,372

Notes:

1. The rental amounted of the 2019 Lease Agreements were determined after arm's length negotiations between the Group's subsidiaries and the relevant Connected Lessors with reference to the prevailing market rate determined by a valuer engaged by the Group's subsidiaries.

2. The land located at No. 40, Xingan North Road Yi, New District, Hohhot is owned by Inner Mongolia Shengze Automobile Trading, one of the Connected Lessors, and the buildings erected there on are owned by Huhhot Yingfei Automobile Sales Services Co., Ltd., the lessee, being a subsidiary of the Company.

* for identification purpose only

(ii) Property Management Agreements

In order to ensure the continual use of the property management services of Beijing Development by the Group after the expiry of the property management agreement with Beijing Development on 31 December 2015 for a period of 3 years from 1 January 2016 to 31 December 2018, the Group entered into the property management agreements with Beijing Development on 10 April 2019 for a period of 3 years from 1 January 2019 to 31 December 2021 (the "**2019 Property Management Agreements**"). Pursuant to the 2019 Property Management Agreements, Beijing Baozehang shall pay property management monthly fee of RMB362,043 in total to Beijing Development from 1 January 2019. In addition, Beijing Development shall charge Beijing Baozehang the air-conditioning annual fee of RMB2,908,898 under the 2019 Property Management Agreements payable semiannually. The property management fee under the 2019 Property Management Agreements was determined with reference to the market rate determined by a valuer engaged by Beijing Baozehang.

For further details of the 2019 Lease Agreements and the 2019 Property Management Agreements, please refer to the announcements of the Company dated 10 April 2019 and 18 April 2019 respectively.

(iii) Proposed Annual Caps

The Directors expect for each of the three years ending 31 December 2021 that (i) the rental amounts payable by the Group to the lessors during the lease term under the 2019 Lease Agreements; and (ii) the property management fee and air-conditioning fee payable to Beijing Development under the 2019 Property Management Agreements would not exceed the annual caps of RMB121 million. The proposed annual cap was determined with reference to the rental amount payable by the Group to the lessors during the effective term of the lease pursuant to the 2019 Lease Agreements and the property management fee and air-conditioning fee payable to Beijing Development pursuant to the 2019 Property Management Agreements. For the year ended 31 December 2019, the total amounts of payments incurred by the Group under the lease agreements with related parties and the property management expense were RMB118.4 million.

The Connected Lessors are the connected persons of the Company. As a result, the transactions contemplated under the 2019 Lease Agreements and the 2019 Property Management Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

(2) Property Development Service Agreement

In order to reduce project development costs, on 4 July 2019, the Company entered into an agreement on contracted development and management ("**Agreement on Contracted Development and Management**") with Beijing Guangze, pursuant to which the Company engages Beijing Guangze to undertake the overall management and coordination services for the development, construction, renovation and expansion of certain 4S stores and the relevant commercial complex projects owned by the Group. The Company shall pay Beijing Guangze 5% of the estimated total project cost under the Agreement on Contracted Development and Management as the contracted management service fee. As the total project cost under the Agreement on Contracted Development and Management is estimated to be approximately RMB848 million, the contracted management service fee payable by the Company to Beijing Guangze is approximately RMB42.40 million. Taking into consideration the amount of the contracted management service fee of RMB42.40 million and the maximum amount of early completion bonus of RMB0.5 million, the annual cap for the Agreement on Contracted Development and Management shall not exceed RMB45 million. The amount was determined after arm's length negotiations between parties taking into account, among other factors, the project scale, investment amount for the Project, scope of design and technical standards and scope of services provided by Beijing Guangze. For the year ended 31 December 2019, the total amount of management services fee was RMB9.94 million.

Beijing Guangze possesses adequate commercial experience in the development and construction project of 4S stores, with corresponding real estate development and management capabilities. The Group engaged Beijing Guangze to undertake the development, establishment, re-establishment and expansion of 4S stores and relevant commercial projects in order to further reduce the cost and risk of the development and construction of such 4S stores and projects, as well as speed up the project construction to achieve our network expansion goals.

For further details of the Agreement on Contracted Development and Management, please refer to the announcement of the Company dated 4 July 2019.

REVIEW OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Pursuant to Rule 14A.56 of the Listing Rules, the Company has engaged KPMG, its independent external auditor, to perform certain procedures in respect of the continuing connected transactions undertaken by the Group for the year ended 31 December 2019 which has reported to the board of Directors in a letter dated 29 April 2020. KPMG has confirmed the matters stated in Rule 14A.56 of the Listing Rules.

The independent non-executive Directors of the Company have reviewed the non-exempt continuing connected transactions and the report of KPMG and are of the opinion that the transactions were entered into by the Group:

(a) in the ordinary and usual course of the Group's business;

(b) on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from independent third parties; and

(c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

RELATED PARTY TRANSACTIONS

Save as disclosed in the sections headed "Material acquisition and disposal" and "Continuing connected transactions" of this report, the Group had not entered into any related party transaction during the year under review.

SHARE OPTION SCHEME

The Company has adopted a share option scheme ("**Share Option Scheme**") pursuant to a resolution in writing passed by the Shareholders on 17 November 2010, which enables the Company to grant options to selected participants as incentives or rewards for their contribution to the Group. The Share Option Scheme became effective on 10 December 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from the date of its adoption.

Eligible participants of the Share Option Scheme include the following:

(i) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of the Company, any of the Company's subsidiaries or any entity (the "**Invested Entity**") in which the Group holds an equity interest;

(ii) any non-executive directors (including independent non-executive directors) of the Company, any of the Company's subsidiaries or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any member of any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(vii) any advisor (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and

(viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of the Group, and for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants.

As of the date of this report, the total number of shares of the Company available for issue under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue on the day on which trading of the shares commence on the Stock Exchange, i.e. 200,000,000 shares, representing 8.16% of the issued share capital of the Company as at the date of this report. No option outstanding under the Share Option Scheme as at the date of this report.

The maximum number of shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant (other than a substantial shareholder, chief executive or Director as explained below) in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (the "**Individual Limit**"). Any further grant of share options in excess of the Individual Limit is subject to Shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules) ("**Connected Persons**"), are subject to approval in advance by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, in the 12-month period up to and including the date of grant, are subject to Shareholders' approval in general meeting.

The offer of a grant of share options may be accepted by a participant within 21 days from the date of offer upon payment of a nominal consideration of HK$1 by the grantee. The exercise period for the share options granted is determined by the Board, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the options subject to the provisions for early termination under the Share Option Scheme.

The subscription price for shares under the Share Option Scheme shall be a price determined by the Board, but shall not be less than the highest of (i) the closing price of shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of the offer of the grant, which must be a business day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant; and (iii) the nominal value of the shares of the Company.

Subject to the early termination of the Share Option Scheme in accordance with the Share Option Scheme rules, the Share Option Scheme will expire on 16 November 2020.

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

As at 31 December 2019, the interests and short positions of the Directors, the chief executive and their respective associates in the shares and 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 and the Stock Exchange pursuant to the Model Code, were as follows:

(i) Long positions in the shares and underlying shares of the Company:

Name of Director	Capacity/nature of interest	Number of Shares/ underlying Shares	Approximate percentage of shareholding
Wang Muqing	Founder of trusts	1,383,516,820 (Note 1)	56.42%
Wang Kunpeng	Beneficial Owner	1,230,000	0.05%
Li Zhubo	Beneficial Owner	1,550,000	0.06%

Note:

1. These shares are directly held by Joy Capital Holdings Limited ("**Joy Capital**"). Mr. Wang Muqing and Mr. Wang Weize were the founders of the family trusts that own all the issued shares of Joy Capital, and Credit Suisse Trust Limited in Guernsey is the trustee of these family trusts. The Wang family members are discretionary beneficiaries of these trusts.

Save as disclosed above, as at 31 December 2019, none of the Directors, the chief executive or any of their respective associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, the interests or short positions of such person (other than the Directors or chief executive of the Company) in the Shares and underlying Shares of the Company as recorded in the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO were as follows:

Name of Shareholders	Capacity/ nature of interest	Number of Shares Held Long Position (L) Short Position (S) Lending Pool (P)	Approximate percentage of shareholding
Joy Capital	Beneficial owner (Note 1)	1,383,516,820(L)	56.42%
Wang Weize	Founder of trusts (Note 1)	1,383,516,820(L)	56.42%
Citigroup Inc.	Person having a security interest in shares	1,434,823(L)	0.06%
	Interest of controlled corporation	16,166,101(L)	0.66%
		16,165,718(S)	0.66%
	Approved lending agent	159,995,125(P)	6.52%

Note:

1. These Shares are directly held by Joy Capital. Mr. Wang Muqing and Mr. Wang Weize were the founders of the family trusts that own all the issued shares of Joy Capital, and Credit Suisse Trust Limited in Guernsey is the trustee of these family trusts. The Wang family members are discretionary beneficiaries of these trusts.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Apart from the Share Option Scheme, at no time during the year ended 31 December 2019 was the Company, or any of its holding company, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

NON-COMPETE UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

In accordance with the non-compete undertakings ("**Non-Compete Undertakings**") contained in the share purchase agreement dated 17 November 2010 between the Company, Mr. Wang Muqing, Grand Glory Enterprises Limited ("**Grand Glory**") and Joy Capital, each of Mr. Wang Muqing, Grand Glory and Joy Capital (collectively, the "**Covenantors**") has undertaken to the Company that during the period in which he and his associates, individually or taken as a whole, remains a controlling shareholder (as defined under the Listing Rules) of the Company, they would comply with the terms of the Non-Compete Undertakings.

In addition, under the Non-Compete Undertakings, each of the Covenantors has undertaken to the Company that he shall provide to the Company and/or the Directors (including the independent non-executive Directors) from time to time all information necessary for annual review by the independent non-executive Directors with regard to compliance with the terms of the Non-Compete Undertakings. Each of the Covenantors has also undertaken to issue an annual confirmation to the Company on compliance with the terms of the Non-Compete Undertaking, their interests in any projects or business opportunities, if any, and consenting to the disclosure of such confirmation in the annual reports of the Company, thereby enabling the Company to keep monitoring the relevant compliance by the Covenantors.

The Company has received an annual confirmation from the Covenantors in respect of their compliance with the terms of the Non-Compete Undertakings and that they have not engaged, nor been interested, in any business which directly or indirectly, competes or may compete with the business of the Group during the year ended 31 December 2019.

The independent non-executive Directors have reviewed the said undertakings and are of the view that the Covenantors have complied with the Non-Compete Undertakings during the year ended 31 December 2019.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2019 are set out in notes 24 and 27 to the consolidated financial statements.

EMOLUMENT POLICY

The emolument policy of the general staff of the Company is set up by the management of the Group on the basis of their merit, qualifications and competence.

The emoluments of the Directors and senior management of the Company are proposed by the Remuneration Committee to the Board, having regard to the Company's operating results, individual performance and comparable market statistics, subject to the final decision by the Board.

The remuneration of the Directors and senior management of the Company are set out in notes 7 and 8 to the consolidated financial statements.

RELATIONSHIPS WITH MAJOR STAKEHOLDERS

We fully understand that employees, customers and suppliers are the key to our sustainable and stable development. We are committed to establishing a close relationship with our employees, enhancing cooperation with our suppliers and providing high-quality products and services to our customers so as to ensure our sustainable development.

The Group has placed high emphasis on human resources. Hence, the Group offer its employees a competitive remuneration package and various trainings, including internal trainings and refresher courses offered by professional organisations, so as to keep them abreast of the latest development in the market, industry and various businesses.

The Group has enhanced communications with customers via various channels so as to provide excellent and quality customer services, with a focus on the customers' need and thus enhance customer satisfaction and loyalty. We value the feedback from customers and always try to understand their thoughts through daily communication, after-sale return visit and customer satisfaction surveys. In addition, we also assign designated personnel to maintain customers relationship, responding to the feedback and complaints from customers.

The Group has established strong cooperation relationship with a number of manufacturers of luxury and ultra-luxury branded automobiles and entered standing cooperative agreements, including dealership agreements and other licensing agreements. With the development of prevailing trend in the automobile industry, the Group will continue to facilitate exchange and cooperation with manufacturers of automobiles for the purpose of creating win-win situation. For the management of other suppliers, the Group has been more prudent in selecting suppliers and established long-term cooperation with them. The Group places emphasis on ongoing assessment and monitoring on the suppliers selection in order to ensure compliance with our commitment to quality and ethical conduct.

COMPLIANCE OF LAWS AND REGULATIONS

The Company is aware of the importance of complying with the relevant laws and regulations, and has allocated systems and human resources to guarantee our constant compliance to provisions and codes, and build good relationship with supervision authorities through effective communication.

During the year under review, to the knowledge of Directors, the Company was in compliance with the laws and regulations in all material respects relating to its business, including those relating to automobile dealership, auto financing and insurance brokerage. In addition, the Group maintains compliance with laws and regulations relating to employees' rights and benefits, and provides them with a healthy and safe working environment and condition. Meanwhile, the Group is committed to achieving high standards of corporate governance by observing laws and regulations on taxation, financial issues and listing compliance.

MAJOR RISKS AND UNCERTAINTIES

The results and business operations of the Group are subject to the impact of a number of factors, including those arising from the macro-economic environment as well as those inherent in the auto retail sector. The major risks are summarised as follows:

(i) Macro-economic environment

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

(ii) Industry policies

The Group's business operations must comply with policies and regulations announced by the PRC government for the administration of the auto industry. Changes in such industry policies may result in decreased market demand for products, lower prices for products and services and escalated market competition, which will in turn result in the decrease in revenue and profit. As such, the Group will monitor closely any developments in government policies on our industry, while enhancing our service standards on an ongoing basis to address any risks arising from changes in industry policies.

(iii) Manufacturers' policies

As an auto dealer group, we have maintained sound cooperation with branded automobile manufacturers. Changes in the policies of such manufacturers might result in changes in the sales strategies for their brands, sales incentives and business policy support for us, and such changes might result in a decrease in products sales and revenue. Hence, the Group will actively enhance communication with the manufacturers and continue to adopt a development strategy that covers a diverse range of brands.

(iv) Intense competition

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

(v) Supply chain

The Group does not own or operate any production facilities, and is dependent on branded automakers and suppliers of auto accessories for the supply of all of our products. Any disruption in the supply of products by our suppliers might result in problems for our supply chain. Nevertheless, we have fostered long-term, stable partnerships with a number of branded automakers and suppliers of parts and components, and such partnerships have been highly valued by the suppliers. Hence, we have endeavoured to minimise the impact of any disruption in supply on a best-effort basis and ensure we are able to locate other suppliers of similar quality for reasonable prices at any time.

(vi) Information systems

The Group's business is dependent on information technology systems and networks in connection with sales, procurement, sales and distribution at all retail outlets, inventory management, customer relations management, digitalized marketing, financial reporting and auto finance. Any serious disruption to or slowdown of our information technology systems as a result of, among others, our inability to successfully upgrade our systems, system breakdowns or virus or cyber attacks might result in the loss of data and disruption in operations. Hence, the Group will invest in information technology and ERP systems on an ongoing basis to ensure the technological security, accessibility and completeness of important operational data.

(vii) Market risks

The Group is subject to various types of market risks, including credit risks, liquidity risks, interest rate risks and exchange risks, the details of which are set out in note 31 to the financial statements in this annual report. The Group has exercised effective control over market risks through continuous monitoring of risks and changes, timely risk warnings and appropriate application of hedge instruments.

INDEMNITY TO DIRECTORS

The Articles contain provisions that provide indemnity to, among other persons, our Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty. In accordance with the service agreement, each of our executive Director is entitled to be indemnified by the Company in all respects under laws, except to the extent of the willful default or gross negligence of a director. The Company maintained Directors' and chief executives' liability insurance and corporate compensation insurance during the year.

ENVIRONMENTAL POLICIES AND PERFORMANCE

We recognise the importance of environmental protection and have adopted stringent measures for environmental protection in order to ensure the compliance by the Group of the prevailing environmental protection laws and regulations.

The Group has been advocating the concept of green office in its daily operation by fully committing to environmental protection, energy saving and discharge reduction, reasonable allocation and utilisation of resources. In addition, the Group has implemented resources recycling with an aim to minimise energy consumption and waste. In future, the Group will firmly employ its sustainable development strategy to strongly promote environmental protection and carry out measures for environmental protection.

MANAGEMENT CONTRACTS

Except for the service contracts of the Directors and senior management of the Company or otherwise disclosed in this report, no contracts were entered into between the Company and any individuals, companies or legal corporations, for the management of all or any material part of the Company's business.

CORPORATE GOVERNANCE

Throughout the year ended 31 December 2019, the Company had complied with the Code Provisions set out in the CG Code in Appendix 14 to the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

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

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

Purchase of Own Shares

In November 2018, a total of 1,922,000 shares (those repurchased by the Company during the year at prices ranging from HK$4.22 to HK$4.59 per share) were settled by the Company during the year. The aggregate amount paid by the Company for such repurchase cancelled on 18 January 2019 was approximately HK$8.51 million.

The shares repurchased were cancelled and accordingly the issued share capital of the Company was reduced. The repurchase of the Company's shares during the year were effected by the Directors pursuant to the mandate granted by Shareholders at the annual general meeting of the Company held in 2018, with a view to benefiting Shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

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

PRE-EMPTIVE RIGHTS

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

AUDITORS

KPMG will retire and, being eligible, offer themselves for re-appointment at the 2020 AGM of the Company. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the 2020 AGM of the Company.

On behalf of the Board

Wang Muqing
Chairman
29 April 2020

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of China ZhengTong Auto Services Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China ZhengTong Auto Services Holdings Limited ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 81 to 183, which comprise the consolidated statement of financial position as at 31 December 2019, 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 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("**the Code**") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, 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)

Impairment of goodwill and intangible assets — car dealerships

Refer to note 13 & note 14 to the consolidated financial statements on pages 127 to 128 and the accounting policies on page 104.

The Key Audit Matter	How the matter was addressed in our audit
As a result of acquisitions by the Group of 4S dealership stores, the Group recognised goodwill and intangible assets — car dealerships, in the total net amounts of RMB1.9 billion and RMB3.1 billion, respectively, as at 31 December 2019. Goodwill has been allocated to each of the relevant individual 4S dealership stores, which are considered to represent individual cash-generating units ("**CGUs**"). The 4S dealership business in China operates in a highly competitive and regulated market which increases the risk of sales volatility of the 4S dealership stores. Consequently, there are uncertainties as to whether the acquired 4S dealership stores can meet forecast growth projections. Annually, management assesses goodwill and intangible assets — car dealerships for potential impairment by determining the recoverable amount for each CGU to which the goodwill and intangible assets — car dealerships have been allocated. The recoverable amount of each CGU is determined by management using the discounted cash flow method. The preparation of discounted cash flow forecasts involves the exercise of significant management judgement, particularly in estimating sales growth rates, corresponding gross margin rates and working capital changes, which are based on past performance and management's expectation of market developments. We identified impairment of goodwill and intangible assets — car dealerships as a key audit matter because these assets are material to the consolidated financial statements and because the impairment assessments prepared by management are complex and contain certain judgements and assumptions which are inherently uncertain and could be subject to management bias.	Our audit procedures to assess impairment of goodwill and intangible assets — car dealerships included the following: • evaluating the appropriateness of management's identification of CGUs and the amounts of goodwill and intangible assets — car dealerships allocated to each CGU; • with the assistance of our internal valuation specialists, evaluating the methodology adopted by management in the preparation of the discounted cash flow forecasts with reference to the requirements of the prevailing accounting standards and assessing whether the discount rate applied was within the range adopted by other companies in the same industry; • comparing data in the discounted cash flow forecast of each individual CGU with relevant data, including forecast revenue, forecast cost of sales, forecast other operating expenses and forecast working capital, in the financial budget which was approved by the directors and comparing forecast revenue growth trends with sales forecasts issued by industry research institutions; • comparing forecast revenue, forecast cost of sales, forecast other operating expenses and forecasts working capital included in the discounted cash flow forecasts prepared in the prior year with the current year's performance to assess how accurate the prior year's cash flow forecasts were and making enquiries of management as to the reasons for any significant variations identified; • obtaining from management sensitivity analyses of the key assumptions adopted in the discounted cash flow forecasts and assessing the impact of changes in the key assumptions to the conclusions reached in the impairment assessments and whether there were any indicators of management bias; and • considering the disclosures in the consolidated financial statements of the assumptions in the impairment assessments of goodwill and intangible assets — car dealerships with reference to the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS (Continued)

Recognition of vendor rebates

Refer to note 19 to the consolidated financial statements on page 150 and the accounting policies on page 110.

