# CHINA ZHENGTONG AUTO SERVICES HOLDINGS LIMITED

# 中國正通汽車服務控股有限公司

Stock Code 股份代號：1728

A LEADING LUXURY BRANDS DEALER CONGLOMERATE

2018 ANNUAL REPORT 年報


A LEADING LUXURY BRANDS DEALER CONGLOMERATE

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# 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 2018, we operated 140 dealership outlets in 40 cities across 16 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

| | 2014 | 2015 | 2016 | 2017 | **2018** |
|---|---|---|---|---|---|
| (RMB'000) | | | | | |
| Revenue | 30,910,087 | 29,361,499 | 31,519,255 | 35,474,325 | **37,455,510** |
| Profit before taxation | 1,175,055 | 921,779 | 790,798 | 1,753,791 | **1,889,488** |
| Income tax | (351,517) | (293,117) | (282,439) | (542,329) | **(634,706)** |
| Profit for the year | 823,538 | 628,662 | 508,359 | 1,211,462 | **1,254,782** |
| Attributable to: | | | | | |
| Equity shareholders of the company | 803,792 | 618,530 | 493,282 | 1,190,795 | **1,224,065** |
| Non-controlling interests | 19,746 | 10,132 | 15,077 | 20,667 | **30,717** |
| | 823,538 | 628,662 | 508,359 | 1,211,462 | **1,254,782** |

## ASSETS AND LIABILITIES

| | 2014 | 2015 | 2016 | 2017 | **2018** |
|---|---|---|---|---|---|
| (RMB'000) | | | | | |
| Total assets | 22,182,690 | 23,679,650 | 27,728,910 | 36,939,130 | **44,199,218** |
| Total liabilities | (13,885,582) | (14,990,312) | (18,786,749) | (26,585,498) | **(31,873,772)** |
| | 8,297,108 | 8,689,338 | 8,942,161 | 10,353,632 | **12,325,446** |
| Equity attributable to equity shareholders of the company | 8,172,075 | 8,588,632 | 8,858,331 | 10,200,811 | **12,143,276** |
| Non-controlling interests | 125,033 | 100,706 | 83,830 | 152,821 | **182,170** |
| | 8,297,108 | 8,689,338 | 8,942,161 | 10,353,632 | **12,325,446** |




# CHAIRMAN'S STATEMENT

## PERSEVERANCE AND DETERMINATION

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


SPARE PARTS
SALES
SERVICE
SURVEY

# CHAIRMAN'S STATEMENT

## DEAR SHAREHOLDERS,

In 2018, China recorded a gross domestic product (GDP) growth of 6.6% as compared to the previous year. The economy of China maintained a steady growth in general. Household income and consumption also grew rapidly in line with the medium-to-high speed growth of economy. The per capita household disposable income increasing by 8.7% as compared to the previous year and the total retail sales of consumer goods in China saw an improvement of 9.0% over the previous year.

According to the China Association of Automobile Manufacturers, the sales of passenger vehicles reached 29,710,000 units in 2018, representing a decrease of 4.1% as compared to the previous year. However, benefiting from factors such as consumption upgrades and reduction of import tariff for automobiles, the market of the luxury-branded automobiles of China maintained its rapid growth. With the intensifying competition of the market of the luxury-branded automobiles, 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 and Rolls-Royce brands) in China was 639,953 units, representing an increase of 7.7% as compared to the corresponding year; the sales volume of Audi brand in China was 660,888 units, representing an increase of 11.0% as compared to the corresponding year; the sales volume of Benz brand in China was 652,996 units, representing an increase of 11.1% as compared to the corresponding year; the sales volume of Volvo brand in China was 130,593 units, representing an increase of 14.1% as compared to the corresponding year; the sales volume of Jaguar and Land Rover brand in China was 114,777 units, representing a decrease of 21.6% as compared to the corresponding year; the sales volume of Porsche brand in China was 80,108 units, representing an increase of 12.0% as compared to the corresponding year.

China ZhengTong Auto Services Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") act as a major dealer of various luxury automobile brands in China. Through close cooperation with major luxury automobile manufacturers, the Group has promptly grasped the opportunities arising from the latest industry trend and changes in automobile buyers' preference to further improve its existing services and explore innovative services. Leveraging its diversified brand portfolio, reasonable sales network and comprehensive sales and service platform, the Group is able to enhance the service experience of its customers.

While strengthening the traditional after-sale services for automobiles such as repair, maintenance and sale of accessories, the Group made full use of its unique characteristics 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 provide customers with additional services. The Group offered customers more personalized and competitive auto finance solutions, which significantly supported the growth of the sales of new and pre-owned automobiles, financial leasing and customer relationship development.

In 2018, the Group was committed to the establishment of a comprehensive auto finance technology platform to provide customers with one-stop auto finance and related services. Increasing demand of upgrade of consumption and market penetration of auto finance in China will create a new consumption model for the domestic automobile market. The Group will also expand its business coverage to the Fintech aspect of online automobile finance while further consolidating its differentiated strengths in offline automobile finance. These initiatives will make online and offline purchase of automobile more convenient and facilitate the development of intelligent automobile finance and diversification of automobile consumption, enhancing customer experience throughout the entire life cycle of automobiles.

According to the Traffic Management Bureau of the Ministry of Public Security, as of the end of 2018, the number of vehicles registered in China was 327 million units (including 240 million automobiles), and the number of licensed drivers reached 369 million. The number of registered passenger vehicles amounted to 201 million units, exceeding the 200 million mark for the first time. The number of passenger vehicles registered in the name of individuals (private cars) was 189 million units, accounting for 94% of registered passenger vehicles. The increasing number of private cars and drivers indicates that vehicles have become an integral part of people's daily work and lives. The substantial car ownership also reflects greater development potential of pre-owned automobiles and after-sale services. In addition, as the auto market in China is becoming more mature, demand for more professional and diversified services from consumers continues to increase. New commercial opportunities arising from new demands are to be explored.

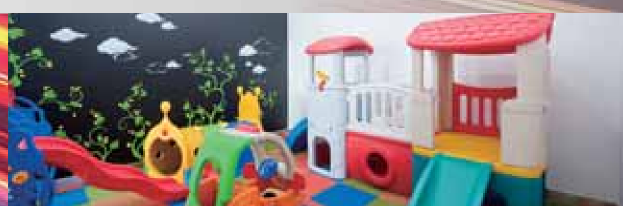
In the future, based on the existing business network, the Group will further expand its business presence and improve the profitability of new outlets. In order to enrich the personalized automobile-related services for customers, the Group will continue to invest in innovation. The Group will also strive to enhance internal management efficiency and service platform and explore customer base and consolidate its competitive strengths. The Group is also committed to providing quality, convenient and comprehensive automobile-related services in order to create greater values for the shareholders and employees of the Group as well as the society.

The Group's remarkable performance in 2018 is attributable to the dedication of employees as well as the trust and support from its business partners and shareholders. On behalf of the Board, 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 2018.

**Wang Muqing**
*Chairman of the Board*
29 March 2019

# SINCERE SERVICES

# MANAGEMENT DISCUSSION AND ANALYSIS



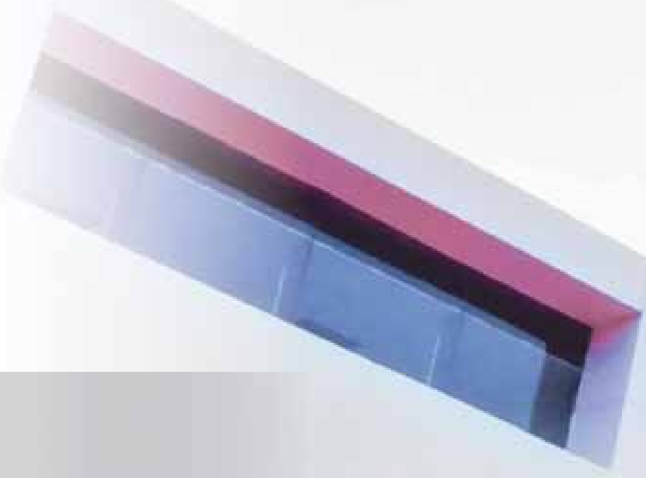
Establishing a top class brand
by providing every customer with
sincere services

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

China ZhengTong Auto Services Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") act as a major dealer of various luxury automobile brands and a strategic partner of the manufacturers of those luxury automobile brands. The Group is kept abreast of the latest industry trend and market changes, analysed the changes in customers' preference and explored 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 2018, the Group was committed to developing luxury and ultra-luxury auto sales and traditional after-sales services. The Group actively expanded its distribution network for prestigious brands and fully utilized its advantages in financing and supply chains to strengthen its core competitiveness. The Group optimized its business scope covering the entire life cycle of vehicles from sales of new cars, provision of aftersales services, replacement and trading of pre-owned cars so as to promote synergies among different business segments. In addition, the Group adopted a new management model of sophisticated management philosophy. The streamlined management effectively improved the results of the Group. For the year ended 31 December 2018, the Group recorded revenue and gross profit of approximately RMB37,456 million and RMB4,487 million, respectively, representing increases of approximately 5.6% and 19.1% as compared to the corresponding year, respectively. Profit attributable to equity shareholders of the Company was approximately RMB1,224 million and the basic earnings per share was approximately RMB49.9 cents, representing increase of approximately 2.8% and decrease of approximately 7.2% as compared to the corresponding year, respectively.



## (I) Sales of new automobiles business

In 2018, under our prudent development strategy, we expanded our distribution network for selected luxury and ultra-luxury brands to increase the proportion of brands with higher profitability. The revenue and profit of Group remained strong and recorded growth. The Group managed to strike a balance between "quantity" and "quality" in business growth under fierce market competition. For the year ended 31 December 2018, the Group recorded sales volume of new automobiles of 112,574 units, representing a year-on-year increase of approximately 3.3%, including 86,400 units luxury and ultra-luxury branded automobiles with a year-on-year increase of approximately 8.0%. The Group's sales of new car models of the major luxury brand, under its dealership, including 5 Series and X3 of BMW, GLC L and new C Class of Mercedes-Benz recorded remarkable growth, significantly support the growth in sales of new cars and gross profit. The sales and gross profit margins of new cars of various brands reflected their different market competitiveness. While seeking to improve the sales and gross profit margins of new cars, the Group also focused on the growth of associated business such as new car insurance, vehicle finance, car trimming. In 2018, the average gross profit margin of new car sales was approximately 6.1%, representing a year-on-year increase of 1.2 percentage points. The competition in the luxury automobile market is expected to be keener. The Group will maintain the good cooperation with automobile manufacturers and further expand the associated business of vehicle finance and modification to improve the profitability of the sales of new cars.

## (II) After-sales services business

In 2018, revenue and gross profit of after-sales services of the Group amounted to approximately RMB4.331 million and approximately RMB2,003 million, representing an increase of 11.1% and 8.9% as compared to the corresponding year, respectively. The gross profit margin was approximately 46.2%. The steady growth of after-sales services business in 2018 was mainly attributable to the rapid growth of car ownership. In 2018, the Group served 1,295,657 units of automobiles in aggregate, representing an increase of approximately 14.8% as compared to the corresponding year.

In 2018, the Group was committed to focusing on customers' experience and service quality and enhancing the core competitiveness of its service brands. In addition to the significant improvement of customers satisfaction and loyalty, the Group was also awarded several prizes by luxury car manufacturers such as BMW, Benz, Porsche, Jaguar and Land Rover, Volvo, Audi for its service quality and integrated operation.

## (III) Pre-owned car business

The automobile market has evolved from quantity growth to quality growth. The significance of used cars business was increasingly important for authorised dealers. In 2018, the Group adopted various measures to develop the used cars business and proactively studied the business model suitable for authorised dealers. With advanced IT platform and management system, the business of used cars of the Group significantly grew in terms of quality and quantity.

In 2018, the Group focused on the promotion of trade-in of used cars when selling new cars by providing competitive offers to encourage the replacement of used cars. The Group provided tailored services and products in accordance with their requirement of individual customers, resulting in average used car replacement rate of 30% in major first-tier cities. We promoted the used car business in line with the sales of new cars. The synergy effect between business of used cars and new cars became significant.

In order to improve customer experience, the Group coordinated internal resources and regulated the operation flow to launch used car IT platform and management system in 2018. The management system centralized the management of the entire operation of used car business in the shops of the Group from customer reception, offer, evaluation, pricing, warehousing to delivery. The operating efficiency and profitability of the used car business were significantly improved.

## (IV) Auto finance technology segment

The auto consumption finance market of China is expected to enter into a rapid growth period. In 2017, total sales value of passenger automobiles of China exceeded RMB4,200 billion with the average permeability rate of automobile finance of 30%. Among which, the permeability rate of luxury automobiles exceeded 40%. Compared with mature markets where average permeability rate are 60%, China's auto finance permeability rate is still low. The overall loan value in China's auto finance market is expected to increase in 5 years with a compound growth rate exceeding 18%. The data indicates consumers of luxury automobile tend to use auto financial instruments for purchasing the automobile. Driven by finance technology, a new consumption pattern will be present in the PRC automobile market in the future. New consumption patterns, including convenient online and offline automobile purchase, intelligent auto finance and diversification of automobile consumption, will popularize.

In 2018, interest and service income from the financial services business amounted to approximately RMB844 million (from external customers), with a year-on-year increase of 61.7%. Reportable profit of such segment amounted to approximately RMB621 million, representing a year-on-year increase of 64.3%. Reportable assets amounted to RMB9,714 million, representing an increase of 34.2% by comparing with that at 31 December 2017. Among the Company's subsidiary, Shanghai Dongzheng Automobile Finance Co., Ltd. ("Dongzheng AFC") significantly optimized its asset structure in 2018, and its retail market share increased further. Its loans and advances to customers increased from RMB5,869 million to RMB8,426 million, with a year-on-year growth rate of 43.6%. In 2018, the non-performing loans ratio of Dongzheng AFC was 0.27%, which was lower than the industry average.

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:

- Dongzheng AFC holding an auto financial license granted by the China Banking and Insurance Regulatory Commission (the "CBIRC", formerly known as "China Banking Regulatory Commission") 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 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. Dongzheng AFC has gained the recognition for its compliance operation from the regulators.

## 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. Dongzheng AFC obtained the approval for capital increase from the CBIRC on 1 June 2017. The Group completed the capital injection into Dongzheng AFC by the end of 2017, as a result, its registered capital increased from RMB0.5 billion to RMB1.6 billion. With the rapid growth of the auto finance market in China, Dongzheng AFC further improved its capital adequacy ratio after the capital increase, which will facilitate its future business expansion and profit improvement.

Dongzheng AFC has established a dealer network with a broad geographical coverage in China. The number of dealers within the sales network grew from 351 as of 31 December 2017 to 1,280 as of 31 December 2018. The geographical coverage of the dealer network reached 182 cities in China as of 31 December 2018, comprising Beijing, Shanghai, Shenzhen, Guangzhou as well as 36 second-tier cities and 142 third-tier and other lower-tier cities. Dongzheng AFC aims to further strengthen our brand recognition through the Wechat official account and mini-programs. Dongzheng AFC has also established strategic cooperation with certain luxury-brand automakers to expand customer base.

## Product Design

In 2018, the Group has recorded a growth in the size of high quality loan assets by continuing to leverage on its unique advantages in product design, risk control and channel promotions. By further identifying the needs of customers inside and outside the Group, Dongzheng AFC diversified its products offerings and modified the product design, thereby catering to the needs of end customers. Through the cooperation for auto finance with major OEMs and long-term strategic cooperation with dealership groups, Dongzheng AFC continuously broadened the channels for its retail loan business. Furthermore, Dongzheng AFC also developed the outreach business to further explore potential financial needs of pre-owned automobiles.

## Risk Control

In respect of risk control, by combining the Credit Reference Center of the People's Bank of China with the big-data financial technology risk control system, the Group leveraged its experience in traditional bank credit and internet financial technology to develop a three-in-one risk management structure involving customers, merchants and transactions.

## 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, 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 ensuring the high speed transfer of auto financial assets that 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 CFCA.

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 PICC after the interim period. While the system docking is in progress, the electronic policy implemented performance insurance with real-time full coverage for each loan business, and has effectively reduced the risk of capital loss, in addition 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 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.

In 2018, the insurance brokerage business has made a comprehensive upgrade management for new insurance business, renewal insurance business and extended warranty business of the Group's network. Through the internal management integration, the management of division and assessment has been enhanced. Therefore, management efficiency has been released, and insurance benefits are reflected.

Finally, Dongzheng AFC has published a prospectus on 14 March 2019. For those who are interested in the business and financial conditions of Dongzheng AFC, the prospectus is available for viewing from the website of Dongzheng AFC at www.dongzhengafc.com.

## (V) Supply chain business

In 2018, Shengze Jietong Supply Chain Co., Ltd. ("Shengze Jietong") continued to focus on the cooperation with FAW and Dongfeng Group in respect of transportation business. In 2018, two new automotive manufacturing sites of FAW-Volkswagen in Qingdao and Tianjin commenced operation and FAW-Hongqi laid its three-year transportation plan. In response to the above development of FAW, Shengze Jietong promptly purchased transportation vehicles which fulfilled national standards for operational purpose, so as to satisfy the logistics needs arising from the new manufacturing sites and boost the logistics business with FAW-Volkswagen. After securing water transportation business from Dongfeng Nissan in 2017 and expansion into railway transportation business, which was based in Guangzhou, in 2018, Shengze Jietong built a comprehensive transportation network comprising road, railway and water transportation. In addition, in response to the development of new energy vehicles, Shengze Jietong provided various new energy vehicles manufacturers with integrated supply chain logistics planning consultation and transportation services for pre-production, production and post-production of new energy vehicles. With an aim to fulfill growing demand for imported vehicles, Shengze Jietong established a one-stop transportation channel in ports in Tianjin and Shanghai to provide convenient logistics services with quick access to major cities in China.

In 2019, Shengze Jietong intends to further promote the business cooperation with existing brands and expand its logistics business with large independent brands in China through establishing joint ventures with large logistics companies or mergers and acquisitions. Leveraging on the advantages brought by the automobile dealership business of Zhengtong Group, its parent company, Shengze Jietong is well-positioned to secure transportation business with those dealership brands in China. Furthermore, according to the development plan of Wuhan Municipal Government to develop Wuhan into the capital of vehicle manufacturing (大車都), Shengze Jietong intends to make use of its parts warehousing and the advantage of distribution resources to promote logistics business between its parts manufacturing factories and the four leading automotive manufacturers in China.

Looking forward, utilizing the resources gained from the businesses with FAW, Dongfeng Group and other brands and leveraging on the advantages created by the new logistics site in Wuhan in terms of its river transportation business and the premium location at national railway and highway transportation hub, Shengze Jietong strives to become the most influential supply chain logistics enterprise in Central China.

## (VI) Network development

### Balanced and reasonable deployment of the nationwide dealership network for luxury brands complemented by ongoing optimization brand portfolio 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, 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 2018, the Group operated 140 dealership stores in 40 cities across 16 provinces and municipalities in China.