The Key Audit Matter	How the matter was addressed in our audit
The Group earns vendor rebates under various and differing arrangements with automobile manufacturers. Rebate arrangements, which can vary in different fiscal years and between automobile manufacturers, include volume based purchase rebates, sales rebates for certain specific car models, performance rebates and other specific rebates. Volume based purchase rebates and sales rebates are granted by vendors if certain purchase or sales targets are met. Performance rebates are granted by vendors in accordance with the vendors' comprehensive assessment of the Group's business performance. In addition, other specific rebates are granted to the Group, including, but not limited to, compensation for automobile mortgage sales, new store one-off compensation, regional annual awards and car demonstration compensation. Volume based purchase rebates are recognised as a deduction from the costs of purchase of motor vehicles when the performance conditions associated with them are met. Sales based rebates, performance based rebates and other specific rebates are recognised as a deduction from cost of sales when the respective conditions associated with them are met. The Group manually calculates rebates and recognises them when the associated conditions for recognition are met. We identified recognition of vendor rebates as a key audit matter because there are many different kinds of rebate arrangements in place and because the manual calculation of the Group's entitlement to such rebates increases the risk that vendor rebates are not accurately recognised in accordance with the underlying entitlement conditions.	Our audit procedures to assess the recognition of vendor rebates included the following: • obtaining an understanding of the design and implementation of management's key internal controls in relation to the recognition of vendor rebates; • assessing the Group's accounting policies in respect of the recognition of vendor rebates by inspecting the terms and conditions set out in each type of rebate arrangement communicated by the respective automobile manufacturers with reference to the requirements of the prevailing accounting standards; • selecting a sample of vendor rebates recognised and settled during the year and comparing the recognised rebate amount with credit notes issued by the vendors or underlying bank payment slips; • for vendor rebate receivables at the reporting date, performing recalculations of the amounts receivable, on a sample basis, based on the terms of the underlying vendor rebate policies and relevant inputs, including sales and purchase volume data, rebate rates and other specific criteria as set out in the respective vendor rebate policies; • evaluating, on a sample basis, the above relevant inputs used to calculate vendor rebates by comparing the inputs with relevant underlying documentation; and • assessing, on a sample basis, whether vendor rebates accrued at the previous financial reporting date were subsequently settled in the current year.

KEY AUDIT MATTERS (Continued)

Loss allowance of receivables from financial services operations	
Refer to note 20 to the consolidated financial statements on pages 151 to 152 and the accounting policies on page 101.	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group's financial services operations mainly comprise automobile consumer financing services; i.e. providing loans and advances to individual car buyers, which are recorded as receivables from financial services in the consolidated financial statements. As at 31 December 2019, loss allowance of receivables from financial services amounted to RMB185 million, as disclosed in note 20. The Company uses the expected credit loss ("**ECL**") model to calculate the loss allowance in accordance with Hong Kong Financial Reporting Standard 9 — Financial instruments. The Group classifies receivables from financial services operations into different stages and recognises an impairment allowance based on the expected credit loss for the next 12 months or the entire lifetime of the receivable, depending on whether credit risk on that receivable has increased significantly since initial recognition. The determination of loss allowances using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default, discount rate, and adjustments for forward-looking information. Management judgement is involved in the selection of these parameters and the application of assumptions. In particular, the determination of loss allowances is heavily dependent on the external macro environment and the Group's internal credit risk management strategy for financial services operations. The expected credit losses for receivables from financial services are derived from estimates, whereby management takes into consideration data on historical overdues and historical loss experiences for receivables from financial services. We identified the loss allowance of receivables from financial services operations as a key audit matter because of the inherent uncertainty and management judgement involved and because of its significance to the financial results of the Group.	Our audit procedures to assess loss allowance of receivables from financial services operations included the following: • understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of receivables from financial services operations, the credit grading process, and the measurement of loss allowance of receivables from financial services operations; • with the assistance of our internal specialists, assessing the reliability of the expected credit loss model used by management in determining loss allowances, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, including the identification of loss stages, probability of default, loss given default, exposure at default, discount rate and adjustments for forward-looking information; • assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model: ➢ for key parameters derived from internal data relating to original agreements, by comparing the total balance of the receivables from financial services list used by management to assess the allowances for impairment with the general ledger, selecting samples and comparing individual receivables from financial services information with the underlying agreements and other related documentation to assess the accuracy of compilation of the receivables from financial services list;

KEY AUDIT MATTERS (Continued)

Loss allowance of receivables from financial services operations (Continued)

Refer to note 20 to the consolidated financial statements on pages 151 to 152 and the accounting policies on page 101.

The Key Audit Matter	How the matter was addressed in our audit
	➢ for key parameters involving judgements, by seeking evidence from external sources and comparing to the Group's internal records, including historical loss experience. As part of these procedures, challenging the reasons for modifications to estimates and input parameters compared with prior period and considered the consistency of judgements. We compare the economic factors used in the models with market information to assess whether they were aligned with market and economic developments; ➢ for key parameters which were derived from system-generated internal data, by assessing the accuracy of input data by comparing the input data with original documents on a sample basis. In addition, we involved our IT specialists to assess the logic and compilation of the overdue information; • evaluating the validity of management's assessment on whether the credit risk of the receivables from financial services has, or has not, increased significantly since initial recognition and whether any of the receivables from financial services is credit-impaired by selecting risk-based samples and making enquiries of the credit managers about the borrowers' business operations, checking borrowers' financial information and researching market information about borrowers' businesses; • recalculating the amount of credit loss allowance for 12-month and life-time credit losses using the expected credit loss model based on the above parameters and assumptions for a sample of receivables from financial services where the credit risk of the receivables from financial services has not, or has, increased significantly since initial recognition, respectively; and • evaluating whether the disclosures on loss allowance of receivables from financial services meet the disclosure requirements of the prevailing accounting standards.

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 RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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 Chan Kim Tak.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
29 April 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019 (Expressed in RMB'000)

	Note	For the year ended 31 December 2019	2018 (Note)
Revenue	3	**35,137,794**	37,455,510
Cost of sales		**(31,319,411)**	(32,968,683)
Gross profit		**3,818,383**	4,486,827
Other income	4	**851,145**	962,747
Selling and distribution expenses		**(1,099,725)**	(1,036,585)
Administrative expenses		**(1,392,232)**	(1,650,024)
Profit from operations		**2,177,571**	2,762,965
Finance costs	5(a)	**(1,076,260)**	(910,072)
Share of profit of a joint venture and an associate		**61,753**	36,595
Profit before taxation	5	**1,163,064**	1,889,488
Income tax	6(a)	**(396,359)**	(634,706)
Profit for the year		**766,705**	1,254,782
Attributable to:			
Equity shareholders of the Company		**663,862**	1,224,065
Non-controlling interests		**102,843**	30,717
Profit for the year		**766,705**	1,254,782
Earnings per share	9		
Basic (RMB cents)		**27.1**	49.9
Diluted (RMB cents)		**27.1**	49.9

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

The notes on pages 87 to 183 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019 (Expressed in RMB'000)

	Note	For the year ended 31 December 2019	2018 (Note)
Profit for the year		**766,705**	1,254,782
Other comprehensive income for the year (after tax):			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of:			
— financial statements of entities outside the Mainland China		**(5,342)**	(10,983)
Other comprehensive income for the year		**(5,342)**	(10,983)
Total comprehensive income for the year		**761,363**	1,243,799
Attributable to:			
Equity shareholders of the Company		**658,520**	1,213,082
Non-controlling interests		**102,843**	30,717
Total comprehensive income for the year		**761,363**	1,243,799

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

The notes on pages 87 to 183 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019 (Expressed in RMB'000)

	Note	At 31 December 2019	2018 (Note)
Non-current assets			
Property, plant and equipment	11	**6,609,129**	6,324,514
Right-of-use assets	2(c), 12	**3,431,989**	—
Lease prepayments		**—**	1,555,846
Intangible assets	13	**4,193,072**	4,366,363
Goodwill	14	**1,935,113**	2,006,335
Interest in a joint venture	16	**355,002**	293,906
Interest in an associate		**15,466**	14,809
Receivables from financial services	20	**3,631,142**	3,880,977
Deferred tax assets	29	**321,474**	214,688
Long-term receivables		**212,946**	191,879
Other financial assets	21	**17,028**	410,045
		20,722,361	19,259,362
Current assets			
Inventories	17	**3,483,098**	3,845,727
Trade and bills receivables	18	**1,434,828**	1,071,509
Prepayments, deposits and other receivables	19	**10,216,300**	9,864,964
Receivables from financial services	20	**5,138,900**	4,318,729
Other financial assets	21	**285,000**	—
Pledged bank deposits and balances with central bank	22	**1,399,158**	2,139,017
Time deposits		**680,929**	788,515
Cash and cash equivalents	23	**1,497,400**	2,911,395
		24,135,613	24,939,856
Current liabilities			
Loans and borrowings for financial services	24	**5,966,821**	5,779,533
Loans and borrowings for non-financial services	24	**11,061,164**	9,390,938
Obligations under finance leases		**—**	91,273
Lease liabilities	25	**428,019**	—
Trade and other payables	26	**6,296,033**	6,726,648
Income tax payables		**2,064,217**	1,813,425
Other financial liabilities		**2,761**	—
		25,819,015	23,801,817
Net current (liabilities)/assets		**(1,683,402)**	1,138,039
Total assets less current liabilities		**19,038,959**	20,397,401

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

The notes on pages 87 to 183 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019 (Expressed in RMB'000)

	Note	At 31 December 2019	2018 (Note)
Non-current liabilities			
Loans and borrowings for financial services	24	**15,316**	378,591
Loans and borrowings for non-financial services	24	**2,225,939**	5,405,811
Bonds payable	27	**298,535**	903,062
Lease liabilities	25	**1,454,183**	—
Deferred tax liabilities	29	**1,027,790**	1,052,551
Trade and other payables	26	**277,057**	299,302
Other financial liabilities		**99,842**	32,638
		5,398,662	8,071,955
NET ASSETS		**13,640,297**	12,325,446
CAPITAL AND RESERVES	30		
Share capital		**209,150**	209,320
Reserves		**12,209,118**	11,933,956
Total equity attributable to equity shareholders of the Company		**12,418,268**	12,143,276
Non-controlling interests		**1,222,029**	182,170
TOTAL EQUITY		**13,640,297**	12,325,446

Approved and authorised for issue by the board of directors on 29 April 2020.

Koh Tee Choong
Director, CEO

Li Zhubo
Director, CFO

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

The notes on pages 87 to 183 form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019 (Expressed in RMB'000)

	Attributable to shareholders of the Company										
	Share capital (note 30(c))	Share premium	Capital reserve	PRC statutory reserve (note 30(e)(i))	Exchange reserve (note 30(e)(ii))	Discretionary surplus reserve	General reserve (note 30(e)(iii))	Retained earnings	Sub-total	Non-controlling interests	Total equity
Balance at 1 January 2018	193,425	4,875,706	291,644	522,627	(1,627)	4,459	55,699	4,232,885	10,174,818	151,453	10,326,271
Profit for the year	–	–	–	–	–	–	–	1,224,065	1,224,065	30,717	1,254,782
Other comprehensive income	–	–	–	–	(10,983)	–	–	–	(10,983)	–	(10,983)
Total comprehensive income for the year	–	–	–	–	(10,983)	–	–	1,224,065	1,213,082	30,717	1,243,799
Transfer of profits to general reserve	–	–	–	–	–	–	51,342	(51,342)	–	–	–
Dividends (note 30(b))	–	–	–	–	–	–	–	(497,317)	(497,317)	–	(497,317)
Issue of ordinary shares by placement	18,891	1,424,832	–	–	–	–	–	–	1,443,723	–	1,443,723
Purchase and cancellation of own shares	(2,996)	(180,487)	(7,547)	–	–	–	–	–	(191,030)	–	(191,030)
Appropriation to reserves	–	–	–	128,855	–	–	–	(128,855)	–	–	–
Balance at 31 December 2018 (Note)	209,320	6,120,051	284,097	651,482	(12,610)	4,459	107,041	4,779,436	12,143,276	182,170	12,325,446
Impact on initial application of HKFRS 16	–	–	–	–	–	–	–	(176,901)	(176,901)	(46)	(176,947)
Balance at 1 January 2019	209,320	6,120,051	284,097	651,482	(12,610)	4,459	107,041	4,602,535	11,966,375	182,124	12,148,499
Profit for the year	–	–	–	–	–	–	–	663,862	663,862	102,843	766,705
Other comprehensive income	–	–	–	–	(5,342)	–	–	–	(5,342)	–	(5,342)
Total comprehensive income for the year	–	–	–	–	(5,342)	–	–	663,862	658,520	102,843	761,363
Transfer of profits to general reserve	–	–	–	–	–	–	49,006	(49,006)	–	–	–
Dividends (note 30(b))	–	–	–	–	–	–	–	(522,144)	(522,144)	(56,589)	(578,733)
Issuance of new shares of a subsidiary (note 30(d))	–	–	315,517	–	–	–	–	–	315,517	993,651	1,309,168
Purchase and cancellation of own shares (note 30(c)(i))	(170)	(7,377)	7,547	–	–	–	–	–	–	–	–
Appropriation to reserves	–	–	–	126,281	–	–	–	(126,281)	–	–	–
Balance at 31 December 2019	**209,150**	**6,112,674**	**607,161**	**777,763**	**(17,952)**	**4,459**	**156,047**	**4,568,966**	**12,418,268**	**1,222,029**	**13,640,297**

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

The notes on pages 87 to 183 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2019 (Expressed in RMB'000)

	Note	For the year ended 31 December 2019	 2018 (Note)
Operating activities:			
Cash generated from operations	23(b)	**2,773,466**	1,088,794
Income tax paid		**(227,445)**	(312,452)
Net cash generated from operating activities		**2,546,021**	776,342
Investing activities:			
Payment for purchase of property, plant and equipment		**(1,243,748)**	(2,290,240)
Payment for purchase of right-of-use assets		**(334,776)**	—
Proceeds from disposal of property, plant and equipment		**436,143**	389,744
Payment for purchase of lease prepayments		**—**	(294,125)
Payment for purchase of financial assets		**(150,000)**	(415,000)
Proceeds from sale of financial assets		**262,782**	30,000
Payment for purchase of intangible assets		**(21,861)**	(3,490)
Dividend received from joint venture		**—**	20,000
Net cash used in business acquisition		**(71,000)**	(561,000)
Decrease in time deposits		**107,586**	48,485
Interest received		**45,593**	75,991
Net cash used in investing activities		**(969,281)**	(2,999,635)
Financing activities:			
Proceeds from loans and borrowings	23(c)	**16,685,821**	17,418,682
Repayment of loans and borrowings	23(c)	**(18,901,606)**	(15,815,850)
Capital element of lease rentals paid	23(c)	**(481,218)**	—
Interest element of lease rentals paid	23(c)	**(140,699)**	—
Proceeds from issue of ordinary shares by placement		**—**	1,443,723
Proceeds from issuance of new shares of a subsidiary		**1,413,670**	—
Repayment of finance lease liabilities	23(c)	**—**	(198,243)
Payment for purchase of own shares		**—**	(191,030)
Dividends paid to non-controlling interests	30(b)	**(56,589)**	—
Dividend paid to equity shareholders of the Company	30(b)	**(522,144)**	(497,317)
Interest paid	23(c)	**(1,022,168)**	(900,281)
Pledged bank deposits for bank loans and standby letter of credit	22	**63,220**	1,162,582
Proceeds/(payment) of derivative financial instruments	23(c)	**46,387**	(14,267)
Payments for issue costs and listing expenses of a subsidiary	23(c)	**(80,078)**	(2,937)
Net cash (used in)/generated from financing activities		**(2,995,404)**	2,405,062
Net (decrease)/increase in cash and cash equivalents		**(1,418,664)**	181,769
Cash and cash equivalents at the beginning of the year		**2,911,395**	2,716,220
Effect of foreign exchange rate changes		**4,669**	13,406
Cash and cash equivalents at the end of the year	23	**1,497,400**	2,911,395

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

The notes on pages 87 to 183 from part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China ZhengTong Auto Services Holdings Limited (the "**Company**") was incorporated in the Cayman Islands on 9 July 2010 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its registered address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company and its subsidiaries (collectively, the "**Group**") are principally engaged in 4S dealership business, supply chain business, financial services and comprehensive properties business in the People's Republic of China (the "**PRC**").

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 and the Company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

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

These consolidated financial statements are presented in Renminbi ("**RMB**") which is the Group's presentation currency, rounded to the nearest thousand, except for earnings per share information.

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

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 consolidated financial statements and major sources of estimation uncertainty are discussed in note 37.

As at 31 December 2019, the Group's total current liabilities exceeded its total current assets by RMB1,683,402,000. Also, the outbreak of novel Coronavirus ("**COVID-19**") in 2020 and the resulting mandatory extension of holidays in China, temporary travel restriction and quarantine measures led to the failure of certain subsidiaries of the Group to operate business normally in February and March 2020. The Group's operational performance and cash flows may be adversely affected should COVID-19 continue to have unexpected adverse impact on people's normal travel for a prolonged period or result to deferral or less spending on automobiles by consumers.

In view of such circumstances, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern.

For business operation, the Group's subsidiaries outside Hubei province have gradually resumed normal operations since March 2020, and the subsidiaries in Hubei province have gradually resumed operations since early April 2020. On financing side, as disclosed in note 38(b) to the consolidated financial statements, the Group completed the issuance of Senior Notes due 2022 in the principal amount of US$160,000,000 and US$13,000,000 on 22 January 2020 and 17 February 2020, respectively. Also, the Group has been actively negotiating with the Group's existing banks for renewal of and extension of the existing bank facilities and expediting collection of receivables and sale of inventories.

After due consideration of the Group's cash flow projections that have factored in those plans and measures taken to mitigate the liquidity pressures and improve the working capital, the Group's ability to draw down unutilised facilities and renew or refinance the banking facilities upon maturity, as well as the reasonable possible downside changes to the cash flow assumptions, the directors of the Company are satisfied, that the Group will have sufficient working capital to support its business operation and investment plans, and to meet its financial obligations as and when they fall due at least in the next twelve months from 31 December 2019. Accordingly, the directors of the Company consider it appropriate to prepare the consolidated financial statements of the Group on a going concern basis.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 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 of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 16, *Leases* (Continued)

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 January 2019. For contracts entered into before 1 January 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.

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 property, plant and equipment. For an explanation of how the Group applies lessee accounting, see note 2(j)(i).

At the date of transition to HKFRS 16 (i.e. 1 January 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 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 6.27%.

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 December 2019;

(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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 16, *Leases* (Continued)

b. Lessee accounting and transitional impact (Continued)

(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 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at 31 December 2018 as disclosed in note 25 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 RMB'000
Operating lease commitments at 31 December 2018	2,152,377
Less: commitments relating to leases exempt from capitalisation:	
— short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(24,782)
— leases of low-value assets	(124)
Less: total future interest expenses	(487,790)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	1,639,681
Add: finance lease liabilities recognised as at 31 December 2018	91,273
Total lease liabilities recognised at 1 January 2019	1,730,954

The right-of-use assets in relation to leases previously classified as operating leases have been recognised as if HKFRS 16 had always been applied since the commencement date of the lease (other than discounting using the relevant incremental borrowing rate at 1 January 2019, the date of initial application of HKFRS 16).

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

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 impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	Capitalisation of operating lease contracts RMB'000	Carrying amount at 1 January 2019 RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	6,324,514	(111,748)	6,212,766
Right-of-use assets	—	3,080,659	3,080,659
Lease prepayments	1,555,846	(1,555,846)	—
Deferred tax assets	214,688	49,669	264,357
Total non-current assets	19,259,362	1,462,734	20,722,096
Prepayment, deposit and other receivables	9,864,964	(17,530)	9,847,434
Total current assets	24,939,856	(17,530)	24,922,326
Trade and other payables	6,726,648	(17,530)	6,709,118
Obligations under finance leases	91,273	(91,273)	—
Lease liabilities (current)	—	368,723	368,723
Current liabilities	23,801,817	259,920	24,061,737
Net current assets	1,138,039	(277,450)	860,589
Total assets less current liabilities	20,397,401	1,185,284	21,582,685
Lease liabilities (non-current)	—	1,362,231	1,362,231
Total non-current liabilities	8,071,955	1,362,231	9,434,186
Net assets	12,325,446	(176,947)	12,148,499
Reserves	11,933,956	(176,901)	11,757,055
Total equity attributable to equity shareholders of the Company	12,143,276	(176,901)	11,966,375
Non-controlling interests	182,170	(46)	182,124
Total equity	12,325,446	(176,947)	12,148,499

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 16, *Leases* (Continued)

c. *Impact on the financial result and cash flows of the Group*

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 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. This results in a negative impact on the reported profit for the year in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

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 23(c)). 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 significant change in presentation of cash flows within the cash flow statement (see note 23(d)).

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
	Amounts reported under HKFRS 16 (A) RMB'000	Add back: HKFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note 1) (C) RMB'000	Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B+C) RMB'000	Compared to amounts reported for 2018 under HKAS 17 RMB'000
Financial result for year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Profit from operations	2,177,571	335,152	(418,355)	2,094,368	2,762,965
Finance costs	(1,076,260)	134,336	—	(941,924)	(910,072)
Profit before taxation	1,163,064	469,488	(418,355)	1,214,197	1,889,488
Profit for the year	766,705	469,488	(418,355)	817,838	1,254,782

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 16, *Leases* (Continued)

c. *Impact on the financial result and cash flows of the Group (Continued)*

	2019			2018
	Amounts reported under HKFRS 16 (A) RMB'000	**Estimated amounts related to operating leases as if under HKAS 17 (notes 1 & 2) (B) RMB'000**	**Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B) RMB'000**	Compared to amounts reported for 2018 under HKAS 17 RMB'000
Line items in the consolidated cash flow statement for year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	**2,773,466**	**(410,310)**	**2,363,156**	1,088,794
Net cash generated from operating activities	**2,546,021**	**(410,310)**	**2,135,711**	776,342
Capital element of lease rentals paid	**(481,218)**	**275,974**	**(205,244)**	(193,023)
Interest element of lease rentals paid	**(140,699)**	**134,336**	**(6,363)**	(5,220)
Net cash (used in)/generated from financing activities	**(2,995,404)**	**410,310**	**(2,585,094)**	2,405,062

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

d. *Lessor accounting*

The Group leases out a number of machinery and vehicles as the lessor of finance leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interests

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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

In the Company's statement of financial position, an investment in subsidiaries is stated at cost less impairment losses (see note 2(k)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Associates and joint ventures

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

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method. 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 costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture 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(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees 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 investees' 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 or the joint venture, 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 investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the ECL model to such other long-term interests where applicable (see note 2(k)(i)).

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest 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 profit or loss as a gain on a bargain purchase.

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

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

(g) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(h) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(k)).

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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipment (Continued)

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

— Buildings situated on leasehold land	Over the shorter of the unexpired term of lease and their estimated useful lives, being 30–40 years after the date of completion
— Leasehold improvements	Over the shorter of the unexpired term of the lease and 5 years
— Plant and machinery	10 years
— Motor vehicles	5/10 years
— Office equipment and furniture	5 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 useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress is stated at cost less impairment losses (see note 2(k)). Cost comprises direct costs of construction during the year of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets of their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

(i) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(k)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

— Car dealership	40 years
— Dealership operation rights	10 years
— Favourable lease contracts	Over the unexpired term of lease, being 1–10 years

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) 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 January 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 and leases of low-value assets which, for the Group are primarily property charges or 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.

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(h) and 2(k)(ii)).

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, and lease liabilities separately in the statement of financial position.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Leased assets (Continued)

(i) As a lessee (Continued)

(B) Policy applicable prior to 1 January 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 acquired 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 or valuation 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(h). Impairment losses were accounted for in accordance with the accounting policy as set out in note 2(k). 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit losses and impairment of assets

(i) Credit losses

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

— Pledged bank deposits and balances with central bank;

— Cash and cash equivalents;

— Time deposits;

— Receivables from financial services;

— Trade and bills receivables;

— Prepayments, deposits and other receivables; and

— Long-term receivables.

Other financial assets measured at fair value, including financial assets at fair value through profit and loss is 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 are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets, trade and bills receivables, prepayments, deposits and other receivables and long-term receivables: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate;

— receivables from financial lease: discount rate used in the measurement of the lease receivable;

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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit losses and impairment of assets (Continued)

(i) Credit losses (Continued)

Measurement of ECLs (Continued)

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 bills receivables from contracts with customers within the scope of HKFRS 15 are 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 receivables from financial services, prepayments, deposits and other receivables, pledged bank deposits and balances with central bank, cash and cash equivalents, time deposits and long-term receivables, 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.

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 has past due certain periods under different risk profiles. 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;

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit losses and impairment of assets (Continued)

(i) Credit losses (Continued)

Significant increases in credit risk (Continued)

- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost; and

- significant increases in credit risk on other financial instruments of the same debtor.

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.

Basis of calculation of interest income

Interest income recognised in accordance with note 2(u)(viii) 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.

Credit-impaired financial assets

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;

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit losses and impairment of assets (Continued)

(i) Credit losses (Continued)

Credit-impaired financial assets (Continued)

- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;
- the disappearance of an active market for a security because of financial difficulties of the issuer; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off policy

The gross carrying amount of a financial asset or lease receivable 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) 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 (other than property carried at revalued amounts);
- right-of-use assets;
- intangible 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, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, 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).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets (Continued)

— *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).

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.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, 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(k)(i) and (ii)).

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.

(l) Inventories

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

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 as follows:

— 4S dealership business

Cost is calculated on specific identification or weighted average basis as appropriate and comprises all costs of purchase after deducting rebates from suppliers 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 necessary to make the sale.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Inventories (Continued)

— Property development business

Cost and net realisable values are determined as follows:

— *Property under development for sale*

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of interests in leasehold land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see note 2(x)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

— *Completed property held for resale*

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

In the case of completed properties developed by the Group which comprise of multiple units which are sold individually, the cost of each unit is determined by apportionment of the total development costs for that development project to each unit on a per square foot basis, unless another basis is more representative of the cost of the specific unit. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

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.

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.

(m) Contract liabilities

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

(n) Trade and bills 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.

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(p) Trade and other payables

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

(q) 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)).

(r) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution retirement plan

Obligation for contributions to defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in the consolidated statement of profit or loss as incurred.

(s) 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)

(s) 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.

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.

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 profit 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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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 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 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) 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.

(u) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

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

(i) Sales of motor vehicles

Revenue arising from the sale of motor vehicles is recognised upon delivery of motor vehicles when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and is after deduction of any trade discounts.

(ii) After-sales services — sales of motor spare parts

Revenue arising from the sale of motor spare parts is recognised when significant risks and rewards of ownership have been transferred to the buyers.

(iii) After-sales services — maintenance services income

Revenue arising from maintenance services is recognised when the relevant service is rendered without further performance obligations.

(iv) Logistics services income and other related services income

Revenue arising from logistics services and other related services are recognised when the service is rendered to customers.

(v) Sales of lubricant oil

Revenue arising from the sales of lubricant oil is recognised when lubricant oil is delivered at the customers' premises.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Revenue and other income (Continued)

(vi) Service income from financial services — consulting services

Revenue arising from consulting services is recognised when the customer has accepted the loan consulting services.

(vii) Service income from financial services — joint loan services

Revenue arising from joint loan services is recognised when the loan-related service is rendered to the bank.

(viii) Interest income

Interest income is recognised as it accrues using the effective interest method. 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(k)(i)).

In general, revenue from logistics services and other related services and joint loan services are recognised over-time upon fulfilment of services obligation, whereas revenue from sales of motor vehicles, motor spare parts, lubricant oil, and provision of maintenance and consulting services are recognised at a point in time.

(v) Vendor rebates

Incentive rebates provided by vendors are recognised on an accrual basis based on the expected entitlement earned up to the reporting date pursuant to each relevant supplier contract.

Incentive rebates relating to vehicles purchased and sold are deducted from cost of sales, while incentive rebates relating to vehicle purchased but still held as inventories at the reporting date are deducted from the carrying value of such vehicles so that the cost of inventories is recorded net of applicable rebates.

(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. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Translation of foreign currencies (Continued)

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi 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 complete.

(y) Related parties

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

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

(ii) has significant influence over the Group; or

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Related parties (Continued)

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

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

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

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

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

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

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

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

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

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

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated 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 REVENUE

The Group is mainly engaged in sales of passenger motor vehicles, provision of after-sales services, provision of logistics services, sales of lubricant oil and financial services. Revenue represents the sales of goods, services income rendered to customers and interest income.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or services lines is as follows:

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of passenger motor vehicles	**28,564,086**	31,529,209
Provision of after-sales services	**4,771,068**	4,330,536
Provision of logistics services	**563,764**	479,580
Sales of lubricant oil	**328,755**	272,364
Service income from financial services	**173,828**	329,936
	34,401,501	36,941,625
Revenue from other sources		
Interest income from financial services	**736,293**	513,885
	35,137,794	37,455,510

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for passenger vehicles such that the Group does not include information about revenue that the Group will be entitled to when it satisfied the remaining performance obligations under the contracts for sales of passenger vehicles that had an original expected duration of one year or less.

4 OTHER INCOME

	Note	For the year ended 31 December 2019 RMB'000	2018 RMB'000
Service income		**734,355**	654,911
Interest income from bank deposits		**45,593**	75,991
Net gain on disposal of property, plant and equipment		**23,556**	48,024
Realised and unrealised net (loss)/gain on derivative financial instruments		**(18,850)**	118,922
Government grants	(i)	**50,817**	48,405
Others		**15,674**	16,494
		851,145	962,747

(i) The government grants were received unconditionally from the local government where they reside.

5 PROFIT BEFORE TAXATION

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

		Note	For the year ended 31 December 2019 RMB'000	2018 (Note) RMB'000
(a)	**Finance costs:**			
	Interest on loans and borrowings for non-financial services and bonds payable		**955,852**	883,188
	Interest on lease liabilities		**140,699**	—
	Finance cost for consideration of business combination	(i)	**27,689**	32,538
	Other finance costs	(ii)	**39,998**	42,198
	Less: Interest capitalised*		**(87,978)**	(47,852)
			1,076,260	910,072

* The borrowing costs have been capitalised at a rate of 4.13%–7.50% per annum (2018: 4.35%–7.50%).

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

5 PROFIT BEFORE TAXATION (Continued)

		Note	For the year ended 31 December 2019 RMB'000	2018 RMB'000
(b)	**Staff costs:**			
	Salaries, wages and other benefits		**910,463**	810,663
	Contributions to defined contribution retirement plans	(iii)	**81,220**	73,668
			991,683	884,331

(i) It represents the unwinding of interest element of business combination consideration.

(ii) It mainly represents the interest expenses arising from discounting of bills payable.

(iii) Employees of the Group's PRC subsidiaries are required to participate in defined contribution retirement schemes administered and operated by the local municipal governments where the subsidiaries are registered. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the respective local municipal government to the schemes to fund the retirement benefits of the employees.

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

The Group has no other material obligation for the payment of retirement benefits other than the annual contributions described above.

5 PROFIT BEFORE TAXATION (Continued)

		For the year ended 31 December	
		2019	2018
			(Note)
		RMB'000	RMB'000
(c)	**Other items:**		
	Cost of inventories (note 17(b))	**30,110,252**	31,965,954
	Cost of interests*	**373,603**	330,875
	Depreciation		
	— Owned property, plant and equipment	**375,073**	332,137
	— Right-of-use assets (Note)	**386,033**	—
	Amortisation		
	— Lease prepayments	**—**	28,554
	— Intangible assets	**195,152**	193,883
	Operating lease charges	**53,813**	429,706
	Realised and unrealised net loss/(gain) on derivative financial instruments (note 4)	**18,850**	(118,922)
	Net foreign exchange loss	**54,485**	456,471
	Impairment losses		
	— Receivables from financial services (note 20(b))	**110,154**	86,017
	— Goodwill (note 14)	**71,222**	—
	Listing expenses of a subsidiary	**9,207**	2,268
	Auditors' remuneration	**10,300**	7,300

* The cost of interests is the borrowing costs for financial services, and is recognised in the cost of sales.

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 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).

6 INCOME TAX

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

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Current tax:		
Provision for income tax for the year	**478,237**	706,031
Deferred tax:		
Origination of temporary differences (note 29)	**(81,878)**	(71,325)
	396,359	634,706

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

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit before taxation	**1,163,064**	1,889,488
Notional tax on profit before taxation, calculated at PRC income tax rate of 25%	**290,766**	472,372
Non-deductible expenses	**89,465**	154,614
Unused tax losses not recognised	**19,406**	16,869
Non-taxable income on:		
— Share of profits recognised under the equity method	**(15,438)**	(9,149)
Effect of PRC dividend withholding tax (iv)	**12,160**	—
Income tax	**396,359**	634,706

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

(ii) No provision for Hong Kong Profits Tax was made for the subsidiaries located in Hong Kong as the subsidiaries did not have assessable profits subject to Hong Kong Profits Tax during the year. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

(iii) The PRC subsidiaries of the Group are subject to PRC Corporate Income Tax rate of 25% (2018: 25%).

(iv) Under the CIT Law and its relevant regulations, dividends receivable by non-PRC resident enterprises from PRC resident enterprises for earnings accumulated beginning on 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. The PRC dividend withholding tax of RMB12,160,000 was paid for dividend distribution out of earnings of PRC subsidiaries of RMB121,600,000 during the year ended 31 December 2019.

7 DIRECTORS' REMUNERATION

Directors' remuneration 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:

Year ended 31 December 2019

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefit schemes RMB'000	Total RMB'000
Chairman					
Wang Muqing	—	—	—	—	—
Executive directors					
Wang Kunpeng	—	384	576	28	988
Koh Tee Choong	—	2,488	1,019	—	3,507
Li Zhubo	—	384	576	50	1,010
Wan To	—	264	396	—	660
Shao Yongjun (note (i))	—	72	108	15	195
Independent non-executive directors					
Wong Tin Yau, Kelvin	296	—	—	—	296
Cao Tong	296	—	—	—	296
Wong Tantan	296	—	—	—	296
	888	3,592	2,675	93	7,248

Note:

(i) Mr. Shao Yongjun resigned as executive director of the Company on 2 April 2019.

7 DIRECTORS' REMUNERATION (Continued)

Year ended 31 December 2018

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefit schemes RMB'000	Total RMB'000
Chairman					
Wang Muqing	—	—	—	—	—
Executive directors					
Wang Kunpeng	—	384	576	34	994
Koh Tee Choong	—	2,433	1,440	—	3,873
Li Zhubo	—	384	576	55	1,015
Wan To	—	264	396	—	660
Shao Yongjun	—	288	432	46	766
Independent non-executive directors					
Wong Tin Yau, Kelvin	289	—	—	—	289
Cao Tong	289	—	—	—	289
Wong Tantan	289	—	—	—	289
	867	3,753	3,420	135	8,175

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2018: five) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other one (2018: nil) individuals are as follows:

	At 31 December	
	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	**216**	—
Discretionary bonuses	**324**	—
Contributions to retirement benefit schemes	**—**	—
	540	—

The emolument of the one (2018: nil) individual with the highest emoluments is within the following band:

	2019 Number of individuals	2018 Number of individuals
RMB Nil–1,000,000	**1**	—

9 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2019 was based on the profit attributable to equity shareholders of the Company of RMB663,862,000 (2018: RMB1,224,065,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2019 of 2,452,220,420 (2018: 2,453,012,879), calculated as follows:

Weighted average number of ordinary shares

	For the year ended 31 December	
	2019	2018
Issued ordinary shares at 1 January	**2,452,220,420**	2,265,539,420
Effect of share options exercised	**—**	—
Effect of shares issued for placing	**—**	214,824,176
Effect of purchase and cancellation of own shares	**—**	(27,350,717)
Weighted average number of ordinary shares at 31 December	**2,452,220,420**	2,453,012,879

There were no dilutive potential ordinary shares for the year ended 31 December 2019 and, therefore, diluted earnings per share are equal to basic earnings per share.

10 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following four major operating segments:

1 4S dealership business

4S dealership business mainly includes sales of motor vehicles and after-sales services through the Group's network of 4S dealerships in the PRC.

2 Supply chain business

Supply chain business mainly includes provision of motor-related logistics services and trading of lubricant oil.

3 Financial services business

Financial services business mainly includes providing financial services to auto customers and dealers.

4 Comprehensive properties business

Comprehensive properties business mainly includes development and sales of properties in the PRC.

10 SEGMENT REPORTING (Continued)

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

- Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.
- The measure used for reporting segment profit is profit before taxation. To arrive at profit before taxation, the Group's earnings are adjusted for items not specifically attributed to individual segments, such as head office and corporate administration costs, other revenue, other net income and finance costs.
- Segment assets include all current and non-current assets with the exception of intangible assets, goodwill, deferred tax assets and unallocated head office assets. Segment liabilities include all current and non-current liabilities with the exception of income tax payables, deferred tax liabilities and unallocated head office liabilities.
- In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue (including inter-segment sales), loans and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

	4S dealership business		Supply chain business		Financial services business		Comprehensive properties business		Total	
	2019	2018 (Note)	2019	2018 (Note)	2019	2018 (Note)	2019	2018 (Note)	2019	2018 (Note)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	33,335,154	35,859,745	892,519	751,944	910,121	843,821	–	–	35,137,794	37,455,510
Inter-segment revenue	–	–	–	–	309,868	326,683	–	–	309,868	326,683
Reportable segment revenue	33,335,154	35,859,745	892,519	751,944	1,219,989	1,170,504	–	–	35,447,662	37,782,193
Reportable segment profit	1,107,958	1,737,479	108,321	126,377	530,040	620,913	–	–	1,746,319	2,484,769
Depreciation and amortisation for the year	893,271	513,924	25,832	11,696	37,155	28,954	–	–	956,258	554,574
Reportable segment assets	22,891,093	22,066,386	638,017	584,454	11,083,556	9,714,107	380,038	–	34,992,704	32,364,947
Additions to non-current segment assets during the year	2,107,260	3,470,156	160,205	142,880	55,013	86,438	–	–	2,322,478	3,699,474
Reportable segment liabilities	(19,551,077)	(17,985,325)	(267,124)	(169,359)	(6,330,700)	(6,522,289)	(380,038)	–	(26,528,939)	(24,676,973)
Investment in a joint venture and an associate	–	–	355,002	293,906	15,466	14,809	–	–	370,468	308,715

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

10 SEGMENT REPORTING (Continued)

(b) Reconciliations of reportable segment

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue:		
Reportable segment revenue	**35,447,662**	37,782,193
Elimination of inter-segment revenue	**(309,868)**	(326,683)
Consolidated revenue	**35,137,794**	37,455,510
Profit before taxation:		
Reportable segment profit	**1,746,319**	2,484,769
Elimination of inter-segment profits	**(160,864)**	(196,376)
Unallocated head office expenses	**(126,054)**	(451,580)
Other income	**851,145**	962,747
Finance costs	**(1,076,260)**	(910,072)
Impairment of goodwill	**(71,222)**	—
Consolidated profit before taxation	**1,163,064**	1,889,488

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Assets:		
Reportable segment assets	**34,992,704**	32,364,947
Intangible assets	**4,193,072**	4,366,363
Goodwill	**1,935,113**	2,006,335
Deferred tax assets	**321,474**	214,688
Unallocated head office assets	**5,505,002**	5,938,842
Elimination of inter-segment receivables	**(2,089,391)**	(691,957)
Consolidated total assets	**44,857,974**	44,199,218
Liabilities:		
Reportable segment liabilities	**(26,528,939)**	(24,676,973)
Income tax payables	**(2,064,217)**	(1,813,425)
Deferred tax liabilities	**(1,027,790)**	(1,052,551)
Unallocated head office liabilities	**(3,686,122)**	(5,022,780)
Elimination of inter-segment payables	**2,089,391**	691,957
Consolidated total liabilities	**(31,217,677)**	(31,873,772)

(c) Geographic information

As the Group solely operates in the PRC, no geographical segment information has been presented.