In 2018, the Group had six new operating dealership stores for luxury automobiles as follows,

| Brand | City/Nature of Store |
|---|---|
| Benz | Foshan 4S |
| | Shenzhen Showroom |
| BMW | Beijing BMW 4S |
| | Changsha (BMW Motorcycle) Urban Showroom |
| Hongqi | Shanghai 4S, Wuhan 4S |

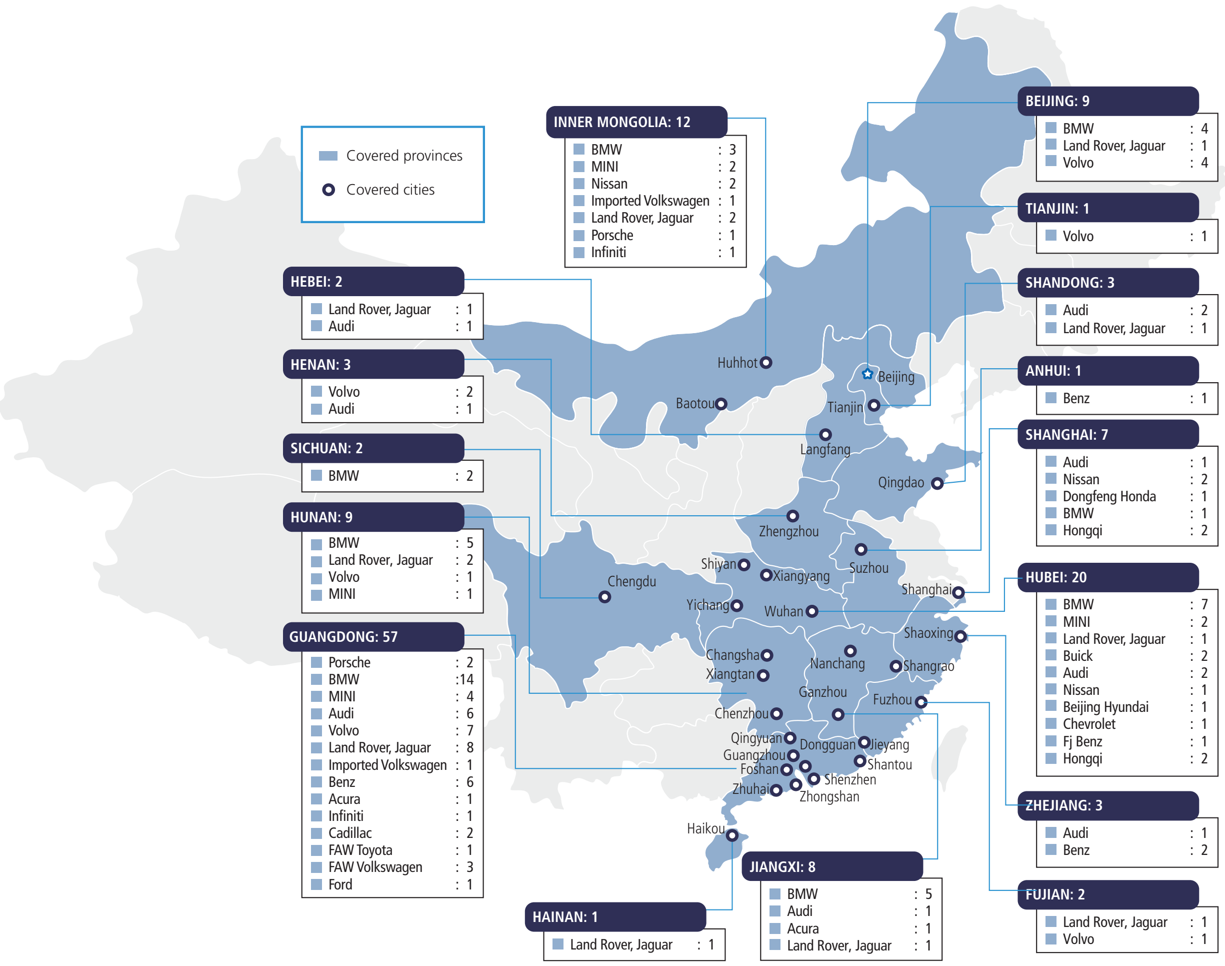
At 31 December 2018, there are 12 dealership stores under development or to be developed, which are franchised by core luxury automobile brands, including Porsche, Benz, Audi, BMW, Jaguar and Land Rover as well as Volvo. Authorized dealership stores to be opened can enhance our competitive advantages in traditional provinces and regions, including Guangdong, Hubei, Hunan and Sichuan, as well as regions with potential for rapid development, such as Chongqing, Yunnan, Jiangsu and Liaoning. The expansion in geographical coverage will further enhance Group's advantages in terms of scale and channels.

The following table sets forth the details of our dealership stores as at 31 December 2018:

| | Dealership stores in operation | Authorized dealership stores to be opened | Total |
|---|---|---|---|
| 5S/4S store for luxury and ultra-luxury brands | 100 | 11 | 111 |
| 4S store for mid- to high-end brands | 14 | 0 | 14 |
| Urban showroom for luxury brand | 18 | 0 | 18 |
| Authorized repair service centre for luxury brands | 7 | 1 | 8 |
| Pre-owned automobile centre | 1 | 0 | 1 |
| Total | 140 | 12 | 152 |

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



## (VII) Innovation of management and improvement of operational quality

In 2018, in line with the development trend of the industry, the Group accelerated its transformation and upgrading and refined its management. The Group improved its management through various measures to streamline the business processes for enhancing the Group's competitiveness.

### Establishment of Smart 4S Stores

While the industry is under the process of informatization and technicalization, the Group has also been engaged with the theory and practice of how to improve its services and enhance customer experiences with the aid of technologies. To this end, the Group independently developed a new generation of Cloud Platform (雲平台) operation management system, integrating customer service, data analysis, 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.

### Integration of Marketing Activities

The Group adopted new approaches of management in 2018 by integrating marketing activities of dealership stores of our brands and establishing a data bank for customer communication with real-time assessment on the effectiveness of marketing activities of stores for modification. The facilities effectively lowered the cost of customer acquisition and could collect more sales information.

### Enhancement of Operational Quality

In order to enhance customer satisfaction, the Group conducted self-evaluation in 2018. The sales activities and after-sales services of stores were inspected by site visit, mystery customers, follow-up self-inspection, brand supervision and stores improvement. The operational quality of the Group has enhanced at all levels.

### Classification Management of Stores

In 2018, the Group introduced an operation assessment system to analyse all key operation figures. The results can allow the stores managers to identify and resolve operational problems and improve their profitability by devoting necessary resources to the stores in need.

### Exploration of Innovative Approaches for Sales Business

Leveraging its successful partnership with manufacturers of dealership brands, the Group will proactively explore the innovative business approach of contract-sale of targeted automobile models, to effectively address market changes and realise mutual benefits with our partners.

# FINANCIAL REVIEW

## Revenue

For the year ended 31 December 2018, the Group recorded a revenue of approximately RMB37,456 million, representing an increase of approximately 5.6% as compared to the revenue of approximately RMB35,474 million in 2017. The increase was mainly due to an increase in number of dealership stores, steady sales of new automobiles and rapid increase in automobile financing revenue in the year under review.

Revenue of the Group was derived from the sales of new automobiles, after-sales services, financial services and other business. In 2018, revenue from the sales of new automobiles amounted to approximately RMB31,529 million, representing an increase of approximately 4.1% as compared to approximately RMB30,289 million in 2017, and accounted for approximately 84.2% and 85.4% of the total revenue in 2018 and 2017, respectively. The revenue from sales of luxury and ultra-luxury branded automobiles increased by approximately 6.0% to RMB28,383 million from approximately RMB26,774 million in 2017, accounting for approximately 90.0% and 88.4% of revenue from the sales of new automobiles in 2018 and 2017, respectively.

Revenue from the after-sales services business was approximately RMB4,331 million, representing a growth of approximately 11.1% as compared to approximately RMB3,899 million in 2017. In 2018, revenue from the after-sales services business accounted for approximately 11.6% of our total revenue, representing an increase of approximately 0.6 percentage point in revenue from the after-sales services business.

## Cost of sales

For the year ended 31 December 2018, the Group's cost of sales increased by approximately 4.0%, which was lower than the increase in revenue, to approximately RMB32,969 million as compared to approximately RMB31,706 million in 2017. In 2018, the cost of sales for new automobiles of the Group increased by approximately 2.7% to approximately RMB29,604 million from approximately RMB28,815 million in 2017. Cost of the after-sales services business increased by approximately 13.1% to approximately RMB2,328 million from approximately RMB2,059 million in 2017.

## Gross profit and gross profit margin

For the year ended 31 December 2018, the Group's gross profit increased by approximately 19.1% to RMB4,487 million from approximately RMB3,768 million in 2017, and the Group's gross profit margin grew by approximately 1.4 percentage points to approximately 12.0% from 10.6% in 2017.

The Group's gross profit was principally generated from after-sales services, sales of new automobiles business and automobile financing services. In 2018, gross profit of sales of new automobiles increased by approximately 30.6% to approximately RMB1,925 million from approximately RMB1,474 million in 2017; gross profit margin of sales of new automobiles increased to 6.1% from approximately 4.9% in 2017. Gross profit of sales of luxury and ultra-luxury branded automobiles boosted by approximately 35.3% as compared to last year to approximately RMB1,891 million, and gross profit margin of sales of luxury and ultra-luxury branded automobiles increased to 6.7% from 5.2% in 2017, such boost was mainly due to entering into the new product cycle of dealership brands. In 2018, gross profit of our after-sales services business was approximately RMB2,003 million, representing an increase of approximately 8.9% as compared to last year, and gross profit margin of after-sales services business decreased by approximately 1.0 percentage point to approximately 46.2% from approximately 47.2% in 2017.

## Selling and distribution expenses

For the year ended 31 December 2018, the Group's selling and distribution expenses slightly increased by approximately 0.9% to approximately RMB1,037 million from approximately RMB1,028 million in 2017.

## Administrative expenses

For the year ended 31 December 2018, the Group's administrative expenses amounted to approximately RMB1,650 million, representing an increase of approximately 125.1% over approximately RMB733 million in 2017. Such increase was primarily due to an exchange loss incurred from the depreciation of Renminbi during the year.

## Profit from operations

For the year ended 31 December 2018, the Group's profit from operations increased by approximately 13.9% to approximately RMB2,763 million from approximately RMB2,426 million in 2017, and the operating profit margin was approximately 7.4%, representing an increase of approximately 0.6 percentage point over approximately 6.8% in 2017.

## Income tax expenses

For the year ended 31 December 2018, the Group's income tax expenses amounted to approximately RMB635 million and the effective tax rate was approximately 33.6% (2017: 30.9%).

## Profit for the year

For the year ended 31 December 2018, the Group's profit for the year increased by approximately 3.6% to approximately RMB1,255 million from approximately RMB1,211 million in 2017. During the year, profit margin was kept at 3.4% as same level as in 2017.

## Contingent liabilities

As at 31 December 2018, 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 2018, the Group's current assets amounted to approximately RMB24,940 million, representing an increase of approximately RMB2,385 million as compared to the current assets of approximately RMB22,555 million as at 31 December 2017. Such increase was mainly due to increase in receivable in line with growth in 4S dealership and auto finance business of the Group.

As at 31 December 2018, the Group's current liabilities amounted to approximately RMB23,802 million, representing an increase of approximately RMB2,863 million as compared to the current liabilities of approximately RMB20,939 million as at 31 December 2017, which was mainly due to increase in loans and borrowings for financial services in line with growth in auto finance business.

## Cash flow

As at 31 December 2018, the Group had cash and cash equivalents amounting to approximately RMB2,911 million, representing an increase of approximately RMB195 million over approximately RMB2,716 million as at 31 December 2017. The Group's transactions and monetary assets were principally conducted 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 2018, the Group had net cash inflow of approximately RMB776 million generated from its operating activities (2017: net cash outflow from operating activities approximately RMB866 million), which was primarily due to the effective control of inventories.

## Capital expenditure and investment

For the year ended 31 December 2018, the Group's capital expenditure and investment were approximately RMB2,815 million (2017: RMB1,284 million).

## Inventory

The Group's inventories included vehicles and automobile spare parts. 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 RMB3,846 million as at 31 December 2018, decreased by approximately RMB238 million when compared with RMB4,084 million as at 31 December 2017. 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 of 2018 increased by 2.9 days to 44.0 days from 41.1 days for 2017. The following table sets forth our average inventory turnover days for the year indicated:

| | For the year ended 31 December (day) | |
|---|---|---|
| | **2018** | 2017 |
| Average inventory turnover days | **44.0** | 41.1 |

## 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 future loans repayment. As 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 investment portfolio) measured at fair value was recognised (at 31 December 2017: a financial liability of RMB134 million).

## 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 2018, the Group's cash and bank deposits were approximately RMB5,839 million (including: pledged bank deposits and balances with central bank of approximately RMB2,139 million, time deposits of RMB789 million and cash and cash equivalents of RMB2,911 million), representing a decrease of approximately RMB1,400 million, from approximately RMB7,239 million as at 31 December 2017. As at 31 December 2018, loans and borrowings, obligations under finance leases, and bonds payable of the Group amounted to approximately RMB21,949 million (at 31 December 2017: approximately RMB17,824 million). Save as loans and borrowings, obligations under finance leases, and bonds payable of approximately RMB12,080 million that bear fixed interest rates, other loans and borrowings bear floating interest rates. As at 31 December 2018, net gearing ratio of the Group was approximately 130.7% (at 31 December 2017: approximately 102.2%). Net gearing ratio was calculated as loans and borrowings, obligations under finance leases, and bonds payable less cash and bank deposits divided by total equity. The increase in the ratio was mainly attributable to the growth in the scale of the Group's business.

## 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 2018, the pledged assets of the Group amounted to approximately RMB5,443 million (at 31 December 2017: approximately RMB5,926 million).

## Material acquisition

As disclosed in 2017 annual report, on 23 December 2017, the Group entered into an agreement on strategic operation management cooperation scheme ("SOMCS") with independent third parties, which was effective from 1 January 2018 for 10 years. The Group has obtained the right to engage in the 4S business of 10 BMW/Mini brands stores during the 10 years' period. Such SOMCS constitutes a business combination. For further information, please refer to the Company's announcement dated 23 December 2017.

### Investments held in foreign currency and hedging

For the year ended 31 December 2018, 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 2018, the Group had a total of 12,353 employees in China (at 31 December 2017: 10,342 employees). The staff costs incurred for the year ended 31 December 2018 were approximately RMB884 million (2017: approximately RMB810 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

China's macroscopic economy has remained its moderate growth. Due to the steady growth of household disposable income, the consumption upgrade although the growth of automobile market shows signs of slow-down. The sales of automobile market has remained high for years and car ownership is high. In a mature market, buyers have stronger bargaining power than sellers. Market players seek business growth in quality rather than quantity. In a buyer's market, customers have higher demand on the quality and services of automobile products. The demand for professionalism and diversity has pressed dealers to consistently enhance their services and standards. The Group follows the trend of the industry to enrich its services and products from the perspective of customers' needs, expand service channels, in order to provide best consumption experience for customers by the advantages of diversified portfolio of luxury brands, relatively extensively national network and industry-leading platform of automobile financing. The Group will forge core competitiveness utilizing strengths in financial business by developing used cars business in full swing and proactively exploring new approaches of marketing to well prepare for the competition. The Group will effectively expand business channels and marketing network to tap in the enlarging luxury brand market. The Group will also adopt innovative management approach to optimize operation efficiency to create higher value for shareholders, staff and the community.

## EVENTS AFTER THE REPORTING PERIOD

### Cancellation of 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 during the year and were cancelled on 18 January 2019.

# 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 2018.

## 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 2018, 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 2018.

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 consists of nine Directors, including six executive Directors and three independent non-executive Directors.

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

### 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.

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

During the year ended 31 December 2018, 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. 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 2019 annual general meeting of the Company (the "2019 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 Muqing, Mr. Wan To and Ms. Wong Tan Tan shall retire and being eligible, offer themselves for re-election at the 2019 AGM. A circular to be sent in April 2019 by the Company to the shareholders contains details of the Directors proposed to be re-elected.

The Board recommended the re-appointment of the Directors proposed to be re-elected at the 2019 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 posts of Chairman and Chief Executive Officer are held separately by Mr. Wang Muqing and Mr. Koh Tee Choong, Executive Directors of the Company, respectively, neither of whom have any financial, business, family or other relationship with each other. This separation 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 2018 was as follows:

| | Meeting Attended during Tenure of Office/Held | | | | |
|---|---|---|---|---|---|
| **Members of the Board of Directors** | **2018 AGM** | **Board** | **Audit Committee** | **Remuneration Committee** | **Nomination Committee** |
| **Executive Directors:** | | | | | |
| Mr. Wang Muqing *(Chairman)* | 1/1 | 1/6 | – | 1/1 | 1/1 |
| Mr. Wang Kunpeng | 1/1 | 6/6 | – | – | – |
| Mr. Koh Tee Choong | 1/1 | 6/6 | – | – | – |
| Mr. Li Zhubo | 1/1 | 6/6 | – | – | – |
| Mr. Wan To | 1/1 | 6/6 | – | – | – |
| Mr. Shao Yong Jun | 1/1 | 6/6 | – | – | – |
| **Independent Non-executive Directors:** | | | | | |
| Dr. Wong Tin Yau, Kelvin | 1/1 | 5/6 | 2/2 | 1/1 | – |
| Dr. Cao Tong | 0/1 | 3/6 | 1/2 | 1/1 | 1/1 |
| Ms. Wong Tan Tan | 1/1 | 6/6 | 2/2 | – | 1/1 |

## BOARD AND COMMITTEE MEETINGS

### Board Practices and Conduct of Meetings

During the year ended 31 December 2018, the Company held a total of six Board meetings. At the Board meetings, the Board reviewed and approved the final results for the year ended 31 December 2017 and interim results for the six months ended 30 June 2018 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 of the Board 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 Company Secretary 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 2018, two meetings of the Audit Committee were held, and one meeting of each of the Remuneration Committee and the Nomination Committee were 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 2018, 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 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 2018, 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 submitted by 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 2018 AGM.

## Audit Committee

As at the date of this report, the Audit Committee comprises three members, who all are 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 ("Whistle-blowing").

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 2018, 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 2017 and interim results for the six months ended 30 June 2018; (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 2018.

The Board is responsible for presenting balanced, clear and understandable annual and interim reports, price-sensitive 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 68.

The remuneration received by the Company's auditors, KPMG, during the year ended 31 December 2018 is set out below:

| Category of Services | Fee Paid/Payable<br>RMB |
|---|---|
| Audit Services | **7,300,000** |
| Non-audit Services | – |
| Total | **7,300,000** |

## 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 Company and its subsidiaries for the year ended 31 December 2018. 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 its 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

With the assistance of deputy company secretary as an employee of the Company, the Company Secretary shall provide assistance to the Board and ensure 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 monitor 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;

    (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 extraordinary general meeting of the Company or an ordinary resolution of the Company in an annual general meeting of the Company.

### 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.

# 1 INTRODUCTION

## Basis of Preparation

This report has been prepared to provide a review of the relevant activities during the period from 1 January 2018 to 31 December 2018 in accordance with the Environmental, Social and Governance Guidelines ("ESG Guidelines") issued by the Hong Kong Stock Exchange.

## 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 brand 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 140 4S shops[1] and 5S shops[2].

## ESG Strategy of the Group

The Group highly values the harmonious relationship between 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 third report since the first ESG report released in March 2017. The next report (for 2019) is expected to be released in March 2020.

## 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 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.

[1] 4S automobile sales services shop is a four-in-one automobile sales shop providing four different services, including sales of vehicles, sales of spare parts, after-sales service and survey.

[2] The fifth "S" denotes sustainability.