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2018	2,837,354	97,851	702,736	630,181	326,197	915,431	5,509,750
Acquisition of subsidiaries through business combinations	–	–	–	28,612	–	–	28,612
Additions	–	–	20,952	491,697	13,291	1,965,839	2,491,779
Transfer	1,200,221	2,019	36,057	–	34,598	(1,272,895)	–
Disposals	–	–	(7,883)	(413,583)	(6,826)	–	(428,292)
At 31 December 2018	4,037,575	99,870	751,862	736,907	367,260	1,608,375	7,601,849
Impact on initial application of HKFRS 16 (Note)	–	–	(168,959)	(26,814)	–	–	(195,773)
At 1 January 2019	4,037,575	99,870	582,903	710,093	367,260	1,608,375	7,406,076
Additions	–	–	13,272	496,238	24,370	913,466	1,447,346
Transfer	157,932	7,615	3,955	–	21,157	(190,659)	–
Transfer to properties under development for sale (note (c))	–	–	–	–	–	(263,323)	(263,323)
Disposals	–	–	(6,072)	(526,638)	(16,748)	–	(549,458)
At 31 December 2019	**4,195,507**	**107,485**	**594,058**	**679,693**	**396,039**	**2,067,859**	**8,040,641**
Accumulated depreciation:							
At 1 January 2018	347,104	80,494	223,104	168,660	212,408	–	1,031,770
Charge for the year	106,892	6,241	66,563	111,596	40,845	–	332,137
Written back on disposals	–	–	(5,180)	(75,470)	(5,922)	–	(86,572)
At 31 December 2018	453,996	86,735	284,487	204,786	247,331	–	1,277,335
Impact on initial application of HKFRS 16 (Note)	–	–	(78,440)	(5,585)	–	–	(84,025)
At 1 January 2019	453,996	86,735	206,047	199,201	247,331	–	1,193,310
Charge for the year	137,167	3,664	62,379	130,954	40,909	–	375,073
Written back on disposals	–	–	(4,527)	(127,297)	(5,047)	–	(136,871)
At 31 December 2019	**591,163**	**90,399**	**263,899**	**202,858**	**283,193**	**–**	**1,431,512**
Net book value:							
At 31 December 2019	**3,604,344**	**17,086**	**330,159**	**476,835**	**112,846**	**2,067,859**	**6,609,129**
At 31 December 2018	3,583,579	13,135	467,375	532,121	119,929	1,608,375	6,324,514

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

11 PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) The Group's buildings are located in the PRC. The Group has yet to obtain property ownership certificates of certain buildings with an aggregate net book value of RMB251,984,380 as at 31 December 2019 (2018: RMB401,635,909). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial title to these buildings as at 31 December 2019.

(b) Property, plant and equipment with carrying amount of RMB182,416,000 are pledged for bank loans (see note 24) (2018: RMB50,177,000) as at 31 December 2019.

(c) To fully utilise on the potential value of the land use rights held by the Group's subsidiaries engaged in 4S dealership business, the Group conducted construction of comprehensive property projects. The Group obtained pre-sale permits for two service apartments projects in December 2019 and then transferred the net book value of land use rights of RMB115,908,000 (see note 12) and construction in progress of RMB263,323,000, related to such service apartments, to properties under development for sale (see note 17(a)).

12 RIGHT-OF-USE ASSETS

	Land use rights carried at cost (i) RMB'000	Properties and land leased for own use carried at cost (ii) RMB'000	Total RMB'000
Cost:			
At 31 December 2018	—	—	—
Impact on initial application of HKFRS 16 (Note)	1,700,648	1,608,838	3,309,486
At 1 January 2019	1,700,648	1,608,838	3,309,486
Additions	334,776	518,495	853,271
Transfer to properties under development for sale (note (a))	(118,880)	—	(118,880)
At 31 December 2019	**1,916,544**	**2,127,333**	**4,043,877**
Accumulated depreciation:			
At 31 December 2018	—	—	—
Impact on initial application of HKFRS 16 (Note)	144,802	84,025	228,827
At 1 January 2019	144,802	84,025	228,827
Charge for the year	41,498	344,535	386,033
Transfer to properties under development for sale (note (a))	(2,972)	—	(2,972)
At 31 December 2019	**183,328**	**428,560**	**611,888**
Net book Value:			
At 31 December 2019	**1,733,216**	**1,698,773**	**3,431,989**
At 1 January 2019	1,555,846	1,524,813	3,080,659
At 31 December 2018	—	—	—

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

12 RIGHT-OF-USE ASSETS (Continued)

(a) To fully utilise on the potential value of the land use rights held by the Group's subsidiaries engaged in 4S dealership business, the Group conducted construction of comprehensive property projects. The Group obtained pre-sale permits for two service apartments projects in December 2019 and then transferred the net book value of land use rights of RMB115,908,000 (see note 12) and construction in progress of RMB263,323,000, related to such service apartments, to properties under development for sale (see note 17(a)).

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

	2019	2018 (Note)
	RMB'000	RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Land use rights (i)	**41,498**	28,554
Properties and land leased for own use (ii)	**344,535**	—
	386,033	28,554
Interest on lease liabilities (note 2(c)(c))	**140,699**	—
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019 (note 5(c))	**53,813**	—
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	**—**	429,706

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balance at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amount of the land use rights which were previously included in lease prepayments is also identified as right-of-use assets. After initial recognition of right-of-use assets at 1 January 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 RMB853,271,000. This amount included the purchase of a land use right of RMB334,776,000, and the remainder primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases, the maturity analysis of lease liabilities and the future cash outflows arising from leases that are not yet commenced are set out in notes 23(d) and 25 respectively.

(i) Land use rights

Land use rights represent land located in the PRC with a lease period of 23 to 50 years when granted.

Land use rights with net book value of RMB398,730,000 are pledged as security for bank loans (see note 24) as at 31 December 2019 (2018: RMB214,662,000).

(ii) Properties and land leased for own use

The Group has obtained the right to use other properties and land through tenancy agreements. The leases typically run for an initial period of 2 to 20 years.

None of the leases include an option to renew the lease, or an option to purchase the leased equipment at the end of the lease term at a price deemed to be a bargain purchase option. None of the leases includes variable lease payments.

13 INTANGIBLE ASSETS

	Car dealerships RMB'000	Dealership operation rights RMB'000	Favourable lease contracts RMB'000	Trademark RMB'000	Software RMB'000	Others RMB'000	Total RMB'000
Cost:							
At 1 January 2018	3,967,085	—	36,904	362,732	27,592	363	4,394,676
Additions	—	—	—	—	3,490	—	3,490
Acquisition through business combination	—	881,468	—	—	—	—	881,468
At 31 December 2018 and 1 January 2019	3,967,085	881,468	36,904	362,732	31,082	363	5,279,634
Additions	—	—	—	—	21,861	—	21,861
At 31 December 2019	**3,967,085**	**881,468**	**36,904**	**362,732**	**52,943**	**363**	**5,301,495**
Accumulated amortisation:							
At 1 January 2018	683,947	—	25,934	—	9,507	—	719,388
Additions	96,476	88,147	3,535	—	5,725	—	193,883
At 31 December 2018 and 1 January 2019	780,423	88,147	29,469	—	15,232	—	913,271
Additions	96,476	88,147	3,221	—	7,308	—	195,152
At 31 December 2019	**876,899**	**176,294**	**32,690**	**—**	**22,540**	**—**	**1,108,423**
Net book Value:							
At 31 December 2019	**3,090,186**	**705,174**	**4,214**	**362,732**	**30,403**	**363**	**4,193,072**
At 31 December 2018	3,186,662	793,321	7,435	362,732	15,850	363	4,366,363

The car dealerships arise from relationship with automobile manufacturers, with an estimated useful life of 40 years. The fair value of the car dealerships as at the respective acquisition date was determined by using the multiple excess earning method.

The dealership operation rights arise from business combination through an agreement on strategic operation management cooperation scheme, with a contractual useful life of 10 years. The fair value of the dealership operation rights as at the acquisition date was determined by using the multiple excess earning method.

The trademark, arising from the acquisition of Top Globe Limited, has an indefinite useful life because it is expected to contribute net cash inflows to the Group indefinitely. The fair value of the trademark as at the acquisition date was determined by using the relief from royalty method.

The amortisation charge for the year is included in "administrative expenses" in the consolidated statement of profit or loss.

No material impairment of intangible assets was recognised in 2019 (2018: nil).

14 GOODWILL

	RMB'000
Cost:	
At 1 January 2018, 31 December 2018 and 31 December 2019	2,006,335
Accumulated impairment losses:	
At 1 January 2018, 31 December 2018 and 1 January 2019	—
Impairment during the year	71,222
At 31 December 2019	**71,222**
Carrying amount:	
At 31 December 2019	**1,935,113**
At 31 December 2018	2,006,335

Impairment test for cash-generating unit containing goodwill

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

	At 31 December	
	2019 **RMB'000**	2018 RMB'000
4S dealership business	**1,935,113**	2,006,335

The recoverable amount of the CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated by using an estimated growth rate of 3% (2018: 3%) which is consistent with the forecasts included in industry reports. The pre-tax discount rates applied to the cash flow projections beyond the one year period is 14% (2018: 14%).

Key assumptions used for value in use calculations are the growth rates for sales, corresponding gross margin rates and working capital changes, based on past performance and its expectation for market development.

In 2019, the operating results of several 4S dealership stores, which are individual CGUs, had not achieved the 2019 financial budgets approved by the directors. As at 31 December 2019, management has revisited the key assumptions of the five-year financial budgets of these stores, mainly including the revised growth rates for sales and corresponding gross margin rates, to determine the value in use amount of such CGUs. As a result, the carrying amount of these CGUs has been reduced to their recoverable amount, and an impairment loss of RMB71,222,000 (2018: nil) had been recognised by the Group in "Administrative expenses". Any adverse change in the assumptions used in the calculation of the recoverable amount would result in further impairment loss.

15 INTEREST IN SUBSIDIARIES

As of 31 December 2019, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies. The particulars of these subsidiaries are set out below:

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Big Glory International Limited (浩榮國際有限公司)		British Virgin Islands ("**BVI**") 22 June 2006 Hong Kong (Part 16) 23 September 2014	US$100	100%	–	Investment holding
Top Globe Limited (同方有限公司)		BVI 27 August 2007	US$100	100%	–	Investment holding
Acme Joy Group Limited		BVI 28 April 2011	US$50,000	–	100%	Investment holding
Chang Jun Limited (昌駿有限公司)		BVI 16 June 2011	US$100	–	100%	Investment holding
Silver Journey Global Limited		BVI 6 July 2011	US$50,000	–	100%	Investment holding
Hong Kong Nettime Investment Co., Ltd. (香港強時投資有限公司)		BVI 3 December 2018	US$1	–	100%	Investment holding
Rising Wave Development Limited (升濤發展有限公司)		Hong Kong 21 April 2006	HK$100	–	100%	Investment holding
Hong Kong Newspeed Technology Co., Ltd. (香港祥馳科技有限公司)		Hong Kong 18 December 2018	HK$1	–	100%	Investment holding
Wealth Fame Holdings Limited (佳名集團有限公司)		Hong Kong 19 July 2007	HK$1	–	100%	Investment holding
Tongda Group (China) Co., Ltd. (通達集團(中國)有限公司)		Hong Kong 10 November 2008	HK$10,000	–	100%	Investment holding
Wuhan Zhengtong United Industrial Investment Group Co., Ltd. (武漢正通聯合實業投資集團有限公司)		The PRC 22 November 2002	RMB1,410,000,000	–	100%	Investment holding
Shanghai Shenxie Automobile Trading Co., Ltd. (上海紳協汽車貿易有限公司)		The PRC 21 April 1999	RMB50,000,000	–	100%	Automobile dealership
Shanghai Yige Science & Technology Trading Co., Ltd. (上海繹格科工貿有限公司)	(ii)	The PRC 25 September 2002	RMB15,000,000	–	50%	Distribution of lubricant oil

15 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Hubei Dingjie Automobile Sales Services Co., Ltd. (湖北鼎傑汽車銷售服務有限公司)		The PRC 12 December 2002	RMB55,000,000	–	100%	Automobile dealership
Inner Mongolia Dingjie Automobile Trading Co., Ltd. (內蒙古鼎傑汽車貿易有限公司)		The PRC 23 January 2003	RMB7,000,000	–	100%	Automobile dealership
Hubei Bocheng Automobile Sales Services Co., Ltd. (湖北博誠汽車銷售服務有限公司)		The PRC 30 May 2003	RMB20,000,000	–	100%	Automobile dealership
Wuhan Kaitai Automobile Sales Services Co., Ltd. (武漢開泰汽車銷售服務有限公司)		The PRC 20 October 2003	RMB10,000,000	–	100%	Automobile dealership
Hubei Xinrui Automobile Sales Services Co., Ltd. (湖北欣瑞汽車銷售服務有限公司)		The PRC 18 March 2004	RMB10,000,000	–	100%	Automobile dealership
Wuhan Baoze Automobile Sales Services Co., Ltd. (武漢寶澤汽車銷售服務有限公司)		The PRC 26 May 2004	RMB70,000,000	–	100%	Automobile dealership
Shiyan Shenxie Automobile Trading Co., Ltd. (十堰紳協汽車貿易有限公司)		The PRC 18 June 2004	RMB50,000,000	–	100%	Automobile dealership
Shanghai Luda Automobile Sales Services Co., Ltd. (上海陸達汽車銷售服務有限公司)		The PRC 8 November 2004	RMB10,000,000	–	100%	Automobile dealership
Changsha Ruibao Automobile Sales Services Co., Ltd. (長沙瑞寶汽車銷售服務有限公司)		The PRC 21 June 2005	RMB20,000,000	–	100%	Automobile dealership
Hubei Jierui Automobile Sales Services Co., Ltd. (湖北捷瑞汽車銷售服務有限公司)		The PRC 24 June 2005	RMB22,000,000	–	100%	Automobile dealership
Huhhot Qibao Automobile Sales Services Co., Ltd. (呼和浩特市祺寶汽車銷售服務有限公司)		The PRC 23 February 2006	RMB10,000,000	–	100%	Automobile dealership
Yichang Baoze Automobile Sales Services Co., Ltd. (宜昌寶澤汽車銷售服務有限公司)		The PRC 13 June 2006	RMB8,000,000	–	100%	Automobile dealership

15 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Chenzhou Ruibao Automobile Sales Services Co., Ltd. (郴州瑞寶汽車銷售服務有限公司)		The PRC 6 September 2006	RMB6,000,000	–	100%	Automobile dealership
Shanghai Shenxie Shentong Automobile Sales Services Co., Ltd. (上海紳協紳通汽車銷售服務有限公司)		The PRC 31 January 2007	RMB15,000,000	–	100%	Automobile dealership
Nanchang Baoze Automobile Sales Services Co., Ltd. (南昌寶澤汽車銷售服務有限公司)		The PRC 2 June 2008	RMB29,000,000	–	100%	Automobile dealership
Zhuhai Baoze Automobile Sales Services Co., Ltd. (珠海寶澤汽車銷售服務有限公司)		The PRC 27 June 2008	RMB30,000,000	–	100%	Automobile dealership
Shanghai Aohui Automobile Sales Services Co., Ltd. (上海奧匯汽車銷售服務有限公司)		The PRC 4 December 2008	RMB10,000,000	–	100%	Automobile dealership
Guangzhou Baoze Automobile Sales Services Co., Ltd. (廣州寶澤汽車銷售服務有限公司)		The PRC 20 April 2009	RMB30,000,000	–	100%	Automobile dealership
Dongguan Jieyunhang Automobile Sales Services Co., Ltd. (東莞捷運行汽車銷售服務有限公司)		The PRC 6 July 2009	RMB10,000,000	–	100%	Automobile dealership
Baotou Baoze Automobile Sales Services Co., Ltd. (包頭市寶澤汽車銷售服務有限公司)		The PRC 6 August 2009	RMB26,000,000	–	100%	Automobile dealership
Beijing Baozehang Automobile Sales Services Co., Ltd. (北京寶澤行汽車銷售服務有限公司)		The PRC 16 October 2009	RMB90,000,000	–	100%	Automobile dealership
Inner Mongolia Dingze Automobile Sales Services Co., Ltd. (內蒙古鼎澤汽車銷售服務有限公司)		The PRC 27 October 2009	RMB20,000,000	–	100%	Automobile dealership

15 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shantou Hongxiang Materials Co., Ltd. (汕頭市宏祥物資有限公司)		The PRC 12 July 2000	RMB5,000,000	–	100%	Automobile dealership
Shangrao Baoze Automobile Sales Services Co., Ltd. (上饒市寶澤汽車銷售服務有限公司)		The PRC 2 November 2010	RMB27,000,000	–	100%	Automobile dealership
Ganzhou Baoze Automobile Sales Services Co., Ltd. (贛州寶澤汽車銷售服務有限公司)		The PRC 3 December 2010	RMB10,000,000	–	100%	Automobile dealership
Xiangyang Baoze Automobile Sales Services Co., Ltd. (襄陽寶澤汽車銷售服務有限公司)		The PRC 1 November 2010	RMB10,000,000	–	100%	Automobile dealership
Xiangtan Baoze Automobile Sales Services Co., Ltd. (湘潭寶澤汽車銷售服務有限公司)		The PRC 9 November 2010	RMB10,000,000	–	100%	Automobile dealership
Wuhan Shengtong Investment Management Co., Ltd. (武漢升通投資管理有限公司)		The PRC 22 April 2011	RMB10,000,000	–	100%	Investment holding
Baotou Luze Automobile Sales Services Co., Ltd. (包頭市路澤汽車銷售服務有限公司)		The PRC 4 May 2011	RMB30,000,000	–	100%	Automobile dealership
Ganzhou Yizezhiye Co., Ltd. (贛州益澤置業有限公司)		The PRC 19 November 2010	RMB10,000,000	–	100%	Real estate development
Xiangtan Yizezhiye Co., Ltd. (湘潭益澤置業有限公司)		The PRC 18 November 2010	RMB10,000,000	–	100%	Real estate development
Shangrao Yizezhiye Co., Ltd. (上饒市益澤置業有限公司)		The PRC 18 November 2010	RMB10,000,000	–	100%	Real estate development
Hubei Aoze Automobile Sales Services Co., Ltd. (湖北奧澤汽車銷售服務有限公司)		The PRC 25 May 2011	RMB60,000,000	–	100%	Automobile dealership
Lhasa Jinsheng Automobile Trading Co., Ltd. (拉薩金勝汽貿有限公司)		The PRC 13 April 2011	RMB20,000,000	–	100%	Automobile parts sales