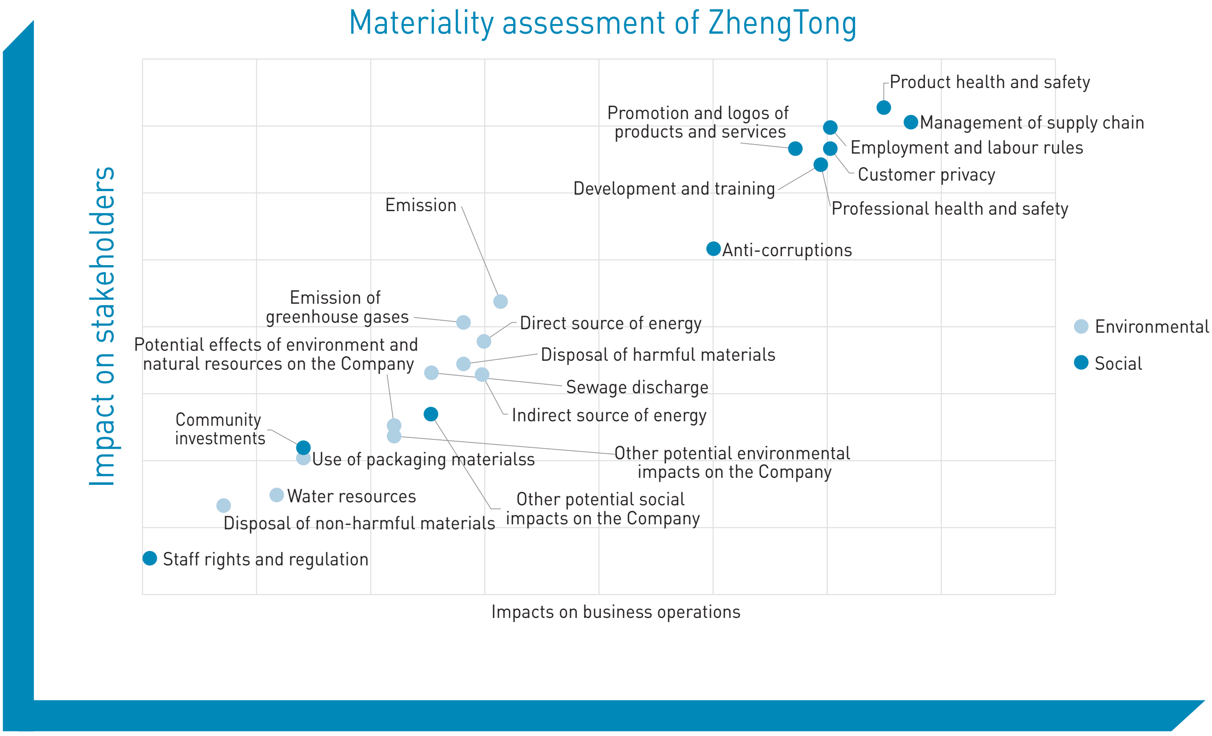
## Involvement of Stakeholders

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 reporting year, employees from 29 shops of the Group took part in the materiality assessment.

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.

## 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 minimize the negative impact of operating activities on the environment. The 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

Wastes are generated from after-sales repair and maintenance of vehicles. The Group seeks to manage the wastes by controlling the sources and disposal. To reduce the generation of harmful waste, the Group has used water-based paints from a famous brand in the spray booth for many years, instead of oil-based paints which were commonly used for vehicle painting. The use of water-based paints can improve the quality of maintenance works and are also good for the health of maintenance staff. On the other hand, the Group strictly controls the disposal of wastes. Special venues for the temporary disposal of waste are set up in each 4S store/5S store, 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. Based on the size of venues and volume of waste collected, the 4S store/5S store will engage vendors recognized by local environmental authorities to recycle and handle such wastes when appropriate. 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.

| | Emissions in total | Emissions per Unit |
|---|---|---|
| Solid waste – batteries | 12.07 tonnes | 0.42 tonnes/shop |
| Solid waste – others | 64.94 tonnes | 2.24 tonnes/shop |
| Liquid waste | 459,900 liters | 15,900 liters/shop |

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 294.86 kilograms, 7.54 kilograms and 24.51 kilograms, respectively. Greenhouse gas emissions from generating electricity for the above-mentioned vehicles and business premises was 16,360.03 tonnes of carbon dioxide equivalent.

### 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 | 16,441,900 kWh | There is no proper denominator. Taking into account the economic benefits, the Group has not calculated the consumption per unit of these resources as the calculation is not meaningful. |
| Natural gas (For canteen) | 123,900 cubic meters | |
| Natural gas (For heating) | 75,900 cubic meters | |
| Liquefied gas | 15,600 liters | |
| Gasoline | 503,200 liters | 21.80 liters/100 km |
| Diesel oil | 8,600 liters | 9.36 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.

### 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.

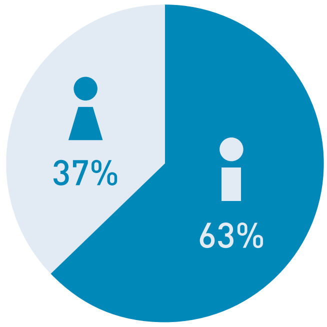
The Group has advocated fair competition. None of our employees were discriminated or harassed due to gender, age, marital status, religion, ethnicity, nationality or health condition.

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 applicable labour laws and 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.

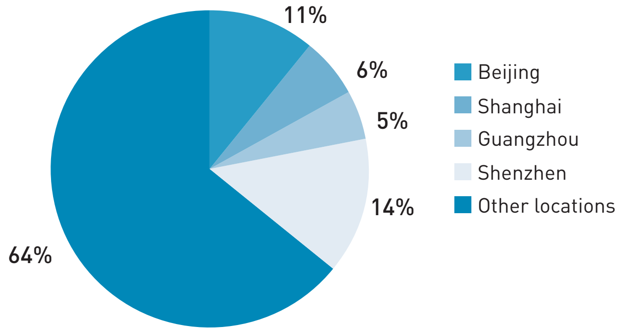
To improve the employment rates of the local markets where the subsidiaries are located, except certain necessary experienced staff seconded from other 4S or 5S shops, the Group will hire local employees as far as possible for new 4S or 5S shops. As at 31 December 2018, there were 715 intern trainees.

As at the end of the reporting period, the Group operated 140 dealership stores in 40 cities in 16 provinces of the People's Republic of China and had 12,353 employees.

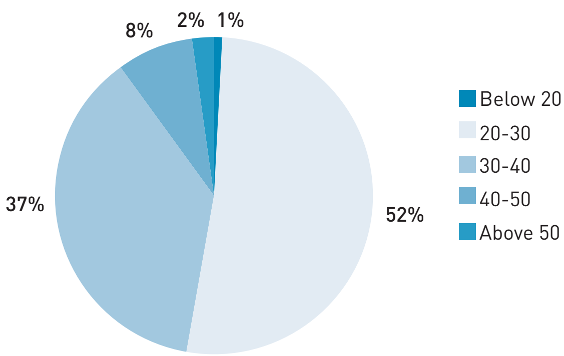
Gender of employees




Location of employees




Age of employees




The career development platform of Zhengtong has been expanding rapidly in line with the growth of Zhengtong, providing opportunities for our young employees. During the reporting year, one out of seven general brand managers were of the post-80s generation. Among employees of the Group holding managerial or higher positions, 256 were of post-85s generation, of which 47 were of post-90s generation. As at the end of the reporting period, 53% and 26% 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 provide on-job trainings to relevant staff.

## 3.2 Health and Safety

Human resources are the most precious thing of the Group and the health and safety of our employees are the most important thing of Zhengtong. We have strived to provide our employees with a healthy and safe 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. 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 protection gear at all time. On the other hand, the Group is in the process to use new materials which are more environmentally friendly, non-harmful or less harmful (e.g. the use of water-based paint for painting) so as to minimize personal damage to the staff.

### Fire Safety

As there are vehicles and engine oil being stored in business premises of the Group, fire safety is critical to the safety of life and property of our employees and customers and is always the top priority of the safety management of the Group. During the reporting year, the Group arranged 98 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 organized 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. The administrative department conducted administrative inspections, including safety inspections, of store operations twice a year. In addition, the administrative department arranged for each shop to conduct safety hazard investigations before the statutory holidays, no less than 5 times a year. At least 7 times of group-led inspections are conducted each year, and other inspections organised by in-store are carried out according to company arrangements. Each shop was examined at least once quarterly to ensure all certificates required by laws and regulations were obtained or renewed. In addition, we also accept external safety supervision. During the reporting period, we accepted 111 external safety examinations.

The Group has 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

It is a trend of the service industries, including vehicle sales and after-sales service of the Group, to have more younger staff. The increase of younger staff provides new driving force for the development of the Group. The Group has also adopted new methods of staff recruitment and training. 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. During the reporting period, the Group had arranged 214 training classes for 3,200 participants. The total training time was 2,568 hours.

Technical trainings on new car models were also arranged by the maintenance centres of different brands of vehicles. The Group organized our staff to participate in such trainings to ensure that our customers are provided with the repair and maintenance services using the latest technologies. During the reporting period, the Group had paid RMB7.07 million for 2,145 external trainings of 2,525 person-time. The total training time was 42,630 hours.

To cope with the 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 2018, the eighth 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 and external experts. During the reporting period, training courses of the eighth session of "senior manager training program" were organized in October and commenced in November and were attended by 87 person-time. The total lecture time was 59 hours.

In addition to live lectures, the eighth session of the training program also adopted innovative methods by offering online and offline learning. At the beginning of October, participants were given online self-study sessions in respect of business operation and online tests. In mid – and late October and November, the participants were delivered two lectures on leadership and business management. Such flexible training schedule minimized the impact on customer services and management and enhanced the efficiency and effectiveness of training. On the other hand, at the tenth anniversary of our "senior manager training program", the Group has redesigned the course according to the current business requirement based on the objectives to strengthen the abilities, management skills, leadership and business insights of the participants so that they can perform their daily job duties through applying learning into practice.

## 4 ANTI-CORRUPTION

Any misconduct in business operation will definitely jeopardize the proper management and operation of a business and will damage the integrity of a company. The Group is strongly against any misconduct in its operation. The Group has 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 training programs for our staff to promote the prevention of corruption and uphold moral uprightness and integrity with zero tolerance to corruption. In 2018, the legal department carried out a total of 35 aforementioned types of trainings for approximately 1,100 participants, and achieved positive results.

In addition, the Group strictly complies with Anti-unfair Competition Law and other relevant laws and regulations to strictly prohibit bribery by our staff so as to make contribution to a healthy business environment.

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 alert them the importance of compliance and the possible consequences of violation. During the reporting period, the Group did not aware of any corruption incident.

## 5 SUPPLY CHAIN MANAGEMENT

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.

The business relationship between automobile suppliers and the Group was established through mutual selection. Due to our long history of reputation in providing quality products and services, offering efficient sales channels and 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. We understand that automobile suppliers have their specific environmental protection and labour requirements. We have adequate research and development capability to ensure that their products are in compliance with various environmental standards and their production process is in compliance with relevant laws. With respect to procurement of new vehicles, we conduct detailed visual inspections before warehousing and place them properly to ascertain that we can provide consumers with flawless vehicles. 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 provision 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. We perform our environmental and social responsibilities by imposing relevant requirements on suppliers during the procurement process. It is our common goal to achieve sustainable development.

# 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 offer better experience for customers when purchasing and using their cars, we have further improved the service quality and diversified our offerings to provide more comprehensive services for customers.

The automobile sales of the Group has been growing rapidly. During the reporting period, the Group set up 6 new 4S/5S stores. In particular, at the Porsche 5S Store in Guangzhou, to meet customers' demand for freedom of choice for luxury brands, we have decorated the showroom to demonstrate 18 Porsche branded automobiles at the same time. In addition, a virtual assembly workshop is set up in the showroom. Consumption experience has been refined as customers can look at the car models they have chosen through the screen with the actual products displayed beside them.

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 to promote new-energy automobiles which minimized consumers' concerns regarding the inconvenience of charging. Also, new-energy automobile owners can use our outdoor charging stations free of charge, which offer convenient charging service during their travels. All these efforts have facilitated the promotion of new energy automobiles.

## Supporting services

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

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 recent years, with the increasing concerns on environmental protection, many customers worry if the new cars contain formaldehyde and whether it is harmful to health. In this regard, the Group has prepared air purifiers and activated carbon products of international famous brands to remove formaldehyde in new cars for customers. We aim to eliminate their concerns with our caring one-stop services.

The Group has maintained a clear price list for all outsource auto-related products distributed and all repair and maintenance services provided at all 4S/5S stores. During the reporting period, all stores were equipped with one to 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.

On 13 November 2017, the Group was elected as the president at the inauguration meeting of the Committee of After-Sale Service Quality of China Automobile Dealers Association (中國汽車流通協會售後服務質量工作委員會) in Suzhou, Jiangsu. It is an acknowledgement and recognition of our Group's services over the years, as well as an urge and supervision for future improvement. We are committed to improve the supervision on the quality of after-sale services, promote standardized after-sale services, establish the "Internet +" model and carry out fundamental research on the quality of after-sale services for automobiles.

As at the end of the reporting period, 17 of the 4S stores under the Group have obtained the ISO 9001 quality management systems certification.

## 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:

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.

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

## Auto finance

In recent years, the internet finance industry has experienced rapid development. The concept of credit consumption has become popular, offering enormous growth opportunities for the consumer finance sector. In order to provide better services for our automobile customers and use the balance of working capital brought forward from previous years more efficiently to maximize the value of our Shareholders, Dongzheng AFC, founded by the Group in 2015, offers auto financing and credit services for automobile purchasers. Capitalising on the promising growth of the industry over the past two years and with the dedications and diligence of all employees, Dongzheng AFC has further expanded its business scale, and more customers have bought their dream cars using the financing and credit services of our Group.

To improve the efficiency of credit approval while maintaining sound risk control, the Group has adopted modern techniques and established a set of user-profile parameters and strategies based on the credit information system of the People's Bank of China to enhance the efficiency and quality of credit rating. Our Group has also put in place strict procedures of internal credit approval and risk control in order to provide customers with more convenient and quality services and maintain the sustainable development of our Group.

Dongzheng AFC converted into a joint-stock company in August 2018 and passed the listing hearing of HKEx in March 2019. Looking forward, the Group will endeavour to play a leading role and pursue sustainable growth in auto finance.

## 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. As a distributor, Zhengtong plays a primary role in the recalls, and giving prompt notifications and proper recalls arrangement are important safeguards for customers and road safety. The Group endeavours to assist automobile manufacturers to remove defects through repairs, replacement, returns and other measures, in order to provide satisfactory products and services for consumers. During the reporting period, a total of 11,637 vehicles were recalled with assistance from our Group.

# 7 COMMUNITY INVESTMENTS

While maintaining steady corporate development with the use of resources from the society, the Group always adheres to the philosophy of "April showers bring May flowers" and takes actual actions to contribute to the society. The Group has proactively participated in local community development, organized and encouraged its employees to take part in a wide range of charity activities.

## Active participation in charity activities of automobile brands

Cooperation with renowned suppliers is not merely a buy-or-sale relationship. The Group is endeavoured to become their partners in all aspects through participating in the charitable activities of various automobile brands.

In December 2018, Shenzhen Tenglong joined "Caring for Childhood (兒童快樂成長關愛行動)" organised by FAW-Volkswagen, calling on employees and customers to pay attention to the left-behind children in Guizhou, and accompanying the left-behind children to reunite with their parents working in Shenzhen as a warm New Year gift.

Changsha Ruibao joined many charity activities organised by BMW. For instance, the Children's Traffic Safety Ambassador in school (兒童交通安全大使進校園) held in June recruited more than 10 BMW owners as voluntary road safety ambassadors to promote traffic safety knowledge in kindergartens. The fun-filled lectures and activities using kits prepared by BMW attracted active responses from the kids and enabled them to develop traffic safety awareness through learning the traffic rules and signs. In March, BMW called on car owners to join the donation campaign for Qulan Town Primary School (曲蘭鎮小學) in Hengyang County, Hunan. School bags, books, sports equipment and other materials were donated to the school. During the visit, car owners interacted with the students to understand the needs of left-behind children. Also, a charity auction of paintings drawn by left-behind children of poverty families were held in September.

## Hosting charity events for the benefits of the regions where our shops are located

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.

During the summer holiday in July 2018, Bejing Baozehang recruited ten groups of BMW car owners accompanying their school-aged children to visit the Tianyun Hearing and Speech Therapy Centre（天雲聽力言語康復中心） in Tongzhou, Beijing and interacted with 50 hearing-impaired children in the centre. Through the hands-on experience, we conveyed the message to the children of car owners as well as the public that we shall let the hearing-impaired children to feel the care of companions and family like warmness in addition to material support and donations.

Meanwhile, Shangrao Baoze actively participated in the campaign of "Giving Coolness in Summer (夏送清涼)" organised by the government to prevent heatstroke in summer, and offered cold drinks for traffic police and sanitation workers working under high temperatures. 20 people participated in the activity. Through giving drinks to traffic police and sanitation workers, we delivered the concept of "everyone can be helpful" to all staff, customers and passers-by.

In the early autumn of 2018, Tianjin Commission of Commerce and Office of the Spiritual Civilization Construction jointly launched the objective of building a beautiful Tianjin by maintaining operations with courtesy and honesty (文明誠信經營，共建美麗天津). As a member of China Automobile Dealers Association, Tianjin SCAS participated in the corporate promotion for 2018 organized by China Automobile Dealers Association and contributed to the promotion of honest operation in the industry, creating a good image for the Group and the industry.

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| B5: Supply Chain Management | General Disclosure<br><br>Policies on managing environmental and social risks of the supply chain. | 5 | 38 |
| | 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. | | 38 |

| Aspects | Major Category, Aspects, General Disclosure and Key Performance Indicator ("KPI") Descriptions | Index Chapter | Page |
|---|---|---|---|
| B6: Product Liabilities | General Disclosure<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer.<br><br>relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | 6 | 39-40 |
| | 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. | | 39 |
| | 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. | | 40 |
| | KPI B6.5 Description of consumer data protection and privacy policies, and how they are implemented and monitored. | | 40 |
| B7: Anti-corruption | General Disclosure<br><br>Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer.<br><br>relating to bribery, extortion, fraud and money laundering. | 4 | 38 |
| | 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. | | 38 |
| | KPI B7.2 Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored. | | 38 |

| Aspects | Major Category, Aspects, General Disclosure and Key Performance Indicator ("KPI") Descriptions | | Index Chapter | Page |
|---|---|---|---|---|
| B8: Community Investment | General Disclosure | | 7 | 41 |
| | 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. | | | |
| | KPI B8.1 | Key areas of contribution (e.g. education, environmental concerns, labor needs, health, culture and sport). | | 41 |
| | 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 33.

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

### Executive Director

Mr. WANG Muqing (王木清先生), aged 68, 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 47, 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 60, 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. 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 49, 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 24 years of experience in financial management in automobile dealership industry.

Mr. WAN To (尹濤先生), aged 46, 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 18 years' experience in marketing and investment for Chinese and foreign-invested auto dealers.

Mr. SHAO Yong Jun (邵永駿先生), aged 43, obtained an executive master of business administration degree from Shanghai Jiao Tong University, the PRC. Mr. Shao has been an executive Director of the Company since 18 August 2011 and was a member of the Nomination Committee of the Company from 1 June 2012 to 8 April 2016. He has been the vice president of the Company since July 2011 and is currently in charge of the investor relations. Before joining the Group, Mr. Shao engaged in management of logistics services business in relation to automobile industry between 2004 and 2011, and was an auditor of KPMG China between 1997 and 2003.

## Independent Non-executive Directors

Dr. WONG Tin Yau, Kelvin (黃天祐博士), JP, aged 58, 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. 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 senior positions in several listed companies in Hong Kong before he joined COSCO SHIPPING Ports in July 1996. In addition, Dr. Wong is the chairman of Financial Reporting Council, the outgoing chairman and was the chairman of The Hong Kong Institute of Directors (2009-2014), and a member of the Corruption Prevention Advisory Committee of Independent Commission Against Corruption. 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. Dr. Wong is currently an independent non-executive director of I.T Limited (stock code: 0999) and Huarong International Financial Holdings Limited (stock code: 0993). Dr. Wong served as an independent non-executive director of AAG Energy Holdings Limited (stock code: 2686) from June 2015 to April 2016, an independent non-executive director of Asia Investment Finance Group Limited (stock code: 0033) from October 2016 to February 2018 and an independent non-executive director of Mingfa Group (International) Company Limited (stock code: 0846) from September 2018 to March 2019. All the aforementioned companies are listed on the Stock Exchange. Dr. Wong is also an independent non-executive director of Shanghai Fosun Pharmaceutical (Group) Co., Ltd., a company listed in Hong Kong and Shanghai (stock code: 2196 and 600196) and an independent non-executive director of Bank of Qingdao Co., Ltd., a company listed in Hong Kong and Shenzhen (stock code: 3866 and 002948). Moreover, Dr. Wong has also served as an independent non-executive director of Xinjiang Goldwind Science & Technology Co., Ltd., a company listed in Hong Kong and Shenzhen (stock code: 2208 and 002202) for the period from June 2011 to June 2016 and he was re-appointed as an independent non-executive director of the same company on 22 October 2016.