15 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Qingdao Huacheng Automobile Services Co., Ltd. (青島華成汽車服務有限公司)		The PRC 8 March 2001	RMB8,800,000	–	100%	Automobile dealership
Shantou Lujie Automobile Sales Services Co., Ltd. (汕頭市路傑汽車銷售服務有限公司)		The PRC 2 September 2011	RMB14,000,000	–	100%	Automobile dealership
Lhasa Hongjin Automobile Sales Co., Ltd. (拉薩弘進汽貿有限公司)		The PRC 12 April 2011	RMB15,000,000	–	100%	Automobile parts sales
Henan Jintangsheng Automobile Co., Ltd. (河南省錦堂盛汽車有限公司)		The PRC 7 May 2008	RMB10,000,000	–	100%	Automobile dealership
Zhengzhou Dingwo Automobile Sales Services Co., Ltd. (鄭州鼎沃汽車銷售服務有限公司)		The PRC 3 June 2010	RMB10,000,000	–	100%	Automobile dealership
ZhengTong Automobile Investment Holding (Wuhan) Co., Ltd. (正通汽車投資控股(武漢)有限公司)	(i)	The PRC 29 March 2011	RMB600,000,000	–	100%	Investment holding
Chengdu Qibao Automobile Sales Services Co., Ltd. (成都祺寶汽車銷售服務有限公司)		The PRC 13 July 2011	RMB150,000,000	–	100%	Automobile dealership
Foshan Zheng Tong Zhong Rui Automobile Sales Services Co., Ltd. (佛山正通眾鋭汽車銷售服務有限公司)		The PRC 18 April 2011	RMB20,000,000	–	100%	Automobile dealership
Baotou Zhongrui Automobile Sales Service Co., Ltd. (包頭眾鋭汽車銷售服務有限公司)		The PRC 21 September 2010	RMB40,000,000	–	100%	Automobile dealership
ZhengTong Automobile Services Co., Ltd. (正通汽車服務有限公司)		The PRC 1 September 2011	RMB50,000,000	–	100%	Automobile parts sales
Jiangxi Deao Automobile Sales Services Co., Ltd. (江西德奧汽車銷售服務有限公司)		The PRC 17 September 2002	RMB5,000,000	–	100%	Automobile dealership

15 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Huhhot Jieyun Automobile Sales Services Co., Ltd (呼和浩特市捷運行汽車銷售服務有限公司)		The PRC 29 December 2011	RMB60,000,000	–	100%	Automobile dealership
Jieyang Dingjie Automobile Sales Services Co., Ltd. (揭陽鼎傑汽車銷售服務有限公司)		The PRC 19 July 2011	RMB31,000,000	–	100%	Automobile dealership
Shenzhen Roadmate Technology Co., Ltd. (深圳路美特科技有限公司)	(iii)	The PRC 15 March 2004	US$2,100,000	–	100%	Investment holding
Shenzhen SCAS Investment Group Co., Ltd. (深圳市中汽南方投資集團有限公司)		The PRC 21 May 2001	RMB50,000,000	–	100%	Investment holding
Shenzhen Yama Automobile Trading Co., Ltd. (深圳野馬汽車貿易有限公司)		The PRC 15 June 1993	RMB15,000,000	–	100%	Investment holding
Shenzhen SCAS Electric Machinery Co., Ltd. (深圳市中汽南方機電設備有限公司)		The PRC 25 November 1996	RMB50,000,000	–	100%	Automobile dealership
Shenzhen SCAS Automobile Maintenance Co., Ltd. (深圳市中汽南方汽車維修有限公司)		The PRC 14 August 2000	RMB5,000,000	–	100%	Provision of Automobile Maintenance services
Guangdong SCAS Automobile Sales Services Co., Ltd. (廣東中汽南方汽車銷售服務有限公司)		The PRC 21 July 2004	RMB20,000,000	–	100%	Automobile dealership
Dongguan SCAS Automobile Sales Services Co., Ltd. (東莞中汽南方汽車銷售服務有限公司)		The PRC 30 July 2004	RMB5,000,000	–	100%	Automobile dealership
Zhongshan SCAS Automobile Sales Services Co., Ltd. (中山中汽南方汽車銷售服務有限公司)		The PRC 29 April 2011	RMB30,000,000	–	100%	Automobile dealership

15 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Zhuhai SCAS Automobile Sales Services Co., Ltd. (珠海中汽南方汽車銷售服務有限公司)		The PRC 10 March 2005	RMB5,000,000	–	100%	Automobile dealership
Hunan SCAS Automobile Sales Services Co., Ltd. (湖南中汽南方汽車銷售服務有限公司)		The PRC 26 May 2005	RMB10,000,000	–	90%	Automobile dealership
Hainan SCAS Automobile Sales Services Co., Ltd. (海南中汽南方汽車銷售服務有限公司)		The PRC 23 May 2008	RMB20,000,000	–	100%	Automobile dealership
Fujian SCAS Automobile Sales Services Co., Ltd. (福建中汽南方汽車銷售服務有限公司)		The PRC 29 April 2005	RMB20,000,000	–	100%	Automobile dealership
Beijing SCAS North China Automobile Services Co., Ltd. (北京中汽南方華北汽車服務有限公司)		The PRC 2 July 2001	RMB10,000,000	–	100%	Automobile dealership
Beijing BWWR Automobile Sales Services Co., Ltd. (北京百旺沃瑞汽車銷售服務有限公司)		The PRC 27 March 2008	RMB5,000,000	–	100%	Automobile dealership
Beijing Dewanlong Trading Co., Ltd. (北京德萬隆經貿有限公司)		The PRC 9 September 1999	RMB30,000,000	–	100%	Automobile dealership
Beijing SCAS Zhongguan Automobile Sales Co., Ltd. (北京中汽南方中關汽車銷售有限公司)		The PRC 19 March 2010	RMB5,000,000	–	100%	Automobile dealership
Tianjin SCAS Automobile Sales Services Co., Ltd. (天津中汽南方汽車銷售服務有限公司)		The PRC 21 May 2004	RMB10,000,000	–	100%	Automobile dealership
Tianjin Automobile Industry SCAS Sales Co., Ltd. (天津汽車工業銷售深圳南方有限公司)		The PRC 28 November 1995	RMB20,000,000	–	100%	Automobile dealership

15 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Shenzhen SCAS Tengxing Automobile Sales Services Co., Ltd. (深圳市南方騰星汽車銷售服務有限公司)		The PRC 15 May 2006	RMB50,000,000	–	100%	Automobile dealership
Shenzhen SCAS Infiniti Automobile Sales Services Co., Ltd. (深圳市南方英菲尼迪汽車銷售服務有限公司)		The PRC 19 October 2006	RMB40,000,000	–	100%	Automobile dealership
Shenzhen SCAS Changfu Automobile Sales Co., Ltd. (深圳市中汽南方長福汽車銷售有限公司)		The PRC 10 December 2004	RMB10,000,000	–	100%	Automobile dealership
Shenzhen SCAS Tengtian Automobile Sales Services Co., Ltd. (深圳市南方騰田汽車銷售服務有限公司)		The PRC 24 March 2006	RMB10,000,000	–	100%	Automobile dealership
Shenzhen SCAS Tenglong Automobile Sales Services Co., Ltd. (深圳市南方騰龍汽車銷售服務有限公司)		The PRC 5 December 2005	RMB5,000,000	–	100%	Automobile dealership
Shenzhen SCAS Toyota Automobile Sales Services Co., Ltd. (深圳南方豐田汽車銷售服務有限公司)		The PRC 9 April 2002	RMB10,000,000	–	100%	Automobile dealership
Qingyuan SCAS Hezhong Automobile Sales Services Co., Ltd. (清遠南方合眾汽車銷售服務有限公司)		The PRC 31 December 2009	RMB20,000,000	–	100%	Automobile dealership
Qingyuan SCAS Toyota Automobile Sales Services Co., Ltd. (清遠南方豐田汽車銷售服務有限公司)		The PRC 17 October 2008	RMB10,000,000	–	100%	Automobile dealership
Baotou Lizhongyou Materials Co., Ltd. (包頭市利中友物資有限公司)		The PRC 6 November 2003	RMB1,000,000	–	100%	Automobile parts sales

15 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Changchun Shengze Jietong Transportation Co., Ltd. (長春聖澤捷通物流有限公司)		The PRC 24 October 2008	RM30,000,000	–	100%	Provision of auto-mobile related logistic services
Wuhan Yuntong Investment Management Co., Ltd. (武漢運通行投資管理有限公司)		The PRC 1 March 2012	RMB10,000,000	–	100%	Investment holding
Dongguan Liaobu SCAS Automobile Sales Services Co., Ltd. (東莞寮步中汽南方汽車銷售服務有限公司)		The PRC 15 May 2012	RMB15,000,000	–	100%	Automobile dealership
Guangdong SCAS Shengwo Automobile Sales Services Co., Ltd. (廣東中汽南方勝沃汽車銷售服務有限公司)		The PRC 11 June 2012	RMB10,000,000	–	100%	Automobile dealership
Wuhan Baozehang Automobile Maintenance Co., Ltd. (武漢寶澤行汽車維修服務有限公司)		The PRC 12 June 2012	RMB10,000,000	–	100%	Provision of Automobile Maintenance Services
Jingdezhen Shengtong Trading Co., Ltd. (景德鎮升通貿易有限公司)		The PRC 20 June 2012	RMB10,000,000	–	100%	Automobile parts sales
Zhuhai SCAS Jielu Automobile Sales Services Co., Ltd. (珠海中汽南方捷路汽車銷售服務有限公司)		The PRC 21 June 2012	RMB10,000,000	–	100%	Automobile dealership
Hunan SCAS Xingsha Automobile Sales Services Co., Ltd. (湖南中汽南方星沙汽車銷售服務有限公司)		The PRC 27 June 2012	RMB20,000,000	–	100%	Automobile dealership
Dongguan Zhengtong Kaidi Automobile Sales Services Co., Ltd. (東莞正通凱迪汽車銷售服務有限公司)		The PRC 29 October 2012	RMB30,000,000	–	100%	Automobile dealership
Jiangxi Zhengtong Zetian Automobile Sales Services Co., Ltd. (江西正通澤田汽車銷售服務有限公司)		The PRC 19 November 2012	RMB10,000,000	–	100%	Automobile dealership

15 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanghai Qibao Automobile Sales Services Co., Ltd. (上海祺寶汽車銷售服務有限公司)		The PRC 8 June 2013	RMB24,000,000	–	100%	Automobile dealership
Zhanjiang Zhengtong Kaidi Automobile Sales Services Co., Ltd. (湛江正通凱迪汽車銷售服務有限公司)		The PRC 15 April 2013	RMB20,000,000	–	100%	Automobile dealership
Wuhan Zhengtong Yuechi Automobile Sales Services Co., Ltd. (武漢正通悅馳汽車銷售服務有限公司)		The PRC 14 May 2013	RMB40,000,000	–	100%	Automobile dealership
Shantou Baoze Automobile Sales Services Co., Ltd. (汕頭市寶澤汽車銷售服務有限公司)		The PRC 2 September 2013	RMB10,000,000	–	100%	Automobile dealership
Jingmen Baoze Automobile Sales Services Co., Ltd. (荊門寶澤汽車銷售服務有限公司)		The PRC 11 October 2013	RMB50,000,000	–	100%	Automobile dealership
Weihai Luze Automobile Sales Services Co., Ltd. (威海路澤汽車銷售服務有限公司)		The PRC 31 October 2013	RMB30,000,000	–	100%	Automobile dealership
Baotou Baozehang Automobile Maintenance Services Co., Ltd. (包頭寶澤行汽車維修服務有限公司)		The PRC 18 December 2013	RMB40,000,000	–	100%	Provision of automobile maintenance services
Shantoushi Luze Automobile Sales Services Co., Ltd. (汕頭市路澤汽車銷售服務有限公司)		The PRC 20 November 2013	RMB10,000,000	–	100%	Automobile dealership
Shenzhenshi Qianhaizhengtong Logistic Equipment Services Co., Ltd. (深圳市前海正通物流設備服務有限責任公司)	(i)	The PRC 24 May 2013	US$5,000,000	–	100%	Provision of auto-mobile related logistic services
Changsha Ruize Real Estate Development Co., Ltd. (長沙瑞澤房地產開發有限公司)		The PRC 4 March 2013	RMB20,000,000	–	100%	Property management

15 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shantoushi Ruize Real Estate Development Co., Ltd. (汕頭市瑞澤房地產開發有限公司)		The PRC 14 August 2013	RMB160,000,000	–	100%	Property management
Dingze Insurance Agency Co., Ltd. (鼎澤保險代理有限公司)		The PRC 16 September 2013	RMB50,000,000	–	100%	Insurance agency services
Wuhan Jiewo Advisory Services Limited (武漢捷沃諮詢服務有限公司)		The PRC 8 August 2013	RMB1,000,000	–	100%	Consulting services
Sky Wonder Limited (天悦有限公司)		Hong Kong 14 March 2014	HK$1	–	100%	Investment holding
Shenzhenshi Zhuoruixiang Information Advisory Co., Ltd. (深圳市卓瑞翔信息諮詢有限公司)		The PRC 31 December 2013	RMB32,000,000	–	100%	Consulting services
Cheng Tong Developments Limited (成通發展有限公司)		BVI 1 April 2014	US$1	–	100%	Investment holding
Landtime International Limited (裕泰國際有限公司)		BVI 2 January 2014	US$1	–	100%	Investment holding
Goldrich Holdings Limited (啟富集團有限公司)		Hong Kong 16 January 2014	HK$1	–	100%	Investment holding
Beijing Zhengtong Baozehang Automobile Sales Services Co., Ltd. (北京正通寶澤行汽車銷售有限公司)		The PRC 7 January 2014	RMB40,000,000	–	100%	Automobile dealership
Wuhan Luze Automobile Sales Services Co., Ltd. (武漢路澤汽車銷售服務有限公司)		The PRC 6 January 2014	RMB60,000,000	–	100%	Automobile dealership
Shangraoshi Luze Automobile Sales Services Co., Ltd. (上饒市路澤汽車銷售服務有限公司)		The PRC 17 February 2014	RMB10,000,000	–	100%	Automobile dealership
Langfangshi Luze Automobile Sales Services Co., Ltd. (廊坊市路澤汽車銷售服務有限公司)		The PRC 23 May 2014	RMB40,000,000	–	100%	Automobile dealership

15 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Yichun Baoze Automobile Sales Services Co., Ltd. (宜春寶澤汽車銷售服務有限公司)		The PRC 6 March 2014	RMB40,000,000	–	100%	Automobile dealership
Qingdao Aoze Automobile Sales Services Co., Ltd. (青島奧澤汽車銷售服務有限公司)		The PRC 9 May 2014	RMB70,000,000	–	100%	Automobile dealership
Baotoushi Jieyunhang Automobile Sales Services Co., Ltd. (包頭市捷運行汽車銷售服務有限公司)		The PRC 24 March 2014	RMB65,000,000	–	100%	Automobile dealership
Shengzhou Aoze Automobile Sales Services Co., Ltd. (嵊州奧澤汽車銷售服務有限公司)		The PRC 30 May 2014	RMB30,000,000	–	100%	Automobile dealership
Dongguan Zhengtong Kaize Automobile Sales Services Co., Ltd. (東莞正通凱澤汽車銷售服務有限公司)		The PRC 17 February 2014	RMB5,000,000	–	100%	Automobile dealership
Shanghai Chichang Trading Co., Ltd. (上海馳暢貿易有限公司)	(i)	The PRC 24 July 2014	RMB100,000,000	–	100%	Automobile parts sales
Beijing Zhengtong Baoze Automobile Sales Services Co., Ltd. (北京正通寶澤汽車銷售服務有限公司)		The PRC 14 July 2014	RMB50,000,000	–	100%	Provision of Automobile Maintenance services
Loudi Dingwo Automobile Sales Services Co., Ltd. (婁底鼎沃汽車銷售服務有限公司)		The PRC 10 July 2014	RMB5,000,000	–	100%	Automobile dealership
Shenzhen Aoze Automobile Sales Services Co., Ltd. (深圳奧澤汽車銷售服務有限公司)		The PRC 2 July 2014	RMB50,000,000	–	100%	Automobile dealership
Dongguan Aoze Automobile Sales Services Co., Ltd. (東莞奧澤汽車銷售服務有限公司)		The PRC 21 July 2014	RMB50,000,000	–	100%	Automobile dealership
Foshan Aoze Automobile Sales Services Co., Ltd. (佛山奧澤汽車銷售服務有限公司)		The PRC 5 September 2014	RMB50,000,000	–	100%	Automobile dealership

15 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Zhengzhou Aoze Automobile Sales Services Co., Ltd. (鄭州奧澤汽車銷售服務有限公司)		The PRC 25 July 2014	RMB50,000,000	–	100%	Automobile dealership
Baoding Aoze Automobile Sales Services Co., Ltd. (保定奧澤汽車銷售服務有限公司)		The PRC 18 September 2014	RMB50,000,000	–	100%	Automobile dealership
Fuzhou Dingwo Automobile Sales Services Co., Ltd. (福州鼎沃汽車銷售服務有限公司)		The PRC 19 August 2014	RMB50,000,000	–	100%	Automobile dealership
Shenzhen Dingwo Automobile Sales Services Co., Ltd. (深圳鼎沃汽車銷售服務有限公司)		The PRC 3 September 2014	RMB25,000,000	–	100%	Automobile dealership
Jieyang Luze Automobile Sales Services Co., Ltd. (揭陽路澤汽車銷售服務有限公司)		The PRC 14 August 2014	RMB10,000,000	–	100%	Automobile dealership
ShenzhenLuze Automobile Sales Services Co., Ltd. (深圳路澤汽車銷售服務有限公司)		The PRC 15 August 2014	RMB10,000,000	–	100%	Automobile dealership
Yichang Baozehang Automobile Sales Services Co., Ltd. (宜昌寶澤行汽車銷售服務有限公司)		The PRC 22 August 2014	RMB70,000,000	–	100%	Automobile dealership
Shenzhenshi SCAS Huawo Automobile Sales Services Co., Ltd. (深圳市中汽南方華沃汽車銷售服務有限公司)		The PRC 11 June 2014	RMB5,000,000	–	100%	Automobile dealership
Shenzhen Hengyiyingtong Investment Management Co., Ltd. (深圳恒毅盈通投資管理有限公司)		The PRC 3 April 2014	RMB100,000,000	–	100%	Investment holding
Shenzhenshi Huianqi Investment Advisory Co., Ltd. (深圳市匯安啟投資諮詢有限公司)		The PRC 13 May 2014	HK$500,000	–	100%	Consulting services

15 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shenzhen Baoze Automobile Sales Services Co., Ltd. (深圳寶澤汽車銷售服務有限公司)		The PRC 31 March 2015	RMB10,000,000	–	100%	Automobile dealership
Beijing Zhengtong Dingwo Automobile Sales Services Co., Ltd. (北京正通鼎沃汽車銷售服務有限公司)		The PRC 30 January 2015	RMB5,000,000	–	100%	Automobile dealership
Hengyang Luze Automobile Sales Services Co., Ltd. (衡陽路澤汽車銷售服務有限公司)		The PRC 2 July 2014	RMB50,000,000	–	100%	Automobile dealership
Huhhot Yingfei Automobile Sales Services Co., Ltd. (呼和浩特市英菲汽車銷售服務有限公司)		The PRC 27 May 2015	RMB10,000,000	–	100%	Automobile dealership
Shanghai Dongzheng Automobile Finance Co., Ltd. (上海東正汽車金融有限責任公司)		The PRC 11 March 2015	RMB2,139,651,400	71.04%	–	Financial services
Beijing Hengyiyingtong Advertising Media Co., Ltd. (北京恒毅盈通廣告傳媒有限公司)		The PRC 21 May 2015	RMB5,000,000	–	100%	Consulting services
Shanghai Zhengtong Dingze Financial Leasing Co., Ltd. (上海正通鼎澤融資租賃有限公司)		The PRC 29 July 2014	US$100,000,000	–	100%	Financial services
Shengze Jietong Supply Chain Co., Ltd. (聖澤捷通供應鏈有限公司)		The PRC 15 January 2016	RMB200,000,000	–	100%	Provision of automobile related logistic services
Tianjin Chichang International Trading Co., Ltd. (天津馳暢國際貿易有限公司)		The PRC 11 June 2015	RMB100,000,000	–	100%	Automobile parts sales
Yunnan Chixing Automobile Sales Services Co., Ltd. (雲南馳星汽車銷售服務有限公司)		The PRC 25 May 2016	RMB130,000,000	–	100%	Automobile dealership