Dr. CAO Tong (曹彤先生), aged 50, 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 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 an independent non-executive director of Bank of Dalian Co., Ltd. Dr. Cao 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 41, 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.

# 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 2018.

## PRINCIPAL PLACE OF BUSINESS

The Company is a company incorporated in Cayman Islands with limited liability where its registered office is located in 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 6 to 18 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 2018 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.

## PROPOSED FINAL DIVIDEND

The Board resolved to propose to the shareholders of the Company on the forthcoming annual general meeting to be held on 31 May 2019 (the "2019 AGM") for the distribution of a final dividend of HK$0.14 per share ("Final Dividend") for the year ended 31 December 2018 payable to the shareholders of the Company whose names are listed in the register of members of the Company on 13 June 2019. The proposal for the distribution of the final dividend is subject to the consideration and approval by the shareholders of the Company at the 2019 AGM. Subject to the said approval, the final dividend will be paid in cash to the shareholders of the Company on or around Thursday, 27 June 2019.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Tuesday, 28 May 2019 to Friday, 31 May 2019 (both days inclusive) and from Tuesday, 11 June 2019 to Thursday, 13 June 2019 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for attending and voting at the 2019 AGM, unregistered holders of shares of the Company shall lodge share transfer documents 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, Wan Chai, Hong Kong for registration before 4:30 p.m. on Monday, 27 May 2019. In order to qualify for the proposed final dividend (subject to the approval by shareholders at the 2019 AGM), unregistered holders of shares of the Company shall lodge share transfer documents with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at the above mentioned address for registration before 4:30 p.m. on Monday, 10 June 2019.

## 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 31 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 1.42% and 5.51% of the Group's total sales for the year ended 31 December 2018 respectively. The single largest supplier and the top five suppliers in aggregate of the Group accounted for 18.48% and 63.48% of the Group's total purchases for the year respectively.

As far as the Directors are aware, neither the Directors, their associates, nor shareholders who own more than 5% of the Company's share capital as at 31 December 2018 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 make contributions into mandatory provident fund ("MPF") schemes 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 based on a percentage of the employee's basic salary with a cap of HK$1,500.

## RESERVES

Details of the movements in the reserve of the Group and the Company during the year ended 31 December 2018 are set out in the Consolidated Statement of Changes in Equity on page 79 and note 31(d) to the consolidated financial statements.

At 31 December 2018, distributable reserves of the Company amounted to RMB3,013 million (31 December 2017: RMB3,077 million). After the end of the reporting year, the directors proposed a final dividend of HK$0.14 (approximately RMB0.12 per ordinary share (2017: HK$0.14 (approximately RMB0.11) per share), amounting to RMB294 million (2017: RMB281 million). This dividend has not been recognised as a liability at the end of reporting date.

In 2018, the Company paid an interim dividend of HK$0.10 (approximately RMB0.088) per ordinary share (2017: nil) for the six months ended 30 June 2018, amounting to RMB213.9 million (2017: nil).

## DIRECTORS

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

### 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

### Independent Non-executive Directors:

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

During the year under review, there is no change in the Board.

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 Muqing, Mr. Wan To and Ms. Wong Tan Tan shall retire and being eligible, offer themselves for re-election at the 2019 AGM. The Board proposes to re-appoint the Directors standing for re-election at the 2019 AGM of the Company.

## DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the 2019 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 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 of the Company 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 2018, the Group has entered into the following Lease Agreements and Property Management Agreement as well as property development 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) Relationship between the Group and its connected persons

The relevant connected persons as lessor (the "Connected Lessors"), with whom some of the Group's PRC operating entities have entered into the lease agreements (collectively, the "Lease Agreements" and each a "Lease Agreement") and/or property management agreement as lessee, are as follows:

1. 北京廣澤房地產開發有限公司 (Beijing Guangze Real Estate Development Co., Ltd.) ("Beijing Guangze") which is wholly owned by Mr. Wang Muqing's family members, thus a connected person of the Company under Chapter 14A of the Listing Rules;

2. 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 Dingjie Automobile Trading"), being a wholly owned by Beijing Guangze, thus a connected person of the Company under Chapter 14A of the Listing Rules;

3. 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"), being a company wholly owned by Beijing Guangze, thus a connected person of the Company under Chapter 14A of the Listing Rules;

4. 武漢聖澤捷運貿易有限公司 (Wuhan Shengze Jieyun Trading Co., Ltd.) ("Wuhan Shengze Jieyun"), being a company wholly owned by Beijing Guangze, thus a connected person of the Company under Chapter 14A of the Listing Rules;

5. 武漢聖澤捷眾物流有限公司 (Wuhan Shengze Jiezhong Logistics Co., Ltd.) ("Wuhan Shengze Jiezhong"), being a company wholly owned by Beijing Guangze, thus a connected person of the Company under Chapter 14A of the Listing Rules;

6. 北京寶澤汽車科技發展有限公司 (Beijing Baoze Automobile Technology Development Co., Ltd.) ("Beijing Development"), being a company wholly owned by Beijing Guangze, thus a connected person of the Company under Rule Chapter 14A of the Listing Rules;

7. 武漢江融投資有限公司 (Wuhan Jiangrong Investment Co., Ltd.) ("Wuhan Investment"), being a company wholly owned by Beijing Guangze, thus a connected person of the Company under Rule Chapter 14A of the Listing Rules; and

8. 湖北熙可實業有限公司 (Hubei Xike Industry Co., Ltd.) ("Hubei Xike"), which is wholly owned by Mr. Wang Muqing's family members, thus a connected person of the Company under Chapter 14A of the Listing Rules. From 1 October 2017, the payment to Hubei Shengze is changed to Hubei Xike instead, all terms would be remained unchanged.

Under the Listing Rules, for so long as the above lessors remain as connected persons of the Company, the following transactions between the Group and the above lessors would constitute continuing connected transactions for the Company.

## (2) The Lease Agreements

Referred to the prospectus of the Company dated 29 November 2010, the Group entered into eight lease agreements (the "Original Lease Agreements") with respective lessors for leasing of the premises necessary for the business operation of the Group in the PRC for an initial term of three years starting from the period between June and September 2010 and expiring during the period between May and September 2013. Following expiry of the Original Lease Agreements, eight renewed leased agreements (the "Renewed Lease Agreements") were entered into to renew the Original Lease Agreements. Five of the Renewed Lease Agreements expired on 31 May 2014 and were renewed again (the "2014 Lease Agreements") with the expiring date on 31 December 2015. The remaining three of the Renewed Lease Agreements together with four new lease agreements dated 30 September 2013 were entered into with respective lessors for a term from 30 September 2013 to 31 December 2015 (the "2013 Lease Agreements"). In order to ensure the continual use of the leased premises by the Group for relevant purposes after the expiry of the 2013 Lease Agreements and the 2014 Lease Agreements, the Group entered into an aggregate of eleven 2016 Lease Agreements with the respective Connected Lessors on 31 December 2015.

The table below sets out the details of the 2016 Lease Agreements, the date of each of these agreements is 31 December 2015 and the term of all such agreements are from 1 January 2016 to 31 December 2018:

| | Location | Gross floor area (sq.m) | Use | Lessor | Lessee | Quarterly rental (RMB) |
|---|---|---|---|---|---|---|
| 1. | 4S shop, the basement and levels 1, 2, 3 and 5 on No. 59 West Third Ring South Road, Feng Tai District, Beijing, the PRC | 22,502.92 | The Group's head office, operation of 4S businesses and garage | Beijing Development | Beijing Baozehang Automobile Sales Services Co., Ltd. ("Beijing Baozehang") | 6,599,457.50 |
| 2. | 4S Store, No. 40, Xingan North Road Yi, New District, Hohhot, Inner Mongolia Autonomous Region, the PRC[2] | 4,662.00 | Operation of 4S businesses | Inner Mongolia Dingjie Automobile Trading | Huhhot Yingfei Automobile Sales Services Co., Ltd. ("Huhhot Yingfei") | 51,049.00 |
| 3. | 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 Dingjie Automobile Trading | Inner Mongolia Dingjie Automobile Trading Co., Ltd. | 463,260.00 |
| 4. | 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 Dingjie Automobile Trading | Huhhot Qibao Automobile Sales Services Co., Ltd. | 2,419,713.00 |
| 5. | 4S Store, No. 40, Xingan North Road Jia, New District, Hohhot, Inner Mongolia Autonomous Region, PRC | 7,439.00 | Operation of 4S businesses | Inner Mongolia Dingjie Automobile Trading | Huhhot Jieyunhang Automobile Sales Services Co., Ltd. | 2,850,997.00 |
| 6. | 4S Store, No. 688, Changsha Avenue, Yuhua District, Changsha, Hunan, the PRC | 4,498.26 | Operation of 4S businesses | Changsha Shengze | Changsha Ruibao Automobile Sales Services Co., Ltd. | 621,951.00 |
| 7. | No. Te 6 Huangpu Technological Park, Jiangan District, Wuhan City, Hubei Province, the PRC | 4,661.59 | Operation of 4S businesses | Hubei Xike | Hubei Bocheng Automobile Sales Services Co., Ltd. | 579,162.00 |
| 8. | No. Te 6 Huangpu Technological Park, Jiangan District, Wuhan City, Hubei Province, the PRC | 6,541.52 | Operation of 4S businesses | Hubei Xike | Wuhan Kaitai Automobile Sales Services Co., Ltd. | 819,476.00 |
| 9. | Shiqiao Village, Houhu County, Jiangan District, Wuhan City, Hubei, the PRC | 21,156.00 | Operation of 4S businesses | Wuhan Investment | Hubei Aoze Automobile Sales Services Co., Ltd. | 4,086,357.00 |
| 10. | Lot 6C2 Wuhan Economic and Technological Development Zone, Wuhan City, Hubei Province, the PRC | 58,051.22 | Operation of logistics and storage businesses | Wuhan Shengze Jieyun | Shengze Jietong Supply Chain Co., Ltd. | 3,543,560.00 |
| 11. | 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 | Shengze Jietong Supply Chain Co., Ltd. | 636,215.00 |

1 The lessors have undertaken to grant the lessees options to renew the leases up to 2020 under the same conditions.

2 The land located at No. 40, Xingan North Road, New District, Hohhot is owned by Inner Mongolia Dingjie Automobile Trading, one of the Connected Lessors, and the buildings erected there on are owned by Huhhot Yingfei, the lessee of the Group.

The rental amounts of the 2016 Lease Agreements are determined after arm's length negotiations between the Group subsidiaries and the relevant Connected Lessors with reference to the prevailing market rate determined by a valuer engaged by the Group subsidiaries.

## (3) Property Management Agreement

As set out in the table under the section headed "The Lease Agreements" above, Beijing Development, as lessor, and Beijing Baozehang, as lessee, has entered into an lease agreement to renew the lease of the 4S shop, basement, levels 1, 2, 3 and 5 on No. 59 West Third Ring South Road, Feng Tai District, Beijing, the PRC with an aggregate gross floor area of 22,502.92 sq.m.. In order to ensure the continual use of the property management services of Beijing Development by the Group, the Group entered into 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 "2016 Property Management Agreement"). Pursuant to the 2016 Property Management Agreement, Beijing Baozehang shall pay the property management monthly fee of RMB283,537.80 to Beijing Development from 1 January 2016. In addition, Beijing Development shall charge Beijing Baozehang the air-conditioning annual fee of RMB2,373,049 under the 2016 Property Management Agreement payable semiannually. The management fee under the 2016 Property Management Agreement was determined with reference to the market rate determined by a valuer engaged by Beijing Baozehang.

## (4) Proposed Annual Caps

Pursuant to the 2016 Lease Agreements and the 2016 Property Management Agreement, the proposed annual caps of the continuing connected transactions for each of the three years ending 31 December 2018 were RMB96.5 million. The proposed annual caps are determined with reference to the rent payable by the Group to the lessors during the effective term of the lease pursuant to the 2016 Lease Agreements, and the management fee and the air-conditioning fee payable to Beijing Development pursuant to the 2016 Property Management Agreement.

## (5) Purpose of the transactions

The premises leased by the Group under the above lease agreements nos. 1, 2, 3, 4, 5, 6, 7 and 9 are for the purpose of the Group's operation of 4S businesses and the headoffice of the Group. The land leased by the Group under the above lease agreement no. 8 is also for the purpose of the Group's operation of 4S businesses. The premises leased by the Group under the above lease agreements nos. 10 and 11 are for the purpose of the Group's operation of logistics and storage businesses.

## (6) Property Development Service Agreement

On 12 March 2018, the Group has entered into an agreement for one-year term engaging Beijing Guangze to undertake the development, establishment, re-establishment and expansion of 4S stores and relevant commercial projects owned by the Group. The consideration not exceeding RMB700 million shall be utilized by Beijing Guangze for all the fees (excluding land cost) paid to the government and the market administration department, pre-investigation and design fees, supervision fees, consultant fees for hiring professional service companies, approval and construction application fees, construction and installation fees, ancillary facilities fees, the cost to be paid of completion acceptance, equipment costs necessary for the opening of 4S stores and all other relevant fees. The consideration was determined after arm's length negotiations between both parties taking into account, among other factors, the project scale, investment amount, scope of design and technical standard.

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.

## 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 2018 which has reported to the board of Directors in a letter dated 29 March 2019. 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 section headed "Continuing connected transactions" of this report, the Group had not entered into any related party transaction during the year under review.

## SHARE OPTION SCHEMES

### (A) 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 ("Eligible Employee(s)") (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 (the "General Scheme Limit"), 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 has been granted 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.

## (B) Pre-IPO Share Option Scheme

The Company has, based on a framework plan formulated on 9 August 2010, formally adopted a pre-initial public offering share option scheme ("Pre-IPO Share Option Scheme") pursuant to a resolution in writing passed by the shareholders on 17 November 2010, which enables the Company to recognise and reward the contribution of certain Directors, senior management and employees of the Group to the growth and development of the Group and the Listing.

Pursuant to the Pre-IPO Share Option Scheme, the Company has granted options for the subscription of 23,435,900 shares to certain Directors, senior management, employees and former employees of the Group on 10 August 2010, 20 August 2010 and 10 November 2010 respectively.

The share options in the Pre-IPO Share Option Scheme were fully exercised/lapsed during the year ended 31 December 2017, there was no share options outstanding as at 31 December 2018.

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

As at 31 December 2018, the interests of the Directors and their associates in the shares and underlying shares 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 for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, 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) | 56.37% |
| Wang Kunpeng | Beneficial Owner | 1,230,000 (Note 2) | 0.05% |
| Li Zhubo | Beneficial Owner | 1,550,000 (Note 3) | 0.06% |

Notes:

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.

2. During the year of 2017, Wang Kunpeng exercised the options under the Pre-IPO Share Option Scheme granted to him, these represent the number of shares which are allotted and issued.

3. Mr. Li Zhubo has a total of 1,550,000 shares, among which 320,000 shares were purchased in the market, and the remaining 1,230,000 shares represented the number of shares which during the year of 2017, Mr. Li exericsed the options under the Pre-IPO Share Option Scheme granted to him, are allotted and issued.

Save as disclosed above, as at 31 December 2018, none of the Directors or any of their associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

## INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the interests or short positions of the substantial shareholders (other than the Directors) 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) | 56.37% |
| Wang Weize | Founder of trusts (Note 1) | 1,383,516,820(L) | 56.37% |
| Citigroup Inc. | Person having a security interest in shares | 22,130,000(L) | 0.90% |
| | Interest of controlled corporation | 71,395,000(L) | 2.91% |
| | | 1,574,076(S) | 0.06% |
| | Approved lending agent | 146,585,951(P) | 5.97% |
| Pandanus Partners L.P. | Interest of controlled corporation | 158,686,500(L) | 6.47% |

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 schemes, at no time during the year ended 31 December 2018 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, 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 2018.

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 2018.

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2018 are set out in notes 24 and 27 to the consolidated financial statements.

## DISCLOSURE PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES

On 12 January 2017, the Company (as borrower) entered into a facility agreement with fifteen financial institutions (as lenders) for a syndicated term loan facility for an initial aggregate amount of US$409 million (with a green shoe option of an amount up to US$600 million (inclusive of the said initial amount)). At 31 December 2018, the loan amounted to US$540 million. The final repayment date of the loan facility shall be the date falling 36 months after the first utilization date. Pursuant to the facility agreement, Mr. Wang Muqing (王木清先生), and his close relatives or any trust of which Mr. Wang and his close relatives are beneficiaries ceasing to own beneficially (whether directly or indirectly) are required to hold no less than 50% of the total issued share capital of the Company. For details, please refer to the announcement of the Company dated 18 January 2017.

On 16 January 2018, the Company (as borrower) entered into a facility agreement with nineteen financial institutions (as lenders) for a syndicated term loan facility for an initial aggregate amount of US$380 million (with a green shoe option of an amount up to US$600 million (inclusive of the said initial amount)). At 31 December 2018, the loan amounted to US$415 million. The final repayment date of the loan facility shall be the date falling 36 months after the first utilization date. Pursuant to the facility agreement, Mr. Wang Muqing (王木清先生), and his close relatives or any trust of which Mr. Wang and his close relatives are beneficiaries ceasing to own beneficially (whether directly or indirectly) are required to hold no less than 50% of the total issued share capital of the Company. For details, please refer to the announcement of the Company dated 23 January 2018.

On 30 November 2018, the Company (as borrower) entered into a facility agreement with six financial institutions (as lenders) for a syndicated term loan facility for an aggregate amount of US$150 million. At 31 December 2018, the loan amounted to US$120 million. The final repayment date of the loan facility shall be the date falling 36 months after the first utilization date. Pursuant to the facility agreement, Mr. Wang Muqing (王木清先生), and his close relatives or any trust of which Mr. Wang and his close relatives are beneficiaries ceasing to own beneficially (whether directly or indirectly) are required to hold no less than 50% of the total issued share capital of the Company. For details, please refer to the announcement of the Company dated 24 December 2018.

## 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 of the Company 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 is in compliance with the laws and regulations 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 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 33 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 of association of the Company 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 2018, the Company had complied with the code provisions set out in the Corporate Governance Code in Appendix 14 to the Listing Rules except for the deviations set out in the Corporate Governance Report contained in this annual report.

## 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

### Repurchase of Shares

In April 2018, a total of 37,397,000 Shares (those repurchased by the Company during the year at prices ranging from HK$5.81 to HK$6.50 per Share) were settled and cancelled by the Company during the year. The aggregate amount paid by the Company for such repurchase cancelled on 23 May 2018 was approximately HK$229 million.

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 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 2017 and 2018 annual general meetings of the Company, 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 2018.

## PLACEMENT OF NEW SHARES AND USE OF PROCEEDS

Based on the placing agreement dated 15 December 2017, the Company completed the placing of 50,000,000 new Shares on 28 December 2017, which represent approximately 2.21% of 2,265,539,420 the issued Shares of the Company immediately after the completion as enlarged by the issue of the placing Shares, at the placing price of HK$7.60 per placing Share. For details of this placing, please refer to the announcements dated 15 December 2017 and 28 December 2017. The net proceeds from the placing were approximately HK$377 million, which the Company totally dedicated to the development of our fin-tech platform. For the year ended 31 December 2017, no net proceeds from the placing were utilized. For the year ended 31 December 2018, around HK$123 million has been utilized as planned, and the remaining funds will be fully utilized on or before 31 December 2019 in accordance with the intended use.

Based on the placing agreement dated 11 January 2018, the Company completed the placing of 226,000,000 new Shares on 19 January 2018, which represent approximately 9.07% of the 2,491,539,420 issued Shares of the Company immediately after the completion as enlarged by the issue of the placing Shares, at the placing price of HK$7.70 per placing Share. For details of this placing, please refer to the announcements dated 11 January 2018 and 19 January 2018. The net proceeds from the placing were approximately HK$1,727 million, which the Company totally dedicated to the development of auto finance business. During the six months ended 30 June 2018, the funds has been fully utilized as planned.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association 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 2019 AGM of the Company. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the 2019 AGM of the Company.

On behalf of the Board

**Wang Muqing**
*Chairman*
29 March 2019

# 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 76 to 169, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018 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 page 117 to 118 and the accounting policies on page 97.*

| 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, which totalled approximately RMB2.0 billion and RMB4.0 billion, respectively, as at 31 December 2018. Goodwill has been allocated to each of the relevant individual 4S dealership stores, which are considered to represent individual cash-generating units ("CGUs").<br><br>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.<br><br>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.<br><br>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:<br><br>• evaluating the appropriateness of management's identification of CGUs and the amounts of goodwill and intangible assets – car dealerships allocated to each CGU;<br><br>• 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;<br><br>• 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;<br><br>• 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;<br><br>• 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<br><br>• 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 137 and the accounting policies on page 102.* | |
| **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.<br><br>Volume based purchase rebates and sales rebates are granted by vendors if certain purchase or sales targets are met.<br><br>Performance rebates are granted by vendors in accordance with the vendors' comprehensive assessment of the Group's business performance.<br><br>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.<br><br>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.<br><br>The Group manually calculates rebates and recognises them when the associated conditions for recognition are met.<br><br>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 calculation of the Group's entitlement to such rebates increases the risk that vendor rebates could be recognised before the entitlement conditions have been met. | Our audit procedures to assess the recognition of vendor rebates included the following:<br><br>• obtaining an understanding of the design and implementation of management's key internal controls in relation to the recognition of vendor rebates;<br><br>• 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;<br><br>• 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;<br><br>• 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 polices;<br><br>• evaluating, on a sample basis, the above relevant inputs used to calculate vendor rebates by comparing the inputs with relevant underlying documentation; and<br><br>• 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 page 138 and the accounting policies on page 92.*

| 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.<br><br>The Group has applied Hong Kong Financial Reporting Standard 9 – Financial Instruments since 1 January 2018 and developed a new impairment model for receivables from financial services operations. As at 31 December 2018, loss allowance of receivables from financial services is amounted to approximately RMB142 million as disclosed in note 20.<br><br>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 and discount rate, adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions.<br><br>In particular, the determination of the 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 historical data, the historical loss experience for receivables from financial services and other adjustment factors.<br><br>We identified the loss allowance of receivables from financial services operations as a key audit matter because of the inherent uncertainty and management judgment 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:<br><br>• 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 allowances for impairment;<br><br>• 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, adjustments for forward-looking information and other management adjustments.<br><br>• 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, we compared 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. For key parameters derived from external data, we selected samples to inspect the accuracy of such data by comparing them with public resources. |

## KEY AUDIT MATTERS (continued)

| Loss allowance of receivables from financial services operations | |
|---|---|
| *Refer to note 20 to the consolidated financial statements on page 138 and the accounting policies on page 92.* | |
| **The Key Audit Matter** | **How the matter was addressed in our audit** |
| | • for key parameters involving judgments, critically assessing input parameters by seeking evidence from external sources and comparing with the Group's internal records including historical loss experience and type of collateral. As part of these procedures, we challenged management's revisions to estimates and input parameters compared with prior period and on transition to the new accounting standard and considered the consistency of judgments. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development.<br><br>• for key parameters used in the expected credit loss model which were derived from system-generated internal data, 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 information.<br><br>• 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.<br><br>• we checked receivables from financial services information and recalculated the amount of credit loss allowance for 12 months 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.<br><br>• 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 March 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018 (Expressed in RMB'000)

| | Note | For the year ended 31 December 2018 | 2017 (Note) |
|---|---|---|---|
| **Revenue** | 3 | **37,455,510** | 35,474,325 |
| Cost of sales | | **(32,968,683)** | (31,705,979) |
| **Gross profit** | | **4,486,827** | 3,768,346 |
| Other income | 4 | **962,747** | 418,216 |
| Selling and distribution expenses | | **(1,036,585)** | (1,027,736) |
| Administrative expenses | | **(1,650,024)** | (733,072) |
| **Profit from operations** | | **2,762,965** | 2,425,754 |
| Finance costs | 5(a) | **(910,072)** | (700,993) |
| Share of profit of a joint venture and an associate | | **36,595** | 29,030 |
| **Profit before taxation** | 5 | **1,889,488** | 1,753,791 |
| Income tax | 6(a) | **(634,706)** | (542,329) |
| **Profit for the year** | | **1,254,782** | 1,211,462 |
| **Attributable to:** | | | |
| Equity shareholders of the company | | **1,224,065** | 1,190,795 |
| Non-controlling interests | | **30,717** | 20,667 |
| **Profit for the year** | | **1,254,782** | 1,211,462 |
| **Earnings per share** | 9 | | |
| Basic (RMB cents) | | **49.9** | 53.8 |
| Diluted (RMB cents) | | **49.9** | 53.8 |

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 81 to 169 form part of these financial statements.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018 (Expressed in RMB'000)

| | Note | For the year ended 31 December 2018 | 2017 (Note) |
|---|---|---|---|
| **Profit for the year** | | **1,254,782** | 1,211,462 |
| **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 | | **(10,983)** | 20,786 |
| **Other comprehensive income for the year** | | **(10,983)** | 20,786 |
| **Total comprehensive income for the year** | | **1,243,799** | 1,232,248 |
| **Attributable to:** | | | |
| Equity shareholders of the company | | **1,213,082** | 1,211,581 |
| Non-controlling interests | | **30,717** | 20,667 |
| **Total comprehensive income for the year** | | **1,243,799** | 1,232,248 |

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 81 to 169 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018 (Expressed in RMB'000)

| | Note | At 31 December 2018 | At 31 December 2017 (Note) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | **6,324,514** | 4,477,980 |
| Lease prepayments | 12 | **1,555,846** | 1,290,275 |
| Intangible assets | 13 | **4,366,363** | 3,675,288 |
| Goodwill | 14 | **2,006,335** | 1,998,733 |
| Interest in a joint venture | 16 | **293,906** | 275,722 |
| Interests in an associate | | **14,809** | 16,398 |
| Receivables from financial services | 20 | **3,880,977** | 2,478,202 |
| Deferred tax assets | 30 | **214,688** | 171,230 |
| Long-term receivables | 32 | **191,879** | – |
| Other financial assets | 21 | **410,045** | – |
| | | **19,259,362** | 14,383,828 |
| **Current assets** | | | |
| Inventories | 17 | **3,845,727** | 4,084,168 |
| Trade and bills receivables | 18 | **1,071,509** | 952,792 |
| Prepayments, deposits and other receivables | 19 | **9,864,964** | 7,355,012 |
| Receivables from financial services | 20 | **4,318,729** | 2,924,012 |
| Pledged bank deposits and balances with central bank | 22 | **2,139,017** | 3,686,098 |
| Time deposits | | **788,515** | 837,000 |
| Cash and cash equivalents | 23 | **2,911,395** | 2,716,220 |
| | | **24,939,856** | 22,555,302 |
| **Current liabilities** | | | |
| Loans and borrowings for financial services | 24 | **5,779,533** | 4,023,938 |
| Loans and borrowings for non-financial services | 24 | **9,390,938** | 9,072,155 |
| Obligations under finance leases | 25 | **91,273** | 84,996 |
| Trade and other payables | 26 | **6,726,648** | 6,338,004 |
| Income tax payables | 6(c) | **1,813,425** | 1,419,846 |
| | | **23,801,817** | 20,938,939 |
| **Net current assets** | | **1,138,039** | 1,616,363 |
| **Total assets less current liabilities** | | **20,397,401** | 16,000,191 |
| **Non-current liabilities** | | | |
| Loans and borrowings for non-financial services | 24 | **5,405,811** | 3,705,990 |
| Loans and borrowings for financial services | 24 | **378,591** | – |
| Bonds payable | 27 | **903,062** | 901,463 |
| Deferred tax liabilities | 30 | **1,052,551** | 869,171 |
| Obligations under finance leases | 25 | **–** | 35,582 |
| Other financial liabilities | | **32,638** | 134,353 |
| Long-term payables | 32 | **299,302** | – |
| | | **8,071,955** | 5,646,559 |
| **NET ASSETS** | | **12,325,446** | 10,353,632 |
| **CAPITAL AND RESERVES** | 31 | | |
| Share capital | | **209,320** | 193,425 |
| Reserves | | **11,933,956** | 10,007,386 |
| **Total equity attributable to equity shareholders of the company** | | **12,143,276** | 10,200,811 |
| **Non-controlling interests** | | **182,170** | 152,821 |
| **TOTAL EQUITY** | | **12,325,446** | 10,353,632 |

Approved and authorised for issue by the board of directors on 29 March 2019.

**Koh Tee Choong**
*Director, CEO*

**Li Zhubo**
*Director, CFO*

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 81 to 169 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018 (Expressed in RMB'000)

| | Attributable to shareholders of the company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital (note 31(c)) | Share premium | Capital reserve | PRC statutory reserve (note 31(d)(i)) | Exchange reserve (note 31(d)(ii)) | Discretionary surplus reserve | General reserve (note 31(d)(iii)) | Retained earnings | Sub-total | Non-controlling interests | Total equity |
| **Balance at 1 January 2017** | **188,788** | **4,549,233** | **298,640** | **424,375** | **(22,413)** | **4,459** | **23,164** | **3,392,085** | **8,858,331** | **83,830** | **8,942,161** |
| Profit for the year | – | – | – | – | – | – | – | 1,190,795 | 1,190,795 | 20,667 | 1,211,462 |
| Other comprehensive income | – | – | – | – | 20,786 | – | – | – | 20,786 | – | 20,786 |
| Total comprehensive income for the year | – | – | – | – | 20,786 | – | – | 1,190,795 | 1,211,581 | 20,667 | 1,232,248 |
| Capital injection from non-controlling interest | – | – | – | – | – | – | – | – | – | 55,000 | 55,000 |
| Issue of ordinary shares by placement | 4,180 | 311,691 | – | – | – | – | – | – | 315,871 | – | 315,871 |
| Transfer of profits to general reserve | – | – | – | – | – | – | 32,535 | (32,535) | – | – | – |
| Dividends (note 31(b)) | – | – | – | – | – | – | – | (193,215) | (193,215) | (6,676) | (199,891) |
| Equity settled share-based transactions | 457 | 14,782 | (6,996) | – | – | – | – | – | 8,243 | – | 8,243 |
| Appropriation to reserves | – | – | – | 98,252 | – | – | – | (98,252) | – | – | – |
| **Balance at 31 December 2017 (Note)** | **193,425** | **4,875,706** | **291,644** | **522,627** | **(1,627)** | **4,459** | **55,699** | **4,258,878** | **10,200,811** | **152,821** | **10,353,632** |
| Impact on initial application of HKFRS 9 | – | – | – | – | – | – | – | (25,993) | (25,993) | (1,368) | (27,361) |
| **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 31(b)) | – | – | – | – | – | – | – | (497,317) | (497,317) | – | (497,317) |
| Issue of ordinary shares by placement (note 31(c)(i)) | 18,891 | 1,424,832 | – | – | – | – | – | – | 1,443,723 | – | 1,443,723 |
| Purchase and cancellation of own shares (note 31(c)(ii)) | (2,996) | (180,487) | (7,547) | – | – | – | – | – | (191,030) | – | (191,030) |
| Appropriation to reserves | – | – | – | 128,855 | – | – | – | (128,855) | – | – | – |
| **Balance at 31 December 2018** | **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** |

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 81 to 169 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018 (Expressed in RMB'000)

| | Note | For the year ended 31 December 2018 | 2017 (Note) |
|---|---|---|---|
| **Operating activities:** | | | |
| Cash generated from/(used in) operations | 23(b) | **1,088,794** | (578,018) |
| Income tax paid | 6(c) | **(312,452)** | (288,400) |
| **Net cash generated from/(used in) operating activities** | | **776,342** | (866,418) |
| **Investing activities:** | | | |
| Payment for purchase of property, plant and equipment | | **(2,290,240)** | (815,407) |
| Proceeds from disposal of property, plant and equipment | | **389,744** | 223,575 |
| Payment for purchase of lease prepayments | | **(294,125)** | (209,689) |
| Payment for purchase of financial assets | | **(415,000)** | – |
| Proceeds from sale of financial assets | | **30,000** | – |
| Payment for purchase of intangible assets | | **(3,490)** | (8,858) |
| Dividend received from joint venture | | **20,000** | – |
| Proceeds from closure of an associate | | **–** | 3,074 |
| Net cash used in acquisition of subsidiaries | | **–** | (232,333) |
| Net cash used in business acquisition | 32 | **(561,000)** | – |
| Decrease/(increase) in time deposits | | **48,485** | (837,000) |
| Interest received | | **75,991** | 22,187 |
| **Net cash used in investing activities** | | **(2,999,635)** | (1,854,451) |
| **Financing activities:** | | | |
| Proceeds from loans and borrowings | 23(c) | **17,418,682** | 26,202,130 |
| Repayment of loans and borrowings | 23(c) | **(15,746,209)** | (20,258,361) |
| Proceeds from issue of ordinary shares by placement | | **1,443,723** | 315,871 |
| Proceeds from shares issued under share option scheme | | **–** | 8,243 |
| Repayment of finance lease liabilities | 23(c) | **(198,243)** | (224,161) |
| Payment for purchase of own shares | 31(c) | **(191,030)** | – |
| Capital injection by non-controlling interests | | **–** | 55,000 |
| Dividends paid to non-controlling interests | 31(b) | **–** | (6,676) |
| Dividend paid to equity shareholders of the company | 31(b) | **(497,317)** | (193,215) |
| Interest paid | 23(c) | **(984,189)** | (785,864) |
| Pledged bank deposits for bank loans and standby letter of credit | 22 | **1,162,582** | (1,295,372) |
| Payments for listing expenses of a subsidiary | 23(c) | **(2,937)** | – |
| **Net cash generated from financing activities** | | **2,405,062** | 3,817,595 |
| **Net increase in cash and cash equivalents** | | **181,769** | 1,096,726 |
| **Cash and cash equivalents at beginning of the year** | | **2,716,220** | 1,625,128 |
| **Effect of foreign exchange rate changes** | | **13,406** | (5,634) |
| **Cash and cash equivalents at end of the year** | 23 | **2,911,395** | 2,716,220 |

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2(c).

The notes on pages 81 to 169 form part of these 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 and financial services 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 2018 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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 39.

### (c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

#### (i) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

# 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

### (i) HKFRS 9, *Financial instruments (continued)*

The following table summarises the impact of transition to HKFRS 9 on retained earnings and non-controlling interests and the related tax impact at 1 January 2018.

| Retained earnings and non-controlling interests | Impact of adopting HKFRS 9 on opening balance RMB'000 |
|---|---|
| Recognition of expected credit losses on: | |
| Financial assets measured at amortised cost | (36,481) |
| Related tax | 9,120 |
| Net decrease in total equity at 1 January 2018 | (27,361) |
| Net decrease in non-controlling interests at 1 January 2018 | 1,368 |
| Net decrease in retained earnings at 1 January 2018 | (25,993) |

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

a. *Classification of financial assets and financial liabilities*

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

| | HKAS 39 carrying amount at 31 December 2017 RMB'000 | Remeasurement RMB'000 | HKFRS 9 carrying amount at 1 January 2018 RMB'000 |
|---|---|---|---|
| Cash and cash equivalents | 2,716,220 | – | 2,716,220 |
| Pledged bank deposits and balances with central bank | 3,686,098 | – | 3,686,098 |
| Receivables from financial services | 5,402,214 | (36,481) | 5,365,733 |
| Trade and bills receivables | 952,792 | – | 952,792 |
| Prepayments, deposits and other receivables | 7,355,012 | – | 7,355,012 |
| Total | 20,112,336 | (36,481) | 20,075,855 |

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### (i) HKFRS 9, *Financial instruments* *(continued)*

a. *Classification of financial assets and financial liabilities (continued)*

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in Note 2(g), (k)(i), (n) and (o).

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial adoption of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. *Credit losses*

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits and balances with central bank, trade and bills receivables, prepayments, deposits and other receivables, receivables from financial services, time deposits and long-term receivables).

For further details on the Group's accounting policy for accounting for credit losses, see note 2(k)(i).

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

| | RMB'000 |
|---|---|
| Loss allowance at 31 December 2017 under HKAS 39 | 55,390 |
| Additional credit loss recognised at 1 January 2018 on: | |
| – Receivables from financial services | 36,481 |
| Loss allowance at 1 January 2018 under HKFRS 9 | 91,871 |

# 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

### (i) HKFRS 9, *Financial instruments (continued)*

*c. Transition*

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and non-controlling interests as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

- The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  - the determination of the business model within which a financial asset is held.

- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

### (ii) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### (ii) HKFRS 15, *Revenue from contracts with customers (continued)*

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. *Presentation of contract liabilities*

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. A contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis (see note 2(m)).

Previously, advance payments from customers relating to sales of passengers motor vehicles were presented in "receipts in advance" and deferred revenue relating to after-sales services were presented in "other payables and accruals" respectively.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

– "Receipts in advance" and deferred revenue in "other payables and accruals" amounting to RMB540,532,000 and RMB4,696,000 respectively as at 1 January 2018, are now included in contract liabilities (note 26).

# 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

### (ii) HKFRS 15, *Revenue from contracts with customers* (continued)

b. *Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018*

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

| | Amounts reported in accordance with HKFRS 15 (A) RMB'000 | Hypothetical amounts under HKAS 18 (B) RMB'000 | Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B) RMB'000 |
|---|---|---|---|
| Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15: | | | |
| Trade and other payables | | | |
| – Receipts in advance | – | 565,810 | (565,810) |
| – Other payables and accruals | 1,532,777 | 1,536,298 | (3,521) |
| – Contract liabilities | 569,331 | – | 569,331 |
| **Total current liabilities** | **2,102,108** | **2,102,108** | – |

### (iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC)22 does not have any material impact on the financial position and the financial result of the Group.

## 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.

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.

### (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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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(y)).

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

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual 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 un-expired 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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.

### (j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

#### (i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

#### (ii) Lease prepayments

Lease prepayments represent the cost of acquiring land use rights paid to the PRC's governmental authorities. Lease prepayments are carried at cost less accumulated amortisation and impairment losses (see note 2(k)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the right.

#### (iii) Operating lease charges

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (j) Leased assets (continued)

#### (iv) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(k). Finance charges implicit in the lease payments are 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 are charged to profit or loss in the accounting period in which they are incurred.

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

#### (i) Credit losses

a. *Policy applicable from 1 January 2018*

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.

Financial assets measured at fair value, including financial assets at fair value through profit and loss is not subject to the ECL assessment.

# 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

### (i) Credit losses (continued)

a. *Policy applicable from 1 January 2018 (continued)*

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.

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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### (i) Credit losses (continued)

a. *Policy applicable from 1 January 2018 (continued)*

Significant increases in credit risk

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

– 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.

# 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

### (i) Credit losses (continued)

a. *Policy applicable from 1 January 2018 (continued)*

Basis of calculation of interest income

Interest income recognised in accordance with note 2(v)(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 delinquency in interest or principal payments;
- 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;
- 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.

# 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

### (i) Credit losses (continued)

b. *Policy applicable prior to 1 January 2018*

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and bills receivables, prepayments, deposits and other receivables and receivables from financial services). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

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

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

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and bills receivables, prepayments, deposits and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

  If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

# 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

### (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 properties carried at revalued amounts);
- pre-paid interests in leasehold land classified as being held under an operating lease;
- 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).

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### (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.

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.

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 consideration before the Group recognises the related revenue (see note 2(v)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(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) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

### (r) Interest-bearing borrowings

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

### (s) 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (t) Income tax

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

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

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

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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (t) Income tax (continued)

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.

### (u) Provisions and contingent liabilities

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

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

### (v) 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### (ii) After-sales service – 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 service – 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.

#### (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, maintenance services and consulting services are recognised at a point in time.

### (w) 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.

### (x) 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (x) Translation of foreign currencies (continued)

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.

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.

### (y) 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.

### (z) Related parties

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

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

- (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (z) Related parties (continued)

(b): (continued)

(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.