15 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Baoze Exhibition Co., Ltd. (北京寶澤會展有限公司)		The PRC 16 March 2016	RMB10,000,000	–	100%	Consulting services
Suzhou Anzhixing Automobile Sales Services Co., Ltd. (宿州安之星汽車銷售服務有限公司)		The PRC 23 November 2016	RMB20,000,000	–	100%	Automobile dealership
Guangzhoushi Hengyuehang Automobile Sales Services Co., Ltd. (廣州市恒悦行汽車銷售服務有限公司)		The PRC 21 June 2016	RMB80,000,000	–	100%	Automobile dealership
Qingyuan Aoze Automobile Sales Services Co., Ltd. (清遠奧澤汽車銷售服務有限公司)		The PRC 10 August 2016	RMB30,000,000	–	100%	Automobile dealership
Shenzhen Hengshuo Advisory Services Co., Ltd.. (深圳恒爍諮詢服務有限公司)		The PRC 7 September 2016	RMB1,000,000	–	100%	Consulting services
Foshan Tengxing Automobile Sales Services Co., Ltd. (佛山騰星汽車銷售服務有限公司)		The PRC 17 August 2016	RMB40,000,000	–	100%	Automobile dealership
Shantou Hengshuo Services Co., Ltd. (汕頭市恒爍商務諮詢服務有限公司)		The PRC 7 September 2016	RMB1,000,000	–	100%	Consulting services
Nanjing Qi'ao Automobile Sales Services Co., Ltd. (南京祺奥汽車銷售服務有限公司)		The PRC 3 May 2017	RMB10,000,000	–	100%	Automobile dealership
Zhuhai Zhengtong Tengxing Automobile Sales Services Co., Ltd. (珠海正通騰星汽車銷售服務有限公司)		The PRC 6 March 2017	RMB70,000,000	–	100%	Automobile dealership
Chongqing Qibao Automobile Sales Services Co., Ltd. (重慶祺寶汽車銷售服務有限公司)		The PRC 14 June 2016	RMB80,000,000	–	100%	Automobile dealership

15 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Wuhan Tengxing Automobile Sales Services Co., Ltd. (武漢騰星汽車銷售服務有限公司)		The PRC 1 August 2017	RMB20,000,000	–	100%	Automobile dealership
Hubei Changze Automobile Sales Services Co., Ltd. (湖北長澤汽車銷售服務有限公司)		The PRC 20 September 2017	RMB10,000,000	–	100%	Automobile dealership
Beijing Zhengtong Tengxing Automobile Sales Services Co., Ltd. (北京正通騰星汽車銷售服務有限公司)		The PRC 12 December 2016	RMB20,000,000	–	100%	Automobile dealership
Chengdu Dingbaohang Second Hand Automobile Sales Services Co., Ltd. (成都鼎寶行二手車銷售服務公司)		The PRC 12 June 2016	RMB10,000,000	–	100%	Automobile trading agency
Yongkang Guobang Automobile Sales Co., Ltd. (永康市國邦汽車銷售有限公司)		The PRC 8 August 2012	RMB80,000,000	–	100%	Automobile dealership
Yiwu Xinhui Automobile Sales Service Co., Ltd (義烏市新徽汽車銷售服務有限公司)		The PRC 17 February 2015	RMB60,000,000	–	100%	Automobile dealership
Wuhan Jieyuehang Supply Chain Co., Ltd. (武漢捷悦行供應鏈有限公司)		The PRC 17 July 2017	RMB60,000,000	–	100%	Provision of auto-mobile related logistic services
Shanghai Taishijie Automobile Sales Services Co., Ltd. (上海泰士傑汽車銷售有限公司)		The PRC 23 February 2004	RMB48,800,000	–	100%	Automobile dealership
Yiwu Dongtai Health Food Co., Ltd. (義烏東太保健食品有限公司)		The PRC 19 June 2003	RMB5,000,000	–	100%	Automobile trading agency
Shenzhen Zhengyuan Automobile Technology Co., Ltd. (深圳正源汽車科技有限公司)		The PRC 25 December 2017	RMB500,000,000	80%	–	Financial services

15 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shenzhen Chixing Automobile Sales Services Co., Ltd. (深圳馳星汽車銷售服務有限公司)		The PRC 7 November 2018	RMB10,000,000	–	100%	Automobile dealership
Shenzhen Qianhaichichang International Trading Co., Ltd. (深圳前海馳暢國際貿易有限公司)		The PRC 9 May 2018	RMB100,000,000	–	100%	Automobile parts sales
Dongguan Zhengtongyijie second-hand Automobile Technology Co., Ltd. (東莞正通易捷二手汽車銷售有限公司)		The PRC 11 October 2018	RMB1,000,000	–	100%	Automobile dealership
Dalian Jieyuehang Real Estate Development Co., Ltd. (大連捷悦行房地產開發有限公司)		The PRC 28 March 2018	RMB100,000,000	–	100%	Property management
Chengdu Hengyuehang Automobile Sales Service Co., Ltd (成都恒悦行汽車銷售服務有限公司)		The PRC 26 December 2017	RMB50,000,000	–	100%	Automobile dealership
Shenzhen Baotaihang Automobile Sales Services Co., Ltd. (深圳寶泰行汽車銷售服務有限公司)		The PRC 15 September 2017	RMB50,000,000	–	100%	Automobile dealership
Shenzhen Huashunbao Automobile Sales Services Co., Ltd. (深圳華順寶汽車銷售服務有限公司)		The PRC 14 September 2017	RMB50,000,000	–	100%	Automobile dealership
Shenzhen Huashunbao Automobile Services Co., Ltd. (深圳華順寶汽車服務有限公司)		The PRC 15 September 2017	RMB30,000,000	–	100%	Automobile dealership
Guangzhou Baotaihang Automobile Sales Services Co., Ltd. (廣州寶泰行汽車銷售服務有限公司)		The PRC 18 December 2017	RMB50,000,000	–	100%	Automobile dealership
Foshan Dingbaohang Automobile Sales Services Co., Ltd. (佛山鼎寶行汽車銷售服務有限公司)		The PRC 19 September 2017	RMB50,000,000	–	100%	Automobile dealership

15 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/ establishment	Registered/issued and fully paid up capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Foshan Baoyunhang Automobile Sales Services Co., Ltd. (佛山寶運行汽車銷售服務有限公司)		The PRC 20 September 2017	RMB50,000,000	–	100%	Automobile dealership
Jieyang Baotaihang Automobile Sales Services Co., Ltd. (揭陽寶泰行汽車銷售服務有限公司)		The PRC 20 September 2017	RMB20,000,000	–	100%	Automobile dealership
Dalian Hengyuehang Automobile Sales Services Co., Ltd. (大連恒悅行汽車銷售服務有限公司)		The PRC 9 April 2018	RMB50,000,000	–	100%	Automobile dealership
Shanghai Qize Automobile Sales Services Co., Ltd. (上海旗澤汽車銷售服務有限公司)		The PRC 30 September 2017	RMB10,000,000	–	100%	Automobile dealership
Shenzhen Chance Cloud Technology Co., Ltd. (深圳強時科技有限公司)		The PRC 11 February 2019	RMB10,000,000	–	100%	Investment holding
Beijing Zhengtonglingze Automobile Sales Services Co., Ltd. (北京正通淩澤汽車銷售服務有限公司)		The PRC 8 August 2019	RMB10,000,000	–	100%	Automobile dealership

Notes:

(i) These entities are incorporated in the PRC as wholly foreign-owned enterprises by Rising Wave Development Limited.

(ii) This entity is considered a subsidiary of the Group because the Group has rights to variable returns from its involvement with the entity and has the ability to affect those returns by virtue of an agreement signed with another equity shareholder which holds 50% interest in this entity, that results in the Group has the power to appoint the sole director of the entity.

(iii) This entity is incorporated in the PRC as a wholly foreign-owned enterprise by Wealth Fame Holdings Limited.

(iv) Except for Big Glory International Limited, Rising Wave Development Limited, Tongda Group (China) Co., Ltd., Silver Journey Global Limited, Acme Joy Group Limited, Chang Jun Limited, Top Globe Limited, Wealth Fame Holdings limited, Hong Kong Nettime Investment Co., Ltd and Hong Kong Newspeed Technology Co., Ltd, the English translation of the company names is for reference only. The official names of the companies established in the PRC are in Chinese.

The directors are of the view that the Group had no individually material non-controlling interest as at 31 December 2019.

16 INTEREST IN A JOINT VENTURE

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Share of net assets	**355,002**	293,906

Details of the Group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

			Proportion of ownership interest		
Name of the investee	Place of incorporation/ establishment	Particulars of issued and paid up capital	Group's effective interest	Held by subsidiaries	Principal activities
Fengshen Logistics Co., Ltd.	The PRC	RMB60,000,000	50%	50%	Provision of automobile related logistics services

Fengshen Logistics Co., Ltd ("**Guangzhou Fengshen**") is an unlisted corporate entity in which the Group has joint control and a 50% ownership interest. Guangzhou Fengshen is structured as a separate vehicle and the Group has a residual interest in its net assets. Accordingly, the Group has classified its interest in Guangzhou Fengshen as a joint venture, which is equity-accounted for.

The following is summarised financial information for Guangzhou Fengshen. For the years presented, no adjustments have been made (or are necessary) to conform the joint venture's accounting policies to those of the Group as there are no material differences between the accounting policies adopted by the joint venture and the Group.

Gross amounts of Guangzhou Fengshen:

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Current assets	**629,773**	655,003
Non-current assets	**614,149**	511,699
Current liabilities	**(533,918)**	(578,890)
Equity	**710,004**	587,812

16 INTEREST IN A JOINT VENTURE (Continued)

Included in the above assets and liabilities:

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Cash and cash equivalents	**6,532**	3,848

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue	**2,146,915**	2,294,633
Profit from continuing operations	**122,192**	76,368
Total comprehensive income	**122,192**	76,368

Included in the above profit:

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Depreciation and amortisation	**(46,355)**	(42,156)
Interest income	**12**	48
Income tax expense	**(27,477)**	(12,297)

Reconciled to the Group's interest in Guangzhou Fengshen:

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Gross amounts of Guangzhou Fengshen's net assets	**710,004**	587,812
Group's effective interest	**50%**	50%
Group's share of Guangzhou Fengshen's net assets	**355,002**	293,906
Carrying amount in the consolidated financial statements	**355,002**	293,906

17 INVENTORIES

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

	At 31 December 2019 RMB'000	2018 RMB'000
4S dealership business		
— Motor vehicles	**2,679,440**	3,508,903
— Automobile spare parts	**384,533**	301,767
— Others	**39,894**	35,057
	3,103,867	3,845,727
Comprehensive properties business		
— Properties under development for sale	**379,231**	—
	3,483,098	3,845,727

Inventories with carrying amount of RMB1,021,539,000 have been pledged as security for the bills payable (see note 26) as at 31 December 2019 (2018: RMB1,514,823,000).

Inventories with carrying amount of RMB1,297,260,000 have been pledged as security for loans and borrowings from banks and other financial institutions (see note 24) as at 31 December 2019 (2018: RMB1,146,798,000).

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	For the year ended 31 December 2019 RMB'000	2018 RMB'000
Carrying amount of inventories sold	**30,102,488**	31,963,559
Write down of inventories	**8,688**	9,287
Reversal of write-down of inventories	**(924)**	(6,892)
	30,110,252	31,965,954

The reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realisable value of certain motor vehicles as a result of a change in consumer preferences.

18 TRADE AND BILLS RECEIVABLES

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Trade receivables	**1,434,828**	1,070,104
Bills receivable	**—**	1,405
	1,434,828	1,071,509

All of the trade and bills receivables are expected to be recovered within one year.

Trade and bills receivables with carrying amount of RMB174,715,000 are pledged against bank loans (see note 24) (2018: RMB32,165,000) and nil pledged for obligations under finance leases as at 31 December 2019 (2018: RMB55,675,000).

As of the end of the reporting period, the ageing analysis of trade and bills receivables, based on the invoice date, is as follows:

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Within 3 months	**1,402,439**	1,025,394
More than 3 months but within 1 year	**27,372**	39,460
Over 1 year	**5,017**	6,655
	1,434,828	1,071,509

Details on the Group's credit policy are set out in note 31(a).

19 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Prepayments	**1,132,785**	1,471,050
Deposits	**518,961**	496,356
Other receivables	**8,564,554**	7,897,558
	10,216,300	9,864,964

All of the prepayments, deposits and other receivables are expected to be recovered within one year.

The counterparties of other receivables are mainly reputable automobile manufacturers for vendor rebates.

Details on the Group's credit policy are set out in note 31(a).

20 RECEIVABLES FROM FINANCIAL SERVICES

	At 31 December 2019 RMB'000	2018 RMB'000
Current		
Receivable from retail customers	4,096,702	4,204,798
Receivable from auto dealers	1,151,206	209,329
Less: Allowance for impairment losses	(109,008)	(95,398)
	5,138,900	4,318,729
Non-current		
Receivable from retail customers	3,707,354	3,927,899
Less: Allowance for impairment losses	(76,212)	(46,922)
	3,631,142	3,880,977
Net receivables from financial services	8,770,042	8,199,706

Receivable from retail customers are expected to be recovered within one to five years. Receivable from auto dealers are expected to be recovered within one year.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of receivables from financial services, based on the invoice date and net of allowance for impairment losses, is as follows:

	At 31 December 2019 RMB'000	2018 RMB'000
Within 3 months	1,782,058	1,786,451
More than 3 months but within 1 year	3,452,675	4,114,413
More than 1 year	3,535,309	2,298,842
	8,770,042	8,199,706

Details on the Group's credit policy are set out in note 31(a).

20 RECEIVABLES FROM FINANCIAL SERVICES (Continued)

(b) Impairment of receivables from financial services

The movement in the allowance for impairment losses during the year, including both specific and collective loss components, is as follows:

	2019 RMB'000	2018 RMB'000
Balance at 1 January	**142,320**	91,871
Impairment loss recognised	**110,154**	86,017
Uncollectible amounts written off	**(71,750)**	(36,364)
Recovery after write-off	**4,496**	796
Balance at 31 December	**185,220**	142,320

21 OTHER FINANCIAL ASSETS

	At 31 December	
	2019 RMB'000	2018 RMB'000
Current		
Financial assets carried at FVPL	**285,000**	—
Non-Current		
Financial assets carried at FVPL	**17,028**	410,045
	302,028	410,045

Other financial assets mainly included investment in wealth management products purchased from Western Trust Co., Ltd.

22 PLEDGED BANK DEPOSITS AND BALANCES WITH CENTRAL BANK

Guarantee deposits in respect of:

	Note	At 31 December 2019 RMB'000	2018 RMB'000
Restricted guarantee deposits in respect of:			
Bank loans (note 24)	(i)	**198,374**	261,594
Bills payable (note 26)	(i)	**791,305**	1,442,210
Standby letter of credit	(ii)	**400,000**	400,000
		1,389,679	2,103,804
Restricted balances with central bank:			
Deposit with central bank	(iii)	**9,479**	35,213
		1,399,158	2,139,017

(i) The bank deposits pledged for banks loans and bills payables will be released upon the settlement of relevant bank loans and bills payable.

(ii) The bank deposits pledged for the standby letter of credit will be released upon the maturity day of the standby letter of credit.

(iii) Deposits with central bank are statutory and surplus deposit reserves placed by Shanghai Dongzheng Automotive Finance Co., Ltd. with the People's Bank of China. The statutory deposit reserve ratio applicable is 6.0% (2018: 7.0%). The surplus deposit reserves are maintained with the PBOC for the purpose of cash settlement.

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	At 31 December 2019 RMB'000	2018 RMB'000
Deposit with banks within 3 months of maturity	**287,000**	159,878
Cash at banks and on hand	**1,210,400**	2,751,517
Cash and cash equivalents in consolidated cash flow statements	**1,497,400**	2,911,395

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	For the year ended 31 December 2019 RMB'000	 2018 RMB'000
Profit before taxation		**1,163,064**	1,889,488
Adjustments for:			
— Depreciation of owned property, plant and equipment	5(c)	**375,073**	332,137
— Depreciation of right-of-use assets	5(c)	**386,033**	—
— Amortisation of lease prepayments	5(c)	**—**	28,554
— Amortisation of intangible assets	5(c)	**195,152**	193,883
— Net gain on disposal of property, plant and equipment	4	**(23,556)**	(48,024)
— Finance costs	5(a)	**1,076,260**	910,072
— Share of profit of a joint venture and an associate		**(61,753)**	(36,595)
— Interest income from bank deposits	4	**(45,593)**	(75,991)
— Allowance for impairment losses	20(b)	**110,154**	86,017
— Write down of inventories	17(b)	**7,764**	2,395
— Realised and unrealised net loss/(gain) on derivatives	4	**18,850**	(118,922)
— Foreign exchange loss		**96,102**	422,201
— Impairment of goodwill	14	**71,222**	—
— Listing expenses of a subsidiary	5(c)	**9,207**	2,268
Cash generated from operations		**3,377,979**	3,587,483
Changes in working capital:			
— Decrease in inventories		**734,096**	236,046
— Increase in trade and bills receivables		**(363,319)**	(77,278)
— Increase in prepayments, deposits and other receivables		**(389,752)**	(2,546,343)
— Decrease in pledged bank deposits		**676,639**	384,499
— (Decrease)/increase in trade and other payables		**(405,700)**	290,191
— Increase in receivables from financial services		**(680,490)**	(2,919,990)
— (Decrease)/increase in loans and borrowings for financial services		**(175,987)**	2,134,186
Cash generated from operations		**2,773,466**	1,088,794
Income tax paid		**(227,445)**	(312,452)
Net cash generated from operating activities		**2,546,021**	776,342

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(b) Reconciliation of profit before taxation to cash generated from operations: (Continued)

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Cash payments under operating leases made by the Group as a lessee of RMB429,706,000 were classified as operating activities in the consolidated cash flow statement. Under HKFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see note 23(c)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2(c).

(c) Reconciliation of liabilities arising from financing activities

	Bank loans and borrowings for non-financial services RMB'000 (note 24)	Bonds payable RMB'000 (note 27)	Obligations under finance leases RMB'000	Interest payables RMB'000 (i)	Derivative financial instruments: Capped cross currency swap RMB'000 (note 31(e))	Lease liabilities RMB'000 (Note)	Accrued listing expenses of a subsidiary RMB'000	Total RMB'000
At 31 December 2018	14,796,749	903,062	91,273	88,721	7,593	–	(669)	15,886,729
Impact on initial application of HKFRS 16	–	–	(91,273)	–	–	1,730,954	–	1,639,681
At 1 January 2019	14,796,749	903,062	–	88,721	7,593	1,730,954	(669)	17,526,410
Changes from financing cash flows:								
Proceeds from loans and borrowings	16,685,821	–	–	–	–	–	–	16,685,821
Repayment of loans and borrowings	(18,291,606)	(610,000)	–	–	–	–	–	(18,901,606)
Capital element of finance lease rentals paid	–	–	–	–	–	(481,218)	–	(481,218)
Interest element of finance lease rentals paid	–	–	–	–	–	(140,699)	–	(140,699)
Interest paid	–	–	–	(1,022,168)	–	–	–	(1,022,168)
Proceeds of derivative financial instruments	–	–	–	–	46,387	–	–	46,387
Payments for listing expenses of a subsidiary	–	–	–	–	–	–	(80,078)	(80,078)
Total changes from financing cash flows	(1,605,785)	(610,000)	–	(1,022,168)	46,387	(621,917)	(80,078)	(3,893,561)
Exchange adjustments	96,139	–	–	–	(37)	–	–	96,102
Changes in fair value	–	–	–	–	31,632	–	–	31,632
Increase in lease liabilities from entering into new leases during the year	–	–	–	–	–	632,466	–	632,466
Interest expenses (note 5(a))	–	5,473	–	902,399	–	140,699	–	1,048,571
Capitalised borrowing costs (note 5(a))	–	–	–	87,978	–	–	–	87,978
Listing expenses of a subsidiary	–	–	–	–	–	–	113,709	113,709
Total other changes	–	5,473	–	990,377	–	773,165	113,709	1,882,724
At 31 December 2019	13,287,103	298,535	–	56,930	85,575	1,882,202	32,962	15,643,307

(i) Interest payables is recorded in trade and other payables as disclosed in note 26.