### (aa) 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.

## 3 REVENUE (continued)

The amount of each significant category of revenue recognised in revenue during the year is as follows:

For the year ended 31 December

| | Note | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| **Revenue from contracts with customers within the scope of HKFRS 15** | (i) | | |
| Sales of passenger motor vehicles | | 31,529,209 | 30,289,320 |
| Provision of after-sales services | | 4,330,536 | 3,898,520 |
| Provision of logistics services | | 479,580 | 537,724 |
| Sales of lubricant oil | | 272,364 | 226,498 |
| Service income from financial services | | 329,936 | 203,546 |
| | | 36,941,625 | 35,155,608 |
| **Revenue from other sources** | | | |
| Interest income from financial services | | 513,885 | 318,717 |
| | | 37,455,510 | 35,474,325 |

(i) The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see note 2c(ii)).

(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

For the year ended 31 December

| | Note | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| Service income | | 654,911 | 577,027 |
| Interest income from bank deposits | | 75,991 | 22,187 |
| Net gain on disposal of property, plant and equipment | | 48,024 | 25,073 |
| Realised and unrealised net gain/(loss) on derivative financial instruments | | 118,922 | (225,447) |
| Government grants | (i) | 48,405 | 4,573 |
| Others | | 16,494 | 14,803 |
| | | 962,747 | 418,216 |

(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 | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|---|
| | | | **For the year ended 31 December** | |
| **(a)** | **Finance costs:** | | | |
| | Interest on loans and borrowings for non-financial services and bonds payable | | **883,188** | 692,645 |
| | Finance cost for consideration of business combination | (i) | **32,538** | – |
| | Other finance costs | (ii) | **42,198** | 47,246 |
| | Less: Interest capitalised* | | **(47,852)** | (38,898) |
| | | | **910,072** | 700,993 |

* The borrowing costs have been capitalised at a rate of 4.35%–7.50% per annum (2017: 4.16%–6.99%).

| | | Note | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|---|
| **(b)** | **Staff costs:** | | | |
| | Salaries, wages and other benefits | | **810,663** | 750,630 |
| | Contributions to defined contribution retirement plans | (iii) | **73,668** | 59,050 |
| | | | **884,331** | 809,680 |

(i) It represents the unwinding of interest element of business combination consideration (see note 32).

(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 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 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **(c) Other items:** | | |
| Cost of inventories (note 17(b)) | **31,965,954** | 31,052,025 |
| Cost of interests * | **330,875** | 154,637 |
| Depreciation | **332,137** | 310,392 |
| Amortisation of lease prepayments | **28,554** | 27,984 |
| Amortisation of intangible assets | **193,883** | 103,607 |
| Operating lease charges | **429,706** | 356,805 |
| Realised and unrealised net (gain)/loss on derivative financial instruments | **(118,922)** | 225,447 |
| Net foreign exchange loss/(gain) | **456,471** | (228,449) |
| Allowance for impairment losses of receivables from financial services | **86,017** | 41,099 |
| Listing expenses of a subsidiary | **2,268** | – |
| Auditors' remuneration | | |
| – audit service | **7,300** | 7,300 |
| – non-audit service | **–** | – |

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

## 6 INCOME TAX

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

| | For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **Current tax:** | | |
| Provision for income tax for the year | **706,031** | 578,320 |
| **Deferred tax:** | | |
| Origination of temporary differences (note 30) | **(71,325)** | (35,991) |
| | **634,706** | 542,329 |

(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% (2017:25%).

## 6 INCOME TAX (continued)

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

For the year ended 31 December

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Profit before taxation | **1,889,488** | 1,753,791 |
| Notional tax on profit before taxation, calculated at PRC income tax rate of 25% | **472,372** | 438,448 |
| Non-deductible expenses | **154,614** | 94,398 |
| Unused tax losses not recognised | **16,869** | 16,741 |
| Non-taxable income on: | | |
| – Share of profits recognised under the equity method | **(9,149)** | (7,258) |
| Income tax | **634,706** | 542,329 |

### (c) Income tax payables in the consolidated statement of financial position represent:

For the year ended 31 December

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Balance at beginning of the year | **1,419,846** | 1,129,926 |
| Provision for current income tax for the year | **706,031** | 578,320 |
| Payment during the year | **(312,452)** | (288,400) |
| Balance at the end of the year | **1,813,425** | 1,419,846 |

## 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 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 (note (i)) | – | 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 |

## 7 DIRECTORS' REMUNERATION (continued)

Year ended 31 December 2017

| | 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** | | | | | |
| Koh Tee Choong (note (i)) | – | 2,483 | 654 | – | 3,137 |
| Wang Kunpeng | – | 384 | 576 | 46 | 1,006 |
| Li Zhubo | – | 384 | 576 | 72 | 1,032 |
| Wan To | – | 264 | 396 | – | 660 |
| Shao Yongjun | – | 288 | 432 | 72 | 792 |
| Li Yi (note (i)) | – | 312 | 468 | 63 | 843 |
| **Independent non-executive directors** | | | | | |
| Wong Tin Yau, Kelvin | 276 | – | – | – | 276 |
| Cao Tong | 276 | – | – | – | 276 |
| Wong Tantan | 276 | – | – | – | 276 |
| | 828 | 4,115 | 3,102 | 253 | 8,298 |

Notes:

(i) Mr. Li Yi resigned as executive director of the company on 21 March 2017.

Mr. Koh Tee Choong was appointed as chief executive officer of the company on 6 January 2017 and was appointed as executive director of the company on 21 March 2017.

## 8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, five (2017: five) are directors whose emoluments are disclosed in note 7.

# 9 EARNINGS PER SHARE

## (a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2018 was based on the profit attributable to equity shareholders of the company of RMB1,224,065,000 (2017: RMB1,190,795,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2018 of 2,453,012,879 (2017: 2,212,717,736), calculated as follows:

### Weighted average number of ordinary shares

| | For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| Issued ordinary shares at 1 January | **2,265,539,420** | 2,210,200,440 |
| Effect of share options exercised | **–** | 2,106,337 |
| Effect of shares issued for placing (note 31(c)(i)) | **214,824,176** | 410,959 |
| Effect of purchase and cancellation of own shares (note 31(c)(ii)) | **(27,350,717)** | – |
| Weighted average number of ordinary shares at 31 December | **2,453,012,879** | 2,212,717,736 |

## (b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2018 is based on the profit attributable to equity shareholders of the company of RMB1,224,065,000 (2017: RMB1,190,795,000) and the weighted average number of ordinary shares of 2,453,012,879 (2017: 2,214,936,438) in issue after adjusting for the effect of all dilutive potential ordinary shares under the company's pre-IPO employee share option scheme matured in 2017, calculated as follows:

### Weighted average number of shares (diluted)

| | For the year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| Weighted average number of ordinary shares for the year ended 31 December | **2,453,012,879** | 2,212,717,736 |
| Effect of deemed issue of shares under the pre-IPO employee share option scheme | **–** | 2,218,702 |
| Weighted average number of ordinary shares (diluted) at 31 December | **2,453,012,879** | 2,214,936,438 |

# 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 three 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.

## (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.

## 10 SEGMENT REPORTING (continued)

### (a) Segment results, assets and liabilities (continued)

| | 4S dealership business | | Supply chain business | | Financial services business | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 | 2018 RMB'000 | 2017 RMB'000 | 2018 RMB'000 | 2017 RMB'000 | 2018 RMB'000 | 2017 RMB'000 |
| Revenue from external customers | 35,859,745 | 34,187,840 | 751,944 | 764,222 | 843,821 | 522,263 | 37,455,510 | 35,474,325 |
| Inter-segment revenue | - | - | - | - | 326,683 | 165,428 | 326,683 | 165,428 |
| Reportable segment revenue | 35,859,745 | 34,187,840 | 751,944 | 764,222 | 1,170,504 | 687,691 | 37,782,193 | 35,639,753 |
| Reportable segment profit | 1,737,479 | 1,490,018 | 126,377 | 101,457 | 620,913 | 377,764 | 2,484,769 | 1,969,239 |
| Depreciation and amortisation for the year | 513,924 | 403,707 | 11,696 | 14,110 | 28,954 | 24,166 | 554,574 | 441,983 |
| Reportable segment assets | 22,066,386 | 18,437,763 | 584,454 | 308,528 | 9,714,107 | 7,235,983 | 32,364,947 | 25,982,274 |
| Additions to non-current segment assets during the year | 3,470,156 | 1,194,619 | 142,880 | 23,004 | 86,438 | 153,232 | 3,699,474 | 1,370,855 |
| Reportable segment liabilities | (17,985,325) | (15,618,286) | (169,359) | (200,754) | (6,522,289) | (4,478,777) | (24,676,973) | (20,297,817) |
| Investment in a joint venture and an associate | - | - | 293,906 | 275,722 | 14,809 | 16,398 | 308,715 | 292,120 |

### (b) Reconciliations of reportable segment

| For the year ended 31 December | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| **Revenue:** | | |
| Reportable segment revenue | 37,782,193 | 35,639,753 |
| Elimination of inter-segment revenue | (326,683) | (165,428) |
| Consolidated revenue | 37,455,510 | 35,474,325 |
| **Profit before taxation:** | | |
| Reportable segment profit | 2,484,769 | 1,969,239 |
| Elimination of inter-segment profits | (196,376) | (98,795) |
| Unallocated head office (expenses)/gain | (451,580) | 166,124 |
| Other income | 962,747 | 418,216 |
| Finance costs | (910,072) | (700,993) |
| Consolidated profit before taxation | 1,889,488 | 1,753,791 |

## 10 SEGMENT REPORTING (continued)

### (b) Reconciliations of reportable segment (continued)

| | At 31 December 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| **Assets:** | | |
| Reportable segment assets | **32,364,947** | 25,982,274 |
| Intangible assets | **4,366,363** | 3,675,288 |
| Goodwill | **2,006,335** | 1,998,733 |
| Deferred tax assets | **214,688** | 171,230 |
| Unallocated head office assets | **5,938,842** | 6,346,423 |
| Elimination of inter-segment receivables | **(691,957)** | (1,234,818) |
| Consolidated total assets | **44,199,218** | 36,939,130 |
| **Liabilities:** | | |
| Reportable segment liabilities | **(24,676,973)** | (20,297,817) |
| Income tax payables | **(1,813,425)** | (1,419,846) |
| Deferred tax liabilities | **(1,052,551)** | (869,171) |
| Unallocated head office liabilities | **(5,022,780)** | (5,233,482) |
| Elimination of inter-segment payables | **691,957** | 1,234,818 |
| Consolidated total liabilities | **(31,873,772)** | (26,585,498) |

### (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 2017 | 2,385,213 | 96,262 | 532,652 | 597,145 | 288,271 | 814,873 | 4,714,416 |
| Acquisition of subsidiaries through business combinations | 12,762 | 111 | 5,579 | 9,130 | 2,287 | – | 29,869 |
| Additions | 10,961 | – | 15,878 | 284,281 | 37,732 | 695,254 | 1,044,106 |
| Transfer | 428,418 | 1,478 | 154,029 | 10,047 | 724 | (594,696) | – |
| Disposals | – | – | (5,402) | (270,422) | (2,817) | – | (278,641) |
| At 31 December 2017 and 1 January 2018 | 2,837,354 | 97,851 | 702,736 | 630,181 | 326,197 | 915,431 | 5,509,750 |
| Acquisition through business combinations (note 32) | – | – | – | 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** |
| **Accumulated depreciation:** | | | | | | | |
| At 1 January 2017 | 247,400 | 71,366 | 169,280 | 143,171 | 170,300 | – | 801,517 |
| Charge for the year | 99,704 | 9,128 | 58,267 | 98,672 | 44,621 | – | 310,392 |
| Written back on disposals | – | – | (4,443) | (73,183) | (2,513) | – | (80,139) |
| At 31 December 2017 and 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** |
| **Net book value:** | | | | | | | |
| At 31 December 2018 | **3,583,579** | **13,135** | **467,375** | **532,121** | **119,929** | **1,608,375** | **6,324,514** |
| At 31 December 2017 | 2,490,250 | 17,357 | 479,632 | 461,521 | 113,789 | 915,431 | 4,477,980 |

(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 RMB401,635,909 as at 31 December 2018 (2017: RMB241,283,844). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial title to these buildings as at 31 December 2018.

(b) Property, plant and equipment with carrying amount of RMB50,177,000 are pledged for bank loans (see note 24) (2017: RMB65,532,000) as at 31 December 2018.

(c) The Group leases machinery and vehicles under finance leases expiring within one year. The leases do not include contingent rentals.

During the year, additions to machinery and vehicles financed by new finance leases were RMB168,938,000 (2017: RMB243,019,000). At the end of the reporting period, the net book value of machinery and vehicles held under finance leases was RMB111,748,000 (2017: RMB238,568,000).

## 12 LEASE PREPAYMENTS

| | At 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **Cost:** | | |
| At 1 January | **1,406,523** | 1,196,834 |
| Additions | **294,125** | 209,689 |
| At 31 December | **1,700,648** | 1,406,523 |
| **Accumulated amortisation:** | | |
| At 1 January | **(116,248)** | (88,264) |
| Charge for the year | **(28,554)** | (27,984) |
| At 31 December | **(144,802)** | (116,248) |
| **Net book value:** | | |
| At 31 December | **1,555,846** | 1,290,275 |

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

Lease prepayments with carrying amount of RMB214,662,000 are pledged for bank loans (see note 24) (2017: RMB22,185,990) and as at 31 December 2018.

## 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 2017 | 3,888,752 | – | 36,904 | 362,732 | 18,734 | 363 | 4,307,485 |
| Additions | 78,333 | – | – | – | 8,858 | – | 87,191 |
| At 31 December 2017 and 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 (note 32) | – | 881,468 | – | – | – | – | 881,468 |
| At 31 December 2018 | **3,967,085** | **881,468** | **36,904** | **362,732** | **31,082** | **363** | **5,279,634** |
| **Accumulated amortisation:** | | | | | | | |
| At 1 January 2017 | (587,960) | – | (22,399) | – | (5,422) | – | (615,781) |
| Additions | (95,987) | – | (3,535) | – | (4,085) | – | (103,607) |
| At 31 December 2017 and 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 | **(780,423)** | (88,147) | **(29,469)** | **–** | **(15,232)** | **–** | **(913,271)** |
| **Net book Value:** | | | | | | | |
| At 31 December 2018 | **3,186,662** | 793,321 | **7,435** | **362,732** | **15,850** | **363** | **4,366,363** |
| At 31 December 2017 | 3,283,138 | – | 10,970 | 362,732 | 18,085 | 363 | 3,675,288 |

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 (see note 32). 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.

## 14 GOODWILL

| | At 31 December 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| At 1 January and at 31 December | **2,006,335** | 1,998,733 |

### 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 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| 4S dealership business | **2,006,335** | 1,998,733 |

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% (2017: 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% (2017: 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.

## 15 INTEREST IN SUBSIDIARIES

As of 31 December 2018, 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 | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Direct | Indirect | |
| Big Glory International Limited (浩榮國際有限公司) | | British Virgin Islands ("BVI") 22 June 2006 | US$100 | 100% | – | Investment holding |
| Top Globe Limited (同方有限公司) | | British Virgin Islands ("BVI") 27 August 2007 | US$100 | 100% | – | Investment holding |
| Acme Joy Group Limited | | British Virgin Islands ("BVI") 28 April 2011 | US$50,000 | – | 100% | Investment holding |
| Chang Jun Limited (昌駿有限公司) | | British Virgin Islands ("BVI") 16 June 2011 | US$100 | – | 100% | Investment holding |
| Silver Journey Global Limited | | British Virgin Islands ("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) | | British Virgin Islands ("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 |
| 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 |

## 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 |
|---|---|---|---|---|---|---|
| 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 |
| 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 |

## 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 |
|---|---|---|---|---|---|---|
| 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 |
| 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 |

## 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 |
|---|---|---|---|---|---|---|
| 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 |
| Huhhot Weijie Automobile Sales Services Co., Ltd. (呼和浩特市緯捷汽車銷售服務有限公司) | | The PRC 16 June 2011 | RMB500,000 | – | 100% | Automobile trading agency |
| 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 |
| 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 Yema 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 |

## 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 |
|---|---|---|---|---|---|---|
| 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 | RMB10,000,000 | – | 100% | Automobile dealership |
| 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 Direct | Indirect | Principal activities |
|---|---|---|---|---|---|---|
| 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 | RMB20,000,000 | – | 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 Heda Automobile Sales Services Co., Ltd. (清遠南方合達汽車銷售服務有限公司) | | The PRC 26 October 2010 | RMB8,000,000 | – | 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 |
| 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 automobile related logistic 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 |
|---|---|---|---|---|---|---|
| Wuhan Yuntongheng 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 |
| Shanghai Zhengtong Zhonghui Automobile Sales Services Co., Ltd. (上海正通眾輝汽車銷售服務有限公司) | | The PRC 21 December 2012 | RMB10,000,000 | – | 100% | Automobile dealership |
| 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 |
| Chenzhou Haochi Automobile Sales Services Co., Ltd. (郴州豪馳汽車銷售服務有限公司) | | The PRC 21 March 2013 | RMB1,000,000 | – | 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 |
|---|---|---|---|---|---|---|
| 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. (武漢正通悦馳汽車銷售服務有限公司) | | The PRC 14 May 2013 | RMB10,000,000 | – | 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 | RMB10,000,000 | – | 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% | Automobile dealership |
| 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 |
| 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 |

## 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 |
|---|---|---|---|---|---|---|
| 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 |
| ChengTong Developments Limited (成通發展有限公司) | | British Virgin Islands ("BVI") 1 April 2014 | US$1 | – | 100% | Investment holding |
| Landtime International Limited (裕泰國際有限公司) | | Hong Kong 7 April 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 |
| 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 | RMB10,000,000 | – | 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 | RMB10,000,000 | – | 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 | RMB10,000,000 | – | 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 |

## 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 Chichang Trading Co., Ltd. (上海馳暢貿易有限公司) | | 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 | RMB5,000,000 | – | 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 | RMB10,000,000 | – | 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 | RMB10,000,000 | – | 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 | RMB10,000,000 | – | 100% | Automobile dealership |
| 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 | RMB10,000,000 | – | 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 | RMB10,000,000 | – | 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 | RMB5,000,000 | – | 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 | 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 |
|---|---|---|---|---|---|---|
| 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 |
| 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 | RMB10,000,000 | – | 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 | RMB1,600,000,000 | 95% | – | 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 auto-mobile 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 | 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 |
|---|---|---|---|---|---|---|
| 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 ServicesCo.,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. (南京祺奧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 |
| 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 |

## 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 |
|---|---|---|---|---|---|---|
| Chengdu Jieyunhang Automobile Sales Services Co., Ltd. (成都捷運行汽車銷售服務有限公司) | | The PRC 16 October 2017 | RMB50,000,000 | – | 100% | Automobile dealership |
| Chengdu Dingbaohang Second Hand Automobile Sales Services Co., Ltd. (成都鼎寶行二手車銷售服務司) | | The PRC 12 June 2016 | RMB10,000,000 | – | 100% | Automobile trading agency |
| Yongkangshi 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 |
| Yiwushi 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. (上海泰士杰汽車銷售有限公司) | | 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 |
| 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 |

## 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 |
|---|---|---|---|---|---|---|
| Chengdu Hengyuehang Automobile Sales Service Co., Ltd (成都恒悅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 | RMB10,000,000 | – | 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 | RMB10,000,000 | – | 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 | RMB10,000,000 | – | 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 | RMB10,000,000 | – | 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 | RMB10,000,000 | – | 100% | Automobile dealership |
| 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 | RMB10,000,000 | – | 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 | RMB10,000,000 | – | 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 |

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 2018.

## 16 INTEREST IN A JOINT VENTURE

| | At 31 December | |
|---|---|---|
| | **2018** **RMB'000** | 2017 RMB'000 |
| Share of net assets | **293,906** | 275,722 |

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:

| Name of the investee | Place of incorporation/ establishment | Particulars of issued and paid up capital | Proportion of ownership interest: Group's effective interest | Proportion of ownership 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 | |
|---|---|---|
| | **2018** **RMB'000** | 2017 RMB'000 |
| Current assets | **655,003** | 616,259 |
| Non-current assets | **511,699** | 511,873 |
| Current liabilities | **(578,890)** | (576,688) |
| Equity | **587,812** | 551,444 |

## 16 INTEREST IN A JOINT VENTURE (continued)

Included in the above assets and liabilities:

| | At 31 December | |
|---|---|---|
| | **2018 RMB'000** | 2017 RMB'000 |
| Cash and cash equivalents | **3,848** | 3,565 |

| | For the year ended 31 December | |
|---|---|---|
| | **2018 RMB'000** | 2017 RMB'000 |
| Revenue | **2,294,633** | 2,213,542 |
| Profit from continuing operations | **76,368** | 63,218 |
| Total comprehensive income | **76,368** | 63,218 |

Included in the above profit:

| | For the year ended 31 December | |
|---|---|---|
| | **2018 RMB'000** | 2017 RMB'000 |
| Depreciation and amortisation | **(42,156)** | (44,720) |
| Interest income | **48** | 64 |
| Income tax expense | **(12,297)** | (20,617) |

Reconciled to the Group's interest in Guangzhou Fengshen:

| | At 31 December | |
|---|---|---|
| | **2018 RMB'000** | 2017 RMB'000 |
| Gross amounts of Guangzhou Fengshen's net assets | **587,812** | 551,444 |
| Group's effective interest | **50%** | 50% |
| Group's share of Guangzhou Fengshen's net assets | **293,906** | 275,722 |
| Carrying amount in the consolidated financial statements | **293,906** | 275,722 |

## 17 INVENTORIES

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

| | At 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Motor vehicles | **3,508,903** | 3,796,651 |
| Automobile spare parts | **301,767** | 258,172 |
| Others | **35,057** | 29,345 |
| | **3,845,727** | 4,084,168 |

Inventories with carrying amount of RMB1,514,823,000 have been pledged as security for the bills payable (see note 26) as at 31 December 2018 (2017: RMB1,672,155,000).

Inventories with carrying amount of RMB1,146,798,000 have been pledged as security for loans and borrowings from banks and other financial institutions (see note 24) as at 31 December 2018 (2017: RMB450,497,000).

### (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 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Carrying amount of inventories sold | **31,963,559** | 31,040,691 |
| Write down of inventories | **9,287** | 17,843 |
| Reversal of write-down of inventories | **(6,892)** | (6,509) |
| | **31,965,954** | 31,052,025 |

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 | |
|---|---|---|
| | **2018** **RMB'000** | 2017 RMB'000 |
| Trade receivables | **1,070,104** | 952,792 |
| Bills receivable | **1,405** | – |
| | **1,071,509** | 952,792 |

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

Trade and bills receivables with carrying amount of RMB32,165,000 are pledged against bank loans (2017: RMB29,892,100) and RMB55,675,000 are pledged for obligation under financial leases as at 31 December 2018 (2017: nil) (see note 24).

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 | |
|---|---|---|
| | **2018** **RMB'000** | 2017 RMB'000 |
| Within 3 months | **1,025,394** | 917,015 |
| More than 3 months but within 1 year | **39,460** | 29,455 |
| Over 1 year | **6,655** | 6,322 |
| | **1,071,509** | 952,792 |

Details on the Group's credit policy are set out in note 33(a).

## 19 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | At 31 December | |
|---|---|---|
| | **2018** **RMB'000** | 2017 RMB'000 |
| Prepayments | **1,471,050** | 1,056,881 |
| Deposits | **496,356** | 403,350 |
| Other receivables | **7,897,558** | 5,894,781 |
| | **9,864,964** | 7,355,012 |

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 33(a).

## 20 RECEIVABLES FROM FINANCIAL SERVICES

| | At 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **Current** | | |
| Receivable from retail customers | **4,204,798** | 2,768,794 |
| Receivable from auto dealers | **209,329** | 200,807 |
| Less: Allowance for impairment losses | **(95,398)** | (45,589) |
| | **4,318,729** | 2,924,012 |
| **Non-current** | | |
| Receivable from retail customers | **3,927,899** | 2,488,003 |
| Less: Allowance for impairment losses | **(46,922)** | (9,801) |
| | **3,880,977** | 2,478,202 |
| Net receivables from financial services | **8,199,706** | 5,402,214 |

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 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Within 3 months | **1,786,451** | 2,218,782 |
| More than 3 months but within 1 year | **4,114,413** | 1,447,214 |
| More than 1 year | **2,298,842** | 1,736,218 |
| | **8,199,706** | 5,402,214 |

Details on the Group's credit policy are set out in note 33(a).

### (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:

| | **2018** | 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Balance at 31 December 2017 under HKAS 39 | **55,390** | 36,139 |
| Impact on initial application of HKFRS9 | **36,481** | – |
| Balance at 1 January 2018 | **91,871** | 36,139 |
| Impairment loss recognised | **86,017** | 41,099 |
| Uncollectible amounts written off | **(36,364)** | (21,848) |
| Recovery after write-off | **796** | – |
| Balance at 31 December 2018 | **142,320** | 55,390 |

## 21 OTHER FINANCIAL ASSETS

| | At 31 December 2018 RMB'000 | At 31 December 2017 RMB'000 |
|---|---|---|
| Financial assets carried at FVPL | **410,045** | – |

Other financial assets mainly included certain investment portfolio, being managed by Western Trust Co., Ltd.

## 22 PLEDGED BANK DEPOSITS AND BALANCES WITH CENTRAL BANK

Guarantee deposits in respect of:

| | Note | At 31 December 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| *Restricted guarantee deposits in respect of:* | | | |
| Bank loans (note 24) | (i) | **261,594** | 579,176 |
| Bills payable (note 26) | (i) | **1,442,210** | 1,854,919 |
| Standby letter of credit | (ii) | **400,000** | 1,245,000 |
| | | **2,103,804** | 3,679,095 |
| *Restricted balances with central bank:* | | | |
| Statutory deposit reserve funds | (iii) | **35,213** | 7,003 |
| | | **2,139,017** | 3,686,098 |

(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) Balances with central bank is the statutory deposit reserve placed by the financial services company with the People's Bank of China, calculated at 7.0% (2017: 7.0%) of RMB deposits received. The rate of statutory deposit reserves is determined by the People's Bank of China and cannot be used for daily operation.

## 23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

### (a) Cash and cash equivalents comprise:

| | At 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Deposit with banks within 3 months of maturity | **159,878** | 295,000 |
| Cash at banks and on hand | **2,751,517** | 2,421,220 |
| Cash and cash equivalents in consolidated cash flow statements | **2,911,395** | 2,716,220 |

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

| | | For the year ended 31 December | |
|---|---|---|---|
| | Note | **2018** | 2017 |
| Profit before taxation | | **1,889,488** | 1,753,791 |
| Adjustments for: | | | |
| – Depreciation | 5(c) | **332,137** | 310,392 |
| – Amortisation of lease prepayments | 5(c) | **28,554** | 27,984 |
| – Amortisation of intangible assets | 5(c) | **193,883** | 103,607 |
| – Net gain on disposal of property, plant and equipment | 4 | **(48,024)** | (25,073) |
| – Finance costs | 5(a) | **910,072** | 700,993 |
| – Share of profit of a joint venture and an associate | | **(36,595)** | (29,030) |
| – Interest income from bank deposits | 4 | **(75,991)** | (22,187) |
| – Allowance for impairment losses | 20(b) | **86,017** | 41,099 |
| – Write down of inventories | 17(b) | **2,395** | 11,334 |
| – Realised and unrealised net (gain)/loss on derivatives | 4 | **(118,922)** | 225,447 |
| – Foreign exchange loss/(gain) | | **422,201** | (202,991) |
| – Listing expenses of a subsidiary | 5(c) | **2,268** | – |
| Cash generated from operations | | **3,587,483** | 2,895,366 |
| **Changes in working capital:** | | | |
| – Decrease/(Increase) in inventories | | **236,046** | (1,012,272) |
| – Increase in trade and bills receivables | | **(77,278)** | (280,403) |
| – Increase in prepayments, deposits and other receivables | | **(2,546,343)** | (1,283,277) |
| – Decrease/(increase) in pledged bank deposits | | **384,499** | (558,792) |
| – Increase in trade and other payables | | **290,191** | 668,743 |
| – Increase in receivables from financial services | | **(2,919,990)** | (1,778,436) |
| – Increase in loans and borrowings for financial services | | **2,134,186** | 771,053 |
| **Cash generated from/(used in) operations** | | **1,088,794** | (578,018) |
| Income tax paid | 6(c) | **(312,452)** | (288,400) |
| **Net cash generated from/(used in) operating activities** | | **776,342** | (866,418) |

## 23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(continued)

### (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 (Note 25) | Interest payables RMB'000 (i) | Derivative financial instruments: Capped cross currency swap RMB'000 (Note 33) | 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) | - | - | - | 69,641 | - | (15,746,209) |
| Capital element of finance lease liabilities paid | - | - | (198,243) | - | - | - | (198,243) |
| Interest paid | - | - | - | (900,281) | (83,908) | - | (984,189) |
| 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 (note 11(c)) | - | - | 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)

### (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 (Note 25) | Interest payables RMB'000 (i) | Derivative financial instruments: Capped cross currency swap RMB'000 (Note 33) | Total RMB'000 |
|---|---|---|---|---|---|---|
| **At 1 January 2017** | 5,616,584 | 2,314,703 | 101,720 | 43,265 | (143,456) | 7,932,816 |
| **Changes from financing cash flows:** | | | | | | |
| Proceeds from loans and borrowings | 25,300,667 | 901,463 | – | – | – | 26,202,130 |
| Repayment of loans and borrowings | (18,063,943) | (2,314,703) | – | – | 120,285 | (20,258,361) |
| Capital element of finance lease liabilities paid | – | – | (224,161) | – | – | (224,161) |
| Other borrowing paid | – | – | – | (717,941) | (67,923) | (785,864) |
| Total changes from financing cash flows | 7,236,724 | (1,413,240) | (224,161) | (717,941) | 52,362 | 4,933,744 |
| **Exchange adjustments** | (202,991) | – | – | – | – | (202,991) |
| **Changes in fair value** (note 4) | – | – | – | – | 225,447 | 225,447 |
| New finance leases (note 11(c)) | – | – | 243,019 | – | – | 243,019 |
| Interest expenses (note 5(a)) | – | – | – | 700,993 | – | 700,993 |
| Capitalised borrowing cost (note 5(a)) | – | – | – | 38,898 | – | 38,898 |
| Acquisition of subsidiaries | 127,828 | – | – | – | – | 127,828 |
| **Total other changes** | 127,828 | – | 243,019 | 739,891 | – | 1,110,738 |
| **At 31 December 2017** | 12,778,145 | 901,463 | 120,578 | 65,215 | 134,353 | 13,999,754 |

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

## 24 LOANS AND BORROWINGS

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

| | | At 31 December | |
|---|---|---|---|
| | Note | **2018 RMB'000** | 2017 RMB'000 |
| **Current** | | | |
| *Loans and borrowings for financial services* | | | |
| Unsecured bank loans | (i) | **5,552,043** | 4,023,938 |
| Current portion of unsecured long-term bank loans | (i) | **227,490** | – |
| | | **5,779,533** | 4,023,938 |
| *Loans and borrowings for non-financial services* | | | |
| Unsecured bank loans | (i) | **3,145,149** | 5,115,941 |
| Current portion of unsecured long-term bank loans | (i) | **2,399,655** | 613,245 |
| Unsecured short-term commercial paper | (ii) | **700,000** | 1,600,000 |
| Unsecured borrowings from other financial institutions | | **300,000** | 220,000 |
| | | **6,544,804** | 7,549,186 |
| Secured bank loans | (iii) | **1,863,320** | 759,288 |
| Current portion of secured long-term bank loans | (iii) | **137,502** | 50,000 |
| Secured borrowings from other financial institutions | (iv) | **845,312** | 713,681 |
| | | **9,390,938** | 9,072,155 |
| Sub-total | | **15,170,471** | 13,096,093 |
| **Non-current** | | | |
| *Loans and borrowings for financial services* | | | |
| Unsecured bank loans | (v) | **378,591** | – |
| | | **378,591** | – |
| *Loans and borrowings for non-financial services* | | | |
| Unsecured bank loans | (v) | **4,895,449** | 3,455,990 |
| Secured bank loans | (vi) | **510,362** | 250,000 |
| | | **5,405,811** | 3,705,990 |
| Sub-total | | **5,784,402** | 3,705,990 |
| Total | | **20,954,873** | 16,802,083 |

(i) Current unsecured bank loans carried interest at annual rates ranging from 3.61% to 8.50% as at 31 December 2018 (2017: from 2.08% to 8.00%).

(ii) The Group had issued three (2017: five) batches of one year short-term commercial papers in National Association of Financial Market Institutional Investors in 2018 with the amount of RMB200 million, RMB200 million, RMB300 million, respectively (2017: RMB200 million, RMB200 million, RMB300 million, RMB300 million and RMB600 million). These short-term commercial papers bears interest rate of 7.00%, 7.40%, and 7.50% (2017: 6.35%, 6.25%, 6.39%, 6.5%, and 6.99%) respectively.

(iii) Current secured bank loans carried interest at annual rates ranging from 4.35% to 8.40% as at 31 December 2018 (2017: from 4.35% to 5.66%).

## 24 LOANS AND BORROWINGS (continued)

(iv) 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 6.13% to 8.5% as at 31 December 2018 (2017: from 4.35% to 8.35%).

(v) The non-current unsecured bank loans bearing interest rate from 5.65% to 5.96% in 2018 per annum as at 31 December 2018 (2017: 4.24% to 4.53%) will mature on 18 January 2020,15 January 2021 and 6 December 2021 respectively.

(vi) The non-current secured loan bearing interest rate at 5.225%, 4.35% and 8.40% per annum will mature on 28 September 2020, 2 June 2021 and 26 June 2023 respectively.

(vii) As at 31 December 2018, the following assets of the Group had been pledged to secure for the Group's banking facilities totalling to RMB6,662,222,000 (2017: RMB4,611,260,000).

| | At 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Inventories | **1,146,798** | 450,497 |
| Pledged bank deposits | **261,594** | 579,176 |
| Property, plant and equipment | **50,177** | 65,532 |
| Lease prepayment | **214,662** | 22,186 |
| Trade and other receivables | **32,165** | 29,892 |
| Shares of subsidiaries | **117,234** | – |
| Time deposit | **172,000** | – |
| Total | **1,994,630** | 1,147,283 |

As of 31 December 2018, the above banking facilities were utilised to the extent of RMB3,356,496,000 (2017: RMB1,772,969,000).

As part of the securities for bank loans, the Group pledged its equity interest in subsidiaries of Yongkangshi Guobang Automobile Sales Co., Ltd. and Yiwushi Xinhui Automobile Sales Service Co., Ltd., amounted to approximately RMB117,234,000 as at 31 December 2018 (2017: nil).

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 33(b). As at 31 December 2018, none of the covenants relating to drawn down facilities had been breached (2017: None).

(viii) As of 31 December 2018, unsecured loans and borrowings amounting to RMB12,569,111,000 were guaranteed by the company and its fellow subsidiaries (2017: RMB10,959,114,000).

As of 31 December 2018, secured loans and borrowings amounting to RMB3,356,496,000 were guaranteed by the company and its fellow subsidiaries (2017: RMB1,772,969,000).

## 25 OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2018, the Group had obligations under finance leases repayable as follows:

| | At 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Within 1 year | **94,021** | 87,739 |
| After 1 year but within 2 years | **–** | 39,508 |
| Less: Total future interest expense | **(2,748)** | (6,669) |
| Present value of lease obligations | **91,273** | 120,578 |

## 26 TRADE AND OTHER PAYABLES

| | Note | **31 December 2018 RMB'000** | 1 January 2018[i] RMB'000 | 31 December 2017[i] RMB'000 |
|---|---|---|---|---|
| Trade payables | | **1,158,484** | 730,081 | 730,081 |
| Bills payable | (iii) | **3,440,016** | 3,997,869 | 3,997,869 |
| | | **4,598,500** | 4,727,950 | 4,727,950 |
| Receipts in advance | (ii) | **–** | – | 540,532 |
| Contract liabilities | (ii) | **569,331** | 545,228 | – |
| Other payables and accruals | (ii) | **1,532,777** | 1,053,202 | 1,057,898 |
| Payables due to related parties | | **26,040** | 11,624 | 11,624 |
| Trade and other payables | | **6,726,648** | 6,338,004 | 6,338,004 |

(i) The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

(ii) "Receipts in advance" and deferred revenue in "other payables and accruals" amounting to RMB540,532,000 and RMB4,696,000 respectively as at 1 January 2018, are now included in contract liabilities (see note 2(c)(ii)).

The amount of revenue recognised in the year that was included in the contract liability balance at the beginning of the year was amounted to RMB545,228,000.

## 26 TRADE AND OTHER PAYABLES (continued)

(iii) Bills payable of RMB1,442,210,000 as at 31 December 2018 (2017: RMB1,854,919,000) were secured by pledged bank deposits (see note 22).

Bills payable of RMB1,997,806,000 as at 31 December 2018 (2017: RMB2,142,950,000) 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 | |
|---|---|---|
| | **2018** **RMB'000** | 2017 RMB'000 |
| Within 3 months | **4,267,235** | 4,632,655 |
| Over 3 months but within 6 months | **327,398** | 90,765 |
| Over 6 months but within 12 months | **3,867** | 4,530 |
| | **4,598,500** | 4,727,950 |

## 27 BONDS PAYABLE

| | At 31 December | |
|---|---|---|
| | **2018** **RMB'000** | 2017 RMB'000 |
| Bonds payable | **903,062** | 901,463 |
| Details of the bonds are as follows: | | |
| Principal amount | **910,000** | 910,000 |
| Bonds issue costs | **(9,100)** | (9,100) |
| Proceeds received | **900,900** | 900,900 |
| Accumulated amortised amounts of discount on issue and issue costs | **2,162** | 563 |
| As at 31 December | **903,062** | 901,463 |

On 24 March 2017 and 24 October 2017, the Group issued corporate bonds with an aggregate principal amount of RMB300 million and RMB610 million respectively(the "PRC Bonds").The PRC bonds bear interest from 24 March 2017(inclusive) at the rate of 6% per annum and 24 October 2017(inclusive) at the rate of 7.9% per annum respectively 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 and 24 October 2022 at their principal amount respectively.

## 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 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Pursuant to a resolution passed on 9 August 2010, the company adopted a pre-IPO employee share option scheme (the "Option Scheme") whereby 93 employees of the Group were granted the rights to subscribe for share options of the company. A total number of 23,435,900 share options were granted on 10 August 2010, 20 August 2010 and 10 November 2010 respectively, and are then exercisable within a period of seven years. The exercise price are equivalent to RMB1.5, RMB2.0 and RMB2.5 for type 1, type 2 and type 3 correspondingly.

### (a) The terms and conditions of the grants are as follows:

| | Number of instruments | Vesting conditions |
|---|---|---|
| Options granted to employees on | | |
| 10 August 2010 including: | | |
| Type 1 | 17,540,700 | 50% on 1 January 2012,<br>25% on 1 January 2013,<br>25% on 1 January 2014 |
| Type 2 | 2,062,400 | 50% on 1 April 2012,<br>25% on 1 April 2013,<br>25% on 1 April 2014 |
| Type 3 | 1,452,000 | 50% on 1 July 2012,<br>25% on 1 July 2013,<br>25% on 1 July 2014 |
| 20 August 2010 including: | | |
| Type 3 | 2,018,800 | 50% on 1 July 2012,<br>25% on 1 July 2013,<br>25% on 1 July 2014 |
| 10 November 2010 including: | | |
| Type 3 | 362,000 | 50% on 1 July 2012,<br>25% on 1 July 2013,<br>25% on 1 July 2014 |
| Total share options granted | 23,435,900 | |

### (b) The number and weighted average exercise prices of share options are as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Weighted average exercise price | Number of options | Weighted average exercise price | Number of options |
| Outstanding at the beginning of the year | – | – | RMB1.5 | 6,160,980 |
| Exercised during the year | – | – | RMB1.5 | (5,338,980) |
| Forfeited during the year | – | – | RMB1.5 | (801,200) |
| Lapsed during the year | – | – | RMB2.5 | (20,800) |
| Outstanding at the end of the year | – | – | – | – |
| Exercisable at the end of the year | – | – | – | – |

## 29 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

The share options in the Option Scheme were fully exercised/lapsed during the year ended 31 December 2017, there was no share options outstanding as at 31 December 2018.