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. See notes 2(c) and 23(b).

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(c) Reconciliation of liabilities arising from financing activities (Continued)

	Bank loans and borrowings for non-financial services RMB'000 (Note 24)	Bonds payable RMB'000 (Note 27)	Obligations under finance leases RMB'000	Interest payables RMB'000 (i)	Derivative financial instruments: Capped cross currency swap RMB'000 (Note 31)	Accrued listing expenses of a subsidiary RMB'000	Total RMB'000
At 1 January 2018	12,778,145	901,463	120,578	65,215	134,353	–	13,999,754
Changes from financing cash flows:							
Proceeds from loans and borrowings	17,418,682	–	–	–	–	–	17,418,682
Repayment of loans and borrowings	(15,815,850)	–	–	–	–	–	(15,815,850)
Capital element of finance lease liabilities paid	–	–	(198,243)	–	–	–	(198,243)
Interest paid	–	–	–	(900,281)	–	–	(900,281)
Payment for derivative financial instruments	–	–	–	–	(14,267)	–	(14,267)
Payments for listing expenses of a subsidiary	–	–	–	–	–	(2,937)	(2,937)
Total changes from financing cash flows	1,602,832	–	(198,243)	(900,281)	(14,267)	(2,937)	487,104
Exchange adjustments	415,772	–	–	–	6,429	–	422,201
Changes in fair value (note 4)	–	–	–	–	(118,922)	–	(118,922)
New finance leases	–	–	168,938	–	–	–	168,938
Interest expenses (note 5(a))	–	1,599	–	875,935	–	–	877,534
Capitalised borrowing costs (note 5(a))	–	–	–	47,852	–	–	47,852
Listing expenses of a subsidiary (note 5(c))	–	–	–	–	–	2,268	2,268
Total other changes	–	1,599	168,938	923,787	–	2,268	1,096,592
At 31 December 2018	14,796,749	903,062	91,273	88,721	7,593	(669)	15,886,729

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(d) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019 RMB'000	2018 (Note) RMB'000
Within operating cash flows	53,813	429,706
Within investing cash flows	334,776	294,125
Within financing cash flows	621,917	198,243
	1,010,506	922,074

Note: As explained in the note 23(b), the adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

These amounts relate to the following:

	2019 RMB'000	2018 RMB'000
Lease rentals paid	675,730	627,949
Purchase of land use rights	334,776	294,125
	1,010,506	922,074

24 LOANS AND BORROWINGS

The analysis of the carrying amount of loans and borrowings is as follows:

	Note	At 31 December 2019 RMB'000	2018 RMB'000
Current			
Loans and borrowings for financial services			
Unsecured bank loans	(i)	5,876,808	5,552,043
Secured borrowings from other financial institutions	(ii)	75,959	—
Secured long-term borrowings from other financial institutions within 1 year	(ii)	14,054	—
Current portion of unsecured long-term bank loans	(i)	—	227,490
		5,966,821	5,779,533
Loans and borrowings for non-financial services			
Unsecured bank loans	(i)	2,545,427	3,145,149
Current portion of unsecured long-term bank loans	(i)	3,532,319	2,399,655
Unsecured short-term commercial paper	(iii)	150,000	700,000
Unsecured borrowings from other financial institutions		—	300,000
Current portion of unsecured borrowings from other financial institutions		100,000	—
		6,327,746	6,544,804
Secured bank loans	(iv)	2,284,505	1,863,320
Current portion of secured long-term bank loans	(iv)	227,825	137,502
Secured borrowings from other financial institutions	(v)	2,221,088	845,312
		11,061,164	9,390,938
Sub-total		17,027,985	15,170,471
Non-current			
Loans and borrowings for financial services			
Unsecured bank loans	(vi)	—	378,591
Secured borrowings from other financial institutions	(ii)	15,316	—
		15,316	378,591
Loans and borrowings for non-financial services			
Unsecured bank loans	(vi)	1,943,402	4,895,449
Secured bank loans	(vii)	282,537	510,362
		2,225,939	5,405,811
Sub-total		2,241,255	5,784,402
Total		19,269,240	20,954,873

(i) Current unsecured bank loans carried interest at annual rates ranging from 3.92% to 7.50% as at 31 December 2019 (2018: from 3.61% to 8.50%).

(ii) It represented the secured borrowings from other financial institutions embedded in sale-leaseback arrangement by the Group which bears interest at an effective rate from 7.70% to 9.14% per annum with quarterly instalment payments.

24 LOANS AND BORROWINGS (Continued)

(iii) The Group had issued one (2018: three) batch of one year short-term commercial papers in National Association of Financial Market Institutional Investors in 2019 with the amount of RMB150 million (2018: RMB200 million, RMB200 million, RMB300 million). This short-term commercial paper bears interest rate of 6.50% (2018: 7.00%, 7.40%, 7.50%) respectively.

(iv) Current secured bank loans carried interest at annual rates ranging from 3.06% to 8.40% as at 31 December 2019 (2018: from 4.35% to 8.40%).

(v) Secured borrowings from other financial institutions mainly represent loans obtained from the auto finance companies of the respective automobile manufacturers for purchase of motor vehicles, which are secured, interest-bearing with annual rates ranging from 5.96% to 8.80% as at 31 December 2019 (2018: from 6.13% to 8.5%).

(vi) The non-current unsecured bank loans bearing interest rate from 4.91% to 5.225% per annum as at 31 December 2019 (2018: 5.65% to 5.96%) will mature on 15 January 2021,6 December 2021 and 28 August 2021 respectively.

(vii) The non-current secured bank loan bearing interest rate at 4.35% and 8.40% per annum will mature on 2 June 2021 and 26 June 2023 respectively.

(viii) As at 31 December 2019, the following assets of the Group had been pledged to secure for the Group's banking facilities totalling to RMB10,233,798,000 (2018: RMB6,662,222,000).

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Inventories	**1,297,260**	1,146,798
Pledged bank deposits	**198,374**	261,594
Property, plant and equipment	**182,416**	50,177
Right-of-use assets — land use rights	**398,730**	214,662
Trade and bills receivables	**174,715**	32,165
Shares of subsidiaries	**117,234**	117,234
Time deposit	**363,221**	172,000
Total	**2,731,950**	1,994,630

As of 31 December 2019, the above banking facilities were utilised to the extent of RMB5,121,284,000 (2018: RMB3,356,496,000).

As part of the securities for bank loans, the Group pledged its equity interest in subsidiaries of Yongkang Guobang Automobile Sales Co., Ltd. and Yiwu Xinhui Automobile Sales Service Co., Ltd., amounted to approximately RMB117,234,000 as at 31 December 2019 (2018: RMB117,234,000).

Certain banking facilities of the Group's subsidiaries are subject to the fulfilment of covenants relating to the subsidiaries' balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the subsidiaries were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 31(b). As at 31 December 2019, none of the covenants relating to drawn down facilities had been breached (2018: None).

(ix) As of 31 December 2019, unsecured loans and borrowings amounting to RMB8,149,468,000 were guaranteed by the Company and its fellow subsidiaries (2018: RMB12,569,111,000).

As of 31 December 2019, secured loans and borrowings amounting to RMB5,121,284,000 were guaranteed by the Company and its fellow subsidiaries (2018: RMB3,356,496,000).

25 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	At 31 December 2019		At 1 January 2019 (Note)	
	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	428,019	442,917	368,723	385,886
After 1 year but within 2 years	396,590	434,811	251,350	274,502
After 2 years but within 5 years	587,716	720,671	589,735	732,176
After 5 years	469,877	740,018	521,146	828,928
	1,454,183	1,895,500	1,362,231	1,835,606
	1,882,202	2,338,417	1,730,954	2,221,492
Less: total future interest expenses		(456,215)		(490,538)
Present value of lease liabilities		1,882,202		1,730,954

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2(c).

26 TRADE AND OTHER PAYABLES

	Note	At 31 December 2019 RMB'000	2018 RMB'000
Current			
Trade payables		**1,133,626**	1,158,484
Bills payable	(i)	**2,447,408**	3,440,016
		3,581,034	4,598,500
Contract liabilities	(ii)	**915,334**	569,331
Other payables and accruals		**1,799,665**	1,532,777
Payables due to related parties		**—**	26,040
		6,296,033	6,726,648
Non-Current			
Long-term payables		**277,057**	299,302
		6,573,090	7,025,950

(i) Bills payable of RMB791,305,000 as at 31 December 2019 (2018: RMB1,442,210,000) were secured by pledged bank deposits (see note 22).

Bills payable of RMB1,656,103,000 as at 31 December 2019 (2018: RMB1,997,806,000) were secured by inventories (see note 17).

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

	At 31 December 2019 RMB'000	2018 RMB'000
Within 3 months	**3,322,566**	4,267,235
Over 3 months but within 6 months	**255,088**	327,398
Over 6 months but within 12 months	**3,380**	3,867
	3,581,034	4,598,500

(ii) The amount of revenue recognised in the year that was included in the contract liabilities balance at the beginning of the year was RMB569,331,000 (2018: RMB545,228,000).

27 BONDS PAYABLE

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Bonds payable	**298,535**	903,062
Details of the bonds are as follows:		
Principal amount	**300,000**	910,000
Bonds issue costs	**(3,000)**	(9,100)
Proceeds received	**297,000**	900,900
Accumulated amortised amounts of discount on issue and issue costs	**1,535**	2,162
As at 31 December	**298,535**	903,062

On 24 March 2017, the Group issued corporate bonds with an aggregate principal amount of RMB300 million (the "**PRC Bonds**"). The PRC bonds bear interest from 24 March 2017 (inclusive) at the rate of 6% per annum and were issued at their principal amount. Interest on the PRC Bonds is payable annually in arrears. The PRC bonds have been listed on Shenzhen Stock Exchange, and will be mature on 24 March 2022.

On 24 October 2017, the Group issued corporate bonds with an aggregate principal amount of RMB610 million (the "**PRC Bonds**"). The PRC bonds bear interest from 24 October 2017 (inclusive) at the rate of 7.9% per annum and were issued at their principal amount. Interest on the PRC Bonds is payable annually in arrears. The PRC bonds have been listed on Shenzhen Stock Exchange. The Bonds was redeemed in whole prior to maturity date in October 2019.

28 EMPLOYEE RETIREMENT BENEFITS

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Company participate in defined contribution retirement benefit schemes (the "**Schemes**") organised by the PRC municipal government authorities where the subsidiaries are registered whereby these PRC subsidiaries are required to make a contribution at the respective local rates of the eligible employees' salaries to the Schemes. The Group has accrued for the required pension fund contributions which are remitted to the respective social security offices when the contributions become due. The social security offices are responsible for making the benefit payments to the retired employee covered under the Schemes.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

29 DEFERRED TAX ASSETS AND LIABILITIES

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

	Fair value adjustment arising from business combination RMB'000	Depreciation allowances in excess of depreciation charges RMB'000	Future benefits of tax losses RMB'000	Fair value change of derivative financial instruments RMB'000	Deferred revenue and inventory provision RMB'000	Credit Loss allowance RMB'000	Capitalisation of interest RMB'000	Charge of right-of-use assets RMB'000	Total RMB'000
Deferred tax assets/ (liabilities) arising from:									
At 1 January 2018	(825,697)	(5,757)	156,080	–	17,002	9,120	(39,569)	–	(688,821)
Acquisition of a subsidiary through business combination	(220,367)	–	–	–	–	–	–	–	(220,367)
Credited/(charged) to profit or loss (note 6(a))	47,119	320	32,064	1,824	(4,711)	4,768	(10,059)	–	71,325
At 31 December 2018	(998,945)	(5,437)	188,144	1,824	12,291	13,888	(49,628)	–	(837,863)
Impact on initial application of HKFRS 16	–	–	–	–	–	–	–	49,669	49,669
At 1 January 2019	–	–	–	–	–	–	–	49,669	49,669
Credited/(charged) to profit or loss (note 6(a))	47,041	221	35,997	(1,824)	(2,758)	10,931	(20,988)	13,258	81,878
At 31 December 2019	**(951,904)**	**(5,216)**	**224,141**	**–**	**9,533**	**24,819**	**(70,616)**	**62,927**	**(706,316)**

	At 31 December	
	2019 RMB'000	2018 RMB'000
Representing:		
Net deferred tax assets	**321,474**	214,688
Net deferred tax liabilities	**(1,027,790)**	(1,052,551)
	(706,316)	(837,863)

Deferred tax liabilities not recognised:

The PRC Corporate Income Tax Law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. The Group has not recognised deferred tax liabilities as at 31 December 2019 in respect of undistributed earnings of RMB8,081,841,000 (2018: RMB7,088,444,000) as the Company controls the dividend policy of the subsidiaries and it has determined that these profit will not be distributable in the foreseeable future.

30 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in component 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:

	The Company				
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2018	193,425	4,875,706	77,893	(1,876,510)	3,270,514
Loss and total comprehensive income for the year	—	—	—	(803,370)	(803,370)
Dividends (note 30(b))	—	—	—	(497,317)	(497,317)
Issue of ordinary shares by placement	18,891	1,424,832	—	—	1,443,723
Purchase and cancellation of own shares (note 30(c)(i))	(2,996)	(180,487)	(7,547)	—	(191,030)
Balance at 31 December 2018 and 1 January 2019	209,320	6,120,051	70,346	(3,177,197)	3,222,520
Loss and total comprehensive income for the year	—	—	—	(405,900)	(405,900)
Dividends (note 30(b))	—	—	—	(522,144)	(522,144)
Purchase and cancellation of own shares (note 30(c)(i))	(170)	(7,377)	7,547	—	—
Balance at 31 December 2019	**209,150**	**6,112,674**	**77,893**	**(4,105,241)**	**2,294,476**

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2019 RMB'000	2018 RMB'000
Interim dividend declared and paid of HK$0.10 per ordinary share (2018: HK$0.10)	**221,357**	213,904
No final dividend proposed after the end of the reporting period (2018: HK$0.14 per ordinary share)	**—**	294,489
	221,357	508,393

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends (Continued)

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2019 RMB'000	2018 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.14 per ordinary share (2018: HK$0.14 per ordinary share)	300,787	283,413

(iii) Other dividends

During the year of 2019, certain subsidiaries of the Group declared and paid dividends of RMB56,589,000 in cash to non-controlling shareholders (2018: nil).

(c) Share capital

Movements in the authorised share capital of the Company during the year are as follows:

	2019		2018	
	Number of shares (thousand)	Amount HK$('000)	Number of shares (thousand)	Amount HK$('000)
Ordinary shares, authorised:				
Ordinary shares of HK$0.10 each	20,000,000	2,000,000	20,000,000	2,000,000
Ordinary shares, issued and fully paid:				
At 1 January	2,454,142	245,414	2,265,539	226,554
Issue of ordinary shares by placement	—	—	226,000	22,600
Purchase and cancellation of own shares (i)	(1,922)	(192)	(37,397)	(3,740)
At 31 December	2,452,220	245,222	2,454,142	245,414
RMB equivalent ('000)		209,150		209,320

(i) In November 2018, the Group repurchased 1,922,000 ordinary shares of the Company through the Main Board of the HKSE at an aggregate consideration of approximately HK$8,509,000 (equivalent to RMB7,547,000). These ordinary shares were subsequently cancelled in January 2019. The consideration paid on such repurchase was charged to share capital (HK$192,000 equivalent to RMB170,000) and share premium (HK$8,317,000 equivalent to RMB7,377,000) in 2019. During 2019, no shares were repurchased.

30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Issuance of new shares of a subsidiary

On 3 April 2019, Shanghai Dongzheng Automotive Finance Co., Ltd. ("**Dongzheng AFC**") had completed the spin-off and separate listing on the Hong Kong Stock Exchange (the "**IPO**"), by issuing 533,336,000 new ordinary shares at HK$3.06 per share, the net proceeds after deducting the issuance costs amounted to HK$1,510,910,000 (equivalent to RMB1,293,415,000). On 25 April 2019, Dongzheng AFC partially exercised the over-allotment option at HK$3.06, the net proceeds after deducting the issuance costs amounted to HK$18,351,000 (equivalent to RMB15,753,000).

Upon completion of IPO and exercise of over-allotment option, the Group's equity interest in Dongzheng AFC had been diluted from 95% to 71.04% and the Group retains control over Dongzheng AFC. The dilution impact of the Group's interest in Dongzheng AFC has resulted in an increase in non-controlling interests of RMB993,651,000 and an increase in capital reserves of RMB315,517,000.

(e) Nature and purpose of reserves

(i) PRC statutory reserve

PRC Statutory reserve was established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC. Appropriations to the reserve were approved by the respective boards of directors' meetings.

For the entity concerned, statutory reserve can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

(ii) Exchange reserve

Foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations which are dealt with in accordance with the accounting policies as set out in note 2(w).

(iii) General reserve

Pursuant to the relevant notices issued by regulatory bodies, certain subsidiary in the financial services segment in the Mainland China are required to set aside a general reserve to cover potential losses.

30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(f) Capital risk 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 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 shareholders 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, the Group defines net debt as interest-bearing loans and borrowings, obligations under finance leases, bills payable, bonds payable and unaccrued proposed dividends less cash and cash equivalents, time deposits and pledged bank deposits, and capital is defined as the total equity less unaccrued proposed dividends.

The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. This caused a significant increase in the Group's total debt and hence the Group's adjusted net debt-to-capital ratio rose from 1.65 to 1.81 on 1 January 2019 when compared to its position as at 31 December 2018.

30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(f) Capital risk management (Continued)

The Group's adjusted net debt-to-capital ratio at the end of the current and previous reporting periods and at the date of transition to HKFRS 16 was as follows:

	Note	At 31 December 2019 RMB'000	At 1 January 2019 (Note) RMB'000	At 31 December 2018 (Note) RMB'000
Loans and borrowings	24	**19,269,240**	20,954,873	20,954,873
Bonds payable	27	**298,535**	903,062	903,062
Bills payable	26	**2,447,408**	3,440,016	3,440,016
Obligations under finance leases		**—**	—	91,273
Lease liabilities	25	**1,882,202**	1,730,954	—
Total borrowings		**23,897,385**	27,028,905	25,389,224
Add: Proposed dividends	30(b)	**—**	294,489	294,489
Less: Pledged bank deposits	22	**(1,399,158)**	(2,139,017)	(2,139,017)
Time deposits		**(680,929)**	(788,515)	(788,515)
Cash and cash equivalents	23	**(1,497,400)**	(2,911,395)	(2,911,395)
Adjusted net debt		**20,319,898**	21,484,467	19,844,786
Total equity		**13,640,297**	12,148,499	12,325,446
Less: Proposed dividends	30(b)	**—**	(294,489)	(294,489)
Adjusted total equity		**13,640,297**	11,854,010	12,030,957
Adjusted net debt-to-capital ratio		**1.49**	1.81	1.65

The Group is subject to capital requirements imposed by certain banks as disclosed in note 24(viii).

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated. See note 2(c).

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

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 receivables from financial services, cash and cash equivalents, pledged bank deposits and balances with central bank, time deposits, trade and bills receivables, prepayments, deposits and other receivables and long-term receivables.

The Group's exposure to credit risk arising from cash and cash equivalents, pledged bank deposits and balances with central bank and time deposits is limited because the counterparties are banks and financial institutions for which the Group considers to have low credit risk.

Receivables from financial services

The counterparties are mainly a large group of individual customers who obtained financial services from the Group.

In order to minimise credit risk of receivables from financial services, the Group has tasked its risk management department to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the risk management department uses other publicly available financial information and the Group's own trading records to rate its counterparties. The Group's exposure and the credit ratings of its counterparties are continuously monitored.

The Group's current credit risk grading framework in respect of financial assets comprises the following categories:

Category	Description	Basis of recognising ECL
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL for not credit-impaired
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECL for credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery	Amount is written off

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for receivables from financial services based on the provision matrix.

Receivables from financial services	At 31 December 2019 Provision ratio (%)	At 31 December 2019 RMB'000	At 31 December 2018 Provision ratio (%)	At 31 December 2018 RMB'000
Gross balance are assessed for 12-month ECL				
— Neither overdue nor credit-impaired		**8,824,115**		8,206,813
Allowances for impairment losses	**1.16%**	**(102,044)**	1.03%	(84,593)
Net balance		**8,722,071**		8,122,220
Gross balance are not credit-impaired and assessed for lifetime ECL				
— Overdue but not credit-impaired		**81,179**		88,754
— Neither overdue nor credit-impaired		**237**		15,172
Sub-total		**81,416**		103,926
Allowances for impairment losses	**48.21%**	**(39,254)**	29.52%	(30,681)
Net balance		**42,162**		73,245
Gross balance are credit-impaired and assessed for lifetime ECL				
— Overdue and credit-impaired		**49,731**		31,287
Allowances for impairment losses	**88.32%**	**(43,922)**	86.44%	(27,046)
Net balance		**5,809**		4,241
Book value		**8,770,042**		8,199,706

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Receivables from non-financial services

Trade and bills receivables

Credit risk in respect of trade and bills receivables is limited since credit sales are offered in rare cases subject to high level management's approval. Trade and bills receivables balances mainly represent mortgage granted by major financial institutions to customers of the Group and warranty receivables from automobile manufacturers. The mortgage is normally settled within one month directly by major financial institutions. While for the receivables from automobile manufacturers, risk of default is considered low, as these are either reputable companies or with good credit rating. Based on past experience, the Group was of the opinion that no provision for impairment was necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable. Normally, the Group does not obtain collateral from customers.

At the end of the reporting period, 18% (2018: 17%) and 6% (2018: 7%) of the total trade and bills receivables were due from the Group's five largest debtors and the largest single debtor respectively.

The Group measures loss allowances for trade and bills receivables at an amount equal to lifetime ECLs. The Group assessed that there is no significant loss allowance recognised in accordance with HKFRS 9 for trade and bills receivables as at 31 December 2019.

Prepayments, deposits and other receivables, and long-term receivables

Credit risk in respect of prepayments, deposits and other receivables and long-term receivables is limited since the counterparties are mainly reputable automobile manufacturers and certain landlords and their receivables are settled on a regular basis.

The Group measures loss allowances for prepayments, deposits and other receivables and long-term receivables at an amount equal to 12-month ECLs unless there has been a significant increase in credit risk since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs. The Group assessed that there is no significant loss allowance recognised in accordance with HKFRS 9 for prepayments, deposits and other receivables and long-term receivables as at 31 December 2019.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor current and expected liquidity requirements, and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutes to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and 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 date the Group can be required to pay:

	At 31 December 2019					At 31 December 2018				
	Contractual undiscounted cash outflow					Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Balance sheet carrying amount	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Balance sheet carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loans and borrowings	17,425,454	2,423,683	–	19,849,137	19,269,240	15,570,528	6,373,610	–	21,944,138	20,954,873
Obligations under finance leases	–	–	–	–	–	94,021	–	–	94,021	91,273
Lease liabilities (note)	442,917	1,155,482	740,018	2,338,417	1,882,202	–	–	–	–	–
Bonds payable	18,000	322,500	–	340,500	298,535	66,190	1,087,038	–	1,153,228	903,062
Trade and other payables	6,296,033	284,000	213,000	6,793,033	6,573,090	6,726,648	284,000	284,000	7,294,648	7,025,950
	24,182,404	4,185,665	953,018	29,321,087	28,023,067	22,457,387	7,744,648	284,000	30,486,035	28,975,158

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Other lease liabilities include amounts recognised at the date of transition to HKFRS 16 in respect of leases previously classified as operating leases under HKAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See note 2(c).

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk

(i) Interest rate profile

Cash at bank, time deposits, pledged bank deposits, interest-bearing borrowings and lease liabilities are the major types of the Group's financial instruments subject to interest rate risk. Cash at bank are with floating or fixed interest rates ranging from 0.01% to 2.25% per annum as at 31 December 2019 (2018: 0.01% to 2.50%). Pledged bank deposits are placed to satisfy conditions for issuance of commercial bills and bank loans granted to the Group, with fixed interest rates ranging from 0.25% to 1.62% per annum as at 31 December 2019 (2018: 0.30% to 1.62%).

The Group's interest-bearing borrowings and interest rates as at 31 December 2019 are as follows:

		At 31 December	
	Interest Rate	**2019 RMB'000**	2018 RMB'000
Fixed rate			
— borrowings	3.92%~9.14%	**10,724,438**	12,080,380
— lease liabilities (Note)	5.23%~6.8%	**1,882,202**	—
Variable rate			
— borrowings	3.06%~8.8%	**8,843,337**	9,868,828
		21,449,977	21,949,208

Note: The group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated. See note 2(c).

(ii) Sensitivity analysis

The Group does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

A general increase/decrease of 100 basis points in interest rates prevailing at 31 December 2019, with all other variables held constant, would decrease/increase the Group's profit after tax and retained earnings by approximately RMB65,010,426 (2018: RMB74,016,207).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of next reporting period. The analysis is performed on the same basis for 2018.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(d) Foreign currency risk

The Group is exposed to currency risk primarily through borrowings and cash balances that are dominated in a foreign currency. The currencies giving rise to this risk are primarily United States dollars and Hong Kong dollars.

(i) 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 rate at the end of reporting period.

	2019			2018		
	United Sates Dollars RMB'000	**Euro RMB'000**	**Hong Kong Dollars RMB'000**	United Sates Dollars RMB'000	Euro RMB'000	Hong Kong Dollars RMB'000
Prepayments, deposits and other receivables	**—**	**—**	**—**	457	—	7,018
Cash and cash equivalents	**328,074**	**616**	**55,116**	173,178	226	32,272
Loans and borrowings	**(5,952,408)**	**—**	**(499,845)**	(8,177,160)	—	(488,920)
Net exposure	**(5,624,334)**	**616**	**(444,729)**	(8,003,525)	226	(449,630)

The Group has entered into certain cross-currency swap contracts to mitigate the effect of its foreign currency exposure arising from the loans and borrowings denominated in USD and HKD, in which the Group agrees to exchange, at specific intervals, USD and HKD principal and interest of the loans and borrowings into Renminbi.

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity 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 the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2019		2018	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
United States Dollars	**5%**	**(276,022)**	5%	(400,348)
	(5)%	**276,022**	(5)%	400,348
Euro	**5%**	**31**	5%	11
	(5)%	**(31)**	(5)%	(11)
Hong Kong Dollars	**5%**	**(22,256)**	5%	(22,501)
	(5)%	**22,256**	(5)%	22,501

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(d) Foreign currency risk (Continued)

(ii) Sensitivity analysis (Continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on the profit after tax and retained profit of each entity of the Group measured in the respective functional currencies, translated into RMB at the exchange rate 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 as at the end of the reporting period. 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 has been performed on the same basis for 2018.

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

The fair value of the Group's financial instruments are 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 the 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 and liabilities at the measurement date.

— Level 2 valuations: Fair values 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 at not available.

— Level 3 valuations: Fair values measured using significant unobservable inputs.

The following table presents the Group's (liabilities)/assets that are measured at fair value.

		Fair value measurement as at 31 December 2019 categorised into				Fair value measurement as at 31 December 2018 categorised into		
	Fair value at 31 December RMB'000	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**	Fair value at 31 December RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurements								
(Liabilities)/Assets:								
Derivative financial instruments:								
Capped cross currency swap (note (i))	**(85,575)**	**—**	**(85,575)**	**—**	(7,593)	—	(7,593)	—
Wealth management products (note (ii))	**285,000**	**—**	**—**	**285,000**	385,000	—	—	385,000

Note:

(i) Valuation techniques and inputs used in Level 2 fair value measurements

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(e) Fair value measurement (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

The fair value of the capped cross currency swap is determined by discounted-cash flow method and Black-Scholes model. The discount rate used is the rate of market yield for financial instruments with substantially identical contract terms and characteristics.

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

The fair value of investment portfolio has been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future interest return on maturity of the investment portfolio. The directors believe that the estimated fair values resulting from the valuation technique are reasonable, and that they were the most appropriate values at the end of reporting period.

Below is a summary of significant unobservable inputs to the valuation of the investment portfolio together with a quantitative sensitivity analysis at the end of reporting period:

31 December 2019

	Valuation techniques	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Wealth management products	Discounted cash flow method	Interest return rate	5.00% to 5.90%	0.50% increase/(decrease) in interest return rate would result in increase/(decrease) in fair value by RMB1,759,000.

During the year, there was no transfer between instruments in Level 1 and Level 2. The movements during the year in the balance of these Level 3 fair value measurements was as follows:

	2019 RMB'000	2018 RMB'000
Wealth management products:		
At 1 January	**385,000**	—
Payment for purchases	**150,000**	415,000
Redemption of investment	**(250,000)**	(30,000)
At 31 December	**285,000**	385,000
Total gains for the year included in profit or loss for assets held at the end of the year	**12,782**	—

Any gain or loss arising from the remeasurement of the wealth management products are presented in the "Other income" line item in the consolidated statement of profit or loss and other comprehensive income.

32 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2019 not provided for in the financial statements were as follows:

	At 31 December	
	2019 **RMB'000**	2018 RMB'000
Contracted for	**860,885**	966,057

(b) Operating lease commitments

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December 2018 RMB'000
Within 1 year	316,771
After 1 year but within 5 years	1,006,678
After 5 years	828,928
	2,152,377

The Group is the lessee in respect of a number of properties and land use rights held under leases which were previously classified as operating leases under HKAS 17. On 1 January 2019, the Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2(c)). From 1 January 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 2(c), and the details regarding the Group's future lease payments are disclosed in note 25.

33 CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities.

34 MATERIAL RELATED PARTY TRANSACTIONS

Name of party	Relationship
Wang Muqing and Wang Muqing's family member 王木清及王木清家屬	Controlling Shareholder
Beijing Guangze Real Estate Development Co., Ltd. ("**Beijing Guangze**") 北京廣澤房地產開發有限公司	Controlled by Wang Muqing's family members
Hubei Xike Industry Co., Ltd. ("**Hubei Xike**") 湖北熙可實業有限公司	Controlled by Wang Muqing's family members
Beijing Baoze Automobile Technology Development Co., Ltd. ("**Beijing Development**") 北京寶澤汽車科技發展有限公司	Controlled by Beijing Guangze
Inner Mongolia Shengze Shengze Automobile Trading Co., Ltd. ("**Inner Mongolia Shengze Automobile Trading**") 內蒙古聖澤鼎傑汽車貿易有限公司	Controlled by Beijing Guangze
Changsha Shengze Ruibao Electronics Trading Co., Ltd. ("**Changsha Shengze**") 長沙聖澤瑞寶電子產品貿易有限公司	Controlled by Beijing Guangze
Wuhan Shengze Jieyun Trading Co., Ltd. ("**Wuhan Shengze Jieyun**") 武漢聖澤捷運貿易有限公司	Controlled by Beijing Guangze
Wuhan Shengze Jiezhong Logistics Co., Ltd. ("**Wuhan Shengze Jiezhong**") 武漢聖澤捷眾物流有限公司	Controlled by Beijing Guangze
Wuhan Jiangrong Investment Co., Ltd. ("**Wuhan Investment**") 武漢江融投資有限公司	Controlled by Beijing Guangze

Note: The English translation of the company names is for reference only. The official names of the companies established in the PRC are in Chinese.

34 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Recurring transactions

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Property development related services:		
Receipt and payment on behalf of the Group:		
Beijing Guangze	**233,775**	667,441
Management services:		
Beijing Guangze	**9,935**	28,366
	243,710	695,807
Property management expense:		
Beijing Development	**6,316**	4,919

(b) Rental services

The Group has initially applied HKFRS 16 as from 1 January 2019. Based on HKFRS 16, the minimum amount of rent payable by the Group to related parties under the terms of the arrangement in connection with its use of land use rights and buildings had resulted in recognition of a lease liability with the balance of RMB234,824,000 and a right-of-use asset with the balance of RMB228,326,000 as at 31 December 2019. In addition, the Group recorded depreciation of right-of-use asset of RMB114,163,000 and interest expense of RMB15,526,000 in its consolidated statement of profit or loss for the year ended 31 December 2019.

The total amounts of lease payments incurred by the Group under the lease arrangement with related parties for the year ended 31 December 2019 were RMB112,057,000 (for the year ended 31 December 2018: RMB96,460,000). The related payable to related parties as at 31 December 2019 amounted to RMB8,045,000 (31 December 2018: related payable balance of RMB17,530,000).

(c) Key management personnel remuneration

Key management personnel remuneration is disclosed in note 7 and note 8.

(d) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of rental expenses and property development related services above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section Continuing Connected Transactions of the Reports of the directors.

35 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	At 31 December 2019	2018
Non-current assets		
Property, plant and equipment	6,913	5,722
Right-of-use asset	11,551	—
Interest in subsidiaries	8,706,318	10,932,465
Other financial assets	17,028	25,045
	8,741,810	10,963,232
Current assets		
Prepayments, deposits and other receivables	23,894	11,308
Cash and cash equivalents	394,460	73,577
	418,354	84,885
Current liabilities		
Loans and borrowings	4,013,235	487,520
Trade and other payables	111,150	37,251
Lease liabilities	4,471	—
Other financial liabilities	2,761	—
	4,131,617	524,771
Net current liabilities	(3,713,263)	(439,886)
Total assets less current liabilities	5,028,547	10,523,346
Non-current liabilities		
Loans and borrowings	2,627,121	7,275,483
Lease liabilities	7,108	—
Other financial liabilities	99,842	25,343
	2,734,071	7,300,826
NET ASSETS	2,294,476	3,222,520
Equity		
Share capital	209,150	209,320
Reserves	2,085,326	3,013,200
TOTAL EQUITY	2,294,476	3,222,520

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments 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
Revised Conceptual Framework for Financial Reporting 2018	1 January 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest Rate Benchmark Reform*	1 January 2020
HKFRS 17, *Insurance contracts*	1 January 2021
Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2022

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

37 ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing these consolidated financial statements. The principal accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of these consolidated financial statements.

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any, in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technology changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

37 ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Loss allowance for receivables from financial services

The Group recognises a loss allowance for receivables from financial services by assessing the ECLs (Note 31(a)).

(c) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

(d) Provision for inventories

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

(e) Impairment of goodwill and intangible assets — car dealerships

The Group determines whether goodwill and intangible assets acquired through business combinations are impaired requires an estimation of the value in use of the cash generating units (i.e. entities acquired by the Group) to which the relevant goodwill and intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating units and suitable discount rates in order to calculate their present values. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the recoverable amount calculations are disclosed in Note 13 and 14.

(f) Accrual of vendor rebate

The Group reviews the accruals of vendor rebate at the end of each reporting period by reference to the rebates receivables in accordance with the applicable terms and conditions of the suppliers' agreements. The accruals for vendor rebates involved management estimation and the extent of rebates entitlement under the respective categories of vendor rebate. Specific factors management considered included the recent historical sales volume patterns, the rebate rates applied and any other available information concerning the credit worthiness of suppliers.

(g) Useful lives of intangible assets

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

38 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Impact of COVID-19

The outbreak of COVID-19 in the PRC since beginning of 2020 led to temporary suspension or disruption in normal business operation for nearly all industries in February and March 2020. The Group's business has been gradually returned to normal operation from March 2020 or since early April 2020 for those subsidiaries in Hubei province. Due to the economic uncertainty brought by COVID-19, the Group cannot reliably assess, up to the date of issuance of these consolidated financial statements, its full impact on the Group's financial performance in the foreseeable future. The Group is closely monitoring the impact of the COVID-19 on its operation and has been taking measures to limit its impact and disruption to its business.

The COVID-19 outbreak is a non-adjusting event after the financial year end and does not result in any adjustments to the consolidated financial statements for the year ended 31 December 2019.

(b) Issuance of US$12.0% Senior Notes Due 2022

The Company issued 12.0% Senior Notes due 2022 in the principal amount of US$160,000,000 and US$13,000,000, which were effective on 22 January 2020 and 17 February 2020, respectively. The Company intends to use the net proceeds of the Notes Issue to refinance certain of indebtedness and for general corporate and working capital purposes.

39 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company as at 31 December 2019 to be Joy Capital Holdings Limited, which was incorporated in the British Virgin Islands.

40 COMPARATIVE FIGURES

The comparative figures of 2019 represent figures for the twelve months period from 1 January 2018 to 31 December 2018. Certain items in these comparative figures have been reclassified to conform to the current year's presentation to facilitate comparison in 2019.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Muqing *(Chairman)*
Mr. Wang Kunpeng *(Vice Chairman)*
Mr. Koh Tee Choong *(Chief Executive Officer)*
Mr. Li Zhubo *(Chief Financial Officer)*
Mr. Wan To
Mr. Shao Yong Jun (resigned on 2 April 2019)

Independent Non-executive Directors

Dr. Wong Tin Yau, Kelvin
Dr. Cao Tong
Ms. Wong Tan Tan

REGISTERED OFFICE

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

HEADQUARTERS

Baoze Plaza
No. 59 West Third-Ring South Road
Beijing PRC

PLACE OF BUSINESS IN HONG KONG

Unit 5905, 59/F
The Center
99 Queen's Road Central
Hong Kong

WEBSITE ADDRESS

www.zhengtongauto.com

COMPANY SECRETARY

Ms. Yeung Wing Yee

AUTHORIZED REPRESENTATIVES

Mr. Li Zhubo
Mr. Wan To

AUDIT COMMITTEE

Dr. Wong Tin Yau, Kelvin *(Chairman)*
Dr. Cao Tong
Ms. Wong Tan Tan

NOMINATION COMMITTEE

Mr. Wang Muqing *(Chairman)*
Dr. Cao Tong
Ms. Wong Tan Tan

REMUNERATION COMMITTEE

Dr. Cao Tong *(Chairman)*
Mr. Wang Muqing
Dr. Wong Tin Yau, Kelvin

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR

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

PRINCIPAL BANKERS

China Construction Bank Corporation, Hubei Branch
Industrial and Commercial Bank of China, Wuhan Branch and Hubei Branch
Bank of China, Hubei Branch
Industrial Bank Co., Ltd., Wuhan Branch
China Merchants Bank, Wuhan Branch
China Minsheng Banking Corp., Ltd., Communications Finance Business Department
China Guangfa Bank, Shanghai Branch
Shanghai Pudong Development Bank Co., Ltd.
DBS Bank (China) Limited
Standard Chartered Bank (China) Limited
The Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia (China) Limited
Ping An Bank Company Limited Shanghai Branch
China Citic Bank Corporation Limited Headquarter General Banking

AUDITORS

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

HONG KONG LEGAL COUNSEL

Chiu & Partners

CHINA ZHENGTONG
AUTO SERVICES HOLDINGS LIMITED
中國正通汽車服務控股有限公司

www.zhengtongauto.com