## 30 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<br>RMB'000 | Depreciation allowances in excess of depreciation charges<br>RMB'000 | Future benefits of tax losses<br>RMB'000 | Fair value change of derivative financial instruments<br>RMB'000 | Deferred revenue and inventory provision<br>RMB'000 | Credit Loss allowance (Note 1)<br>RMB'000 | Capitalisation of interest<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **Deferred tax assets/(liabilities) arising from:** | | | | | | | | |
| At 1 January 2017 | (831,074) | (6,444) | 150,543 | - | 4,869 | - | (32,610) | (714,716) |
| Acquisition of a subsidiary through business combination | (19,216) | - | - | - | - | - | - | (19,216) |
| Credited/(charged) to profit or loss (note 6(a)) | 24,593 | 687 | 5,537 | - | 12,133 | - | (6,959) | 35,991 |
| At 31 December 2017 | (825,697) | (5,757) | 156,080 | - | 17,002 | - | (39,569) | (697,941) |
| Impact on intital application of HKFRS9 | - | - | - | - | - | 9,120 | - | 9,120 |
| At 1 January 2018 | (825,697) | (5,757) | 156,080 | - | 17,002 | 9,120 | (39,569) | (688,821) |
| Acquisition through business combination (note 32) | (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)** |

Note 1: Upon the initial application of HKFRS 9, the Group has recognised deferred tax assets on the additional credit losses recognised under the ECL model (see note 2(c)(i)).

| | At 31 December | |
|---|---|---|
| | **2018<br>RMB'000** | 2017<br>RMB'000 |
| **Representing:** | | |
| Net deferred tax assets | **214,688** | 171,230 |
| Net deferred tax liabilities | **(1,052,551)** | (869,171) |
| | **(837,863)** | (697,941) |

### 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 2018 in respect of undistributed earnings of RMB7,088,444,000 (2017: RMB5,590,536, 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.

# 31 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 2017** | 188,788 | 4,549,233 | 84,889 | (1,364,119) | 3,458,791 |
| Loss and total comprehensive income for the year | – | – | – | (319,176) | (319,176) |
| Dividends (note 31(b)) | – | – | – | (193,215) | (193,215) |
| Issue of ordinary shares by placement (note 31(c)(i)) | 4,180 | 311,691 | – | – | 315,871 |
| Equity settled share-based transactions | 457 | 14,782 | (6,996) | – | 8,243 |
| **Balance at 31 December 2017 and 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 31(b)) | – | – | – | (497,317) | (497,317) |
| Issue of ordinary shares by placement (note 31(c)(i)) | 18,891 | 1,424,832 | – | – | 1,443,723 |
| Purchase and cancellation of own shares (note 31(c)(ii)) | (2,996) | (180,487) | (7,547) | – | (191,030) |
| **Balance at 31 December 2018** | **209,320** | **6,120,051** | **70,346** | **(3,177,197)** | **3,222,520** |

## (b) Dividends

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

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Interim dividend declared and paid of HK$0.10 per ordinary share (2017: nil) | **213,904** | – |
| Final dividend proposed after the end of the reporting period of HK$0.14 per ordinary share (2017: HK$0.14 per ordinary share) | **294,489** | 281,271 |
| | **508,393** | 281,271 |

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.

## 31 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

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.14 per ordinary share (2017: HK$0.10 per ordinary share) | **283,413** | 193,215 |

#### (iii) Other dividends

During the year of 2018, nil dividend was declared and paid in cash to non-controlling shareholders (2017: RMB6,676,000).

### (c) Share capital

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

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **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 | **2,265,539** | **226,554** | 2,210,200 | 221,020 |
| Shares issued pursuant to pre – IPO employee share option scheme | **–** | **–** | 5,339 | 534 |
| Issue of ordinary shares by placement (i) | **226,000** | **22,600** | 50,000 | 5,000 |
| Purchase and cancellation of own shares(ii) | **(37,397)** | **(3,740)** | – | – |
| At 31 December | **2,454,142** | **245,414** | 2,265,539 | 226,554 |
| RMB equivalent ('000) | | **209,320** | | 193,425 |

(i) Pursuant to a share placing agreement dated 11 January 2018, the company completed a share placing by issuing 226,000,000 ordinary shares at a price of HK$7.70 per share on 19 January 2018. Consequently, HKD226,000,000 (equivalent to RMB18,891,000) and HKD1,704,548,500 (equivalent to RMB1,424,832,000) were recorded in share capital and share premium respectively.

(ii) In April 2018, the Group repurchased 37,397,000 ordinary shares of the company through the Stock Exchange at an aggregate consideration of approximately HK$228,992,000 (equivalent to RMB183,483,000). These ordinary shares were subsequently cancelled in June 2018 in accordance with the Companies Law of the Cayman Islands.

In November 2018, the Group repurchased 1,922,000 ordinary shares of the company through the Stock Exchange at an aggregate consideration of approximately HK$8,509,000 (equivalent to RMB7,547,000). These ordinary shares were subsequently cancelled in January 2019 and treated as treasury shares as at 31 December 2018. The consideration paid on such repurchase was charged to capital reserve as at 31 December 2018.

## 31 CAPITAL, RESERVES AND DIVIDENDS (continued)

### (d) 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(x).

#### (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.

## 31 CAPITAL, RESERVES AND DIVIDENDS (continued)

### (e) 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 adjusted net debt-to-capital ratios at 31 December 2018 and 31 December 2017 were as follows:

| | | At 31 December | |
|---|---|---|---|
| | Note | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
| Loans and borrowings | 24 | **20,954,873** | 16,802,083 |
| Obligations under finance leases | 25 | **91,273** | 120,578 |
| Bonds payable | 27 | **903,062** | 901,463 |
| Bills payable | 26 | **3,440,016** | 3,997,869 |
| Total borrowings | | **25,389,224** | 21,821,993 |
| Add: Proposed dividends | 31(b) | **294,489** | 281,271 |
| Less: Pledged bank deposits | 22 | **(2,139,017)** | (3,686,098) |
| Time deposits | | **(788,515)** | (837,000) |
| Cash and cash equivalents | 23 | **(2,911,395)** | (2,716,220) |
| Adjusted net debt | | **19,844,786** | 14,863,946 |
| Total equity | | **12,325,446** | 10,353,632 |
| Less: Proposed dividends | 31(b) | **(294,489)** | (281,271) |
| Adjusted total equity | | **12,030,957** | 10,072,361 |
| Adjusted net debt-to-capital ratio | | **1.65** | 1.48 |

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

## 32 BUSINESS COMBINATION

On 23 December 2017, the Group entered into an agreement on strategic operation management cooperation scheme ("SOMCS") with independent third parties, which was effective from 1 January 2018 (the "acquisition day") for 10 years. The Group has obtained the right to engage in the 4S business of 10 BMW/Mini brands stores (the "Target Companies") during the 10 years' period. Such SOMCS constitutes a business combination in accordance with HKFRS 3 "Business Combinations".

Under the SOMCS, the Group bears a fixed annual payment amount of RMB71,000,000 for such arrangement during the 10 years period. The Group paid RMB490,000,000 as cooperation guarantee amount which would be returned upon the termination of the SOMCS. In addition, the Group leases the existing business premise from the original lessor during the 10 years as operating lease.

The total consideration for the business combination constitutes the present value of the fixed annual payment and the potential foregone interest income arising from the cooperation guarantee amount, which was approximately RMB697,315,000 as at the acquisition day.

As at 31 December 2018, the long-term receivables for the present value of the cooperation guarantee amounts and the long-term payables for the present value of the fixed annual payment were approximately RMB191,879,000 and RMB299,302,000 respectively.

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

| | Carrying amounts RMB'000 | Fair value adjustments RMB'000 | Recognised values on acquisition RMB'000 |
|---|---|---|---|
| Property, plant and equipment | 28,612 | – | 28,612 |
| Intangible assets | – | 881,468 | 881,468 |
| Deferred tax liabilities | – | (220,367) | (220,367) |
| Net identified assets and liabilities | 28,612 | 661,101 | 689,713 |
| Percentage attributable to the Group | | | 100% |
| Net identified assets and liabilities attributable to the Group | | | 689,713 |
| Goodwill | | | 7,602 |
| Total consideration | | | 697,315 |
| Analysis of the net cash outflow in respect of the acquisition: | | | |
| Cooperation guarantee amounts paid | | | 490,000 |
| Cash consideration paid | | | 71,000 |
| Net cash outflow in acquisition | | | 561,000 |

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisition. The values of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values.

The revenue and profit that those subsidiaries under the SOMCS contributed to the Group during the year ended 31 December 2018 are RMB1,847,401,000 and RMB78,926,000 respectively.

## 33 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 minimize 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 recognizing 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 |

## 33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

### (a) Credit risk (continued)

#### Receivables from financial services (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 2018 Provision ratio(%) | At 31 December 2018 RMB'000 |
|---|---|---|
| **Gross balance are assessed for 12-month ECL** | | |
| – Neither overdue nor credit-impaired | | 8,206,813 |
| Allowances for impairment losses | 1.03% | (84,593) |
| Net balance | | 8,122,220 |
| **Gross balance are not credit-impaired and assessed for lifetime ECL** | | |
| – Overdue but not credit-impaired | | 88,754 |
| – Neither overdue nor credit-impaired | | 15,172 |
| Sub-total | | 103,926 |
| Allowances for impairment losses | 29.52% | (30,681) |
| Net balance | | 73,245 |
| **Gross balance are credit-impaired and assessed for lifetime ECL** | | |
| – Overdue and credit-impaired | | 31,287 |
| Allowances for impairment losses | 86.44% | (27,046) |
| Net balance | | 4,241 |
| Book value | | 8,199,706 |

#### Trade and bills receivables

Credit risk in respect of trade and bills receivables is limited since credit sales to individuals are offered in rare cases subject to management's approval. Trade receivables balances mainly represent mortgage loan granted by major financial institutions to customers of the Group, which is normally settled within one month directly by major financial institutions to the Group. Normally, the Group does not obtain collateral from customers.

At the end of the reporting period, 17% (2017: 18%) and 7% (2017: 5%) 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 2018.

# 33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

## (a) Credit risk (continued)

### 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 2018.

### Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 2(k)(i)(a) – policy applicable prior to 1 January 2018).

### Receivables from financial services

An allowance for receivables from financial services is made when there is an identified loss event which, based on previous experience and management's assessment of the current economic environment and the financial condition of counterparties, is evidence of a reduction in the recoverability of the cash flows.

### Trade and bills receivables

The ageing analysis of trade receivables that were not considered to be impaired was disclosed in note 18.

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were considered fully recoverable.

### Prepayments, deposits and bills receivables

Receivables that were neither past due nor impaired mainly related to reputable automobile manufacturers for whom there was no recent history of default.

Receivables that were past due but not impaired mainly related to automobile manufacturers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were considered fully recoverable.

# 33 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 are the contractual maturities of the Group's financial liabilities at 31 December 2018, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay.

| | At 31 December 2018 | | | | | At 31 December 2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | 15,570,528 | 6,373,610 | - | 21,944,138 | 20,954,873 | 13,623,126 | 3,912,775 | - | 17,535,901 | 16,802,083 |
| Obligations under finance leases | 94,021 | - | - | 94,021 | 91,273 | 90,193 | 37,054 | - | 127,247 | 120,578 |
| Bonds payable | 66,190 | 1,087,038 | - | 1,153,228 | 903,062 | 66,190 | 1,153,228 | - | 1,219,418 | 901,463 |
| Trade and other payables | 6,726,648 | - | - | 6,726,648 | 6,726,648 | 6,338,004 | - | - | 6,338,004 | 6,338,004 |
| Long-term payable | - | 284,000 | 284,000 | 568,000 | 299,302 | - | - | - | - | - |
| | 22,457,387 | 7,744,648 | 284,000 | 30,486,035 | 28,975,158 | 20,117,513 | 5,103,057 | - | 25,220,570 | 24,162,128 |

# 33 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, and interest-bearing borrowings 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 2.50% per annum as at 31 December 2018 (2017: 0.01% to 2.15%). 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 0.30% to 1.62% per annum as at 31 December 2018 (2017: 0.30% to 1.54%).

The Group's interest-bearing borrowings and interest rates as at 31 December 2018 are as follows:

| | | At 31 December | |
|---|---|---|---|
| | Interest Rate | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
| Fixed rate borrowings | 4.35%~9.5% | **12,080,380** | 11,231,492 |
| Variable rate borrowings | 3.61%~8.35% | **9,868,828** | 6,592,632 |
| | | **21,949,208** | 17,824,124 |

### (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 2018, with all other variables held constant, would decrease/increase the Group's profit after tax and retained earnings by approximately RMB74,016,207 (2017: RMB49,444,743).

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 2017.

## 33 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.

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | 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 |
| Prepayment, deposits and other receivables | 457 | – | 7,018 | – | – | 743 |
| Cash and cash equivalents | 173,178 | 226 | 32,272 | 110,123 | 224 | 330,140 |
| Loans and borrowings | (8,177,160) | – | (488,920) | (3,999,179) | – | (1,053,234) |
| Net exposure | (8,003,525) | 226 | (449,630) | (3,889,056) | 224 | (722,351) |

#### (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.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | 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% | (400,348) | 5% | (194,453) |
| | (5)% | 400,348 | (5)% | 194,453 |
| Euro | 5% | 11 | 5% | 11 |
| | (5)% | (11) | (5)% | (11) |
| Hong Kong Dollars | 5% | (22,501) | 5% | (36,118) |
| | (5)% | 22,501 | (5)% | 36,118 |

## 33 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 2017.

### (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 at 31 December RMB'000** | **Fair value measurement as at 31 December 2018 categorised into Level 1 RMB'000** | **Level 2 RMB'000** | **Level 3 RMB'000** | Fair value at 31 December RMB'000 | Fair value measurement as at 31 December 2017 categorised into 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)) | **(7,593)** | **-** | **(7,593)** | **-** | (134,353) | - | (134,353) | - |
| Investment portfolio (note (ii)) | **385,000** | **-** | **-** | **385,000** | - | - | - | - |

Notes:

(i) Valuation techniques and inputs used in Level 2 fair value measurements

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.

# 33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

## (e) Fair value measurement (continued)

### (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 2018**

| | Valuation techniques | Significant unobservable inputs | Range | Sensitivity of fair value to the input |
|---|---|---|---|---|
| Investment portfolio | Discounted cash flow method | Interest return rate | 5.00% to 6.00% | 0.50% increase/(decrease) in interest return rate would result in increase/(decrease) in fair value by RMB890,000. |

During the period, there was no transfer between instruments in Level 1 and Level 2. The movements during the period in the balance of these Level 3 fair value measurements was as follows:

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| **Investment portfolio:** | | |
| At beginning of the year | **–** | – |
| Payment for purchases | **415,000** | – |
| Redemption of investment | **(30,000)** | – |
| At ending of the year | **385,000** | – |

From 1 January 2018, any gain or loss arising from the remeasurement of the investment portfolio are presented in the "Other income" line item in the consolidated statement of profit or loss and other comprehensive income.

## 34 COMMITMENTS

### (a) Capital commitments

Capital commitments of the Group in respect of property, plant, equipment and SOMCS (see note 32) outstanding at 31 December 2018 not provided for in the consolidated financial statements were as follows:

| | At 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Contracted for | **966,057** | 1,030,235 |

### (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** | 2017 |
| | **RMB'000** | RMB'000 |
| Within 1 year | **316,771** | 495,566 |
| After 1 year but within 5 years | **1,006,678** | 987,004 |
| After 5 years | **828,928** | 878,794 |
| | **2,152,377** | 2,361,364 |

The Group leases a number of warehouses, lands and office premises under operating leases. The leases typically run for an initial period between 1 and 20 years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

## 35 CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities.

## 36 MATERIAL RELATED PARTY TRANSACTIONS

| Name of party | Relationship |
|---|---|
| Wang Muqing and Wang Muqing's family member<br>王木清及王木清家屬 | Controlling Shareholder |
| Beijing Guangze Real Estate Development Co., Ltd. ("Beijing Guangze")<br>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")<br>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 Baoze Technology")<br>北京寶澤汽車科技發展有限公司 | Controlled by Beijing Guangze |
| Inner Mongolia Shengze Dingjie Automobile Trading Co., Ltd. ("Inner Mongolia Shengze Dingjie")<br>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")<br>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 Jieyun")<br>武漢聖澤捷運貿易有限公司 | Controlled by Beijing Guangze |
| Wuhan Shengze Jiezhong Logistics Co., Ltd. ("Wuhan Jiezhong")<br>武漢聖澤捷眾物流有限公司 | Controlled by Beijing Guangze |
| Wuhan Jiangrong Investment Co., Ltd. ("Wuhan Investment")<br>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.

## 36 MATERIAL RELATED PARTY TRANSACTIONS (continued)

### (a) Recurring transactions

| | For the year ended 31 December | |
|---|---|---|
| | **2018** **RMB'000** | 2017 RMB'000 |
| **Property development related services:** | | |
| Receipt and payment on behalf of the Group: | | |
| Beijing Guangze | **667,441** | – |
| Management services: | | |
| Beijing Guangze | **28,366** | – |
| | **695,807** | – |
| **Rental and property management expense:** | | |
| Hubei Xike | **5,594** | 5,594 |
| Beijing Baoze Technology | **32,174** | 32,174 |
| Inner Mongolia Shengze Dingjie | **23,140** | 23,124 |
| Changsha Shengze | **2,488** | 2,488 |
| Wuhan Jieyun | **14,174** | 14,174 |
| Wuhan Jiezhong | **2,544** | 2,544 |
| Wuhan Investment | **16,346** | 14,864 |
| | **96,460** | 94,962 |

The company's directors are of the opinion that the above related party transactions were conducted on terms no less favourable to the Group than terms available to or from independent third parties and in the ordinary course of business.

### (b) Balances with related parties

| | For the year ended 31 December | |
|---|---|---|
| | **2018** **RMB'000** | 2017 RMB'000 |
| Due to related parties: | | |
| Beijing Baoze Technology | **2,678** | 913 |
| Inner Mongolia Shengze Dingjie | **14,852** | 10,711 |
| Beijing Guangze | **8,510** | – |
| | **26,040** | 11,624 |

### (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.

## 37 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

| | At 31 December | |
|---|---|---|
| | **2018** | 2017 |
| **Non–current assets** | | |
| Property, plant and equipment | **5,722** | 966 |
| Interest in subsidiaries | **10,932,465** | 7,940,536 |
| Other financial assets | **25,045** | – |
| | **10,963,232** | 7,941,502 |
| **Current assets** | | |
| Trade and other receivables | **11,308** | 10,680 |
| Cash and cash equivalents | **73,577** | 434,496 |
| | **84,885** | 445,176 |
| **Current liabilities** | | |
| Loans and borrowings | **487,520** | 1,131,892 |
| Trade and other payables | **37,251** | 4,684 |
| | **524,771** | 1,136,576 |
| **Net current liabilities** | **(439,886)** | (691,400) |
| **Total assets less current liabilities** | **10,523,346** | 7,250,102 |
| **Non-current liabilities** | | |
| Loans and borrowings | **7,275,483** | 3,845,235 |
| Other financial liabilities | **25,343** | 134,353 |
| | **7,300,826** | 3,979,588 |
| **NET ASSETS** | **3,222,520** | 3,270,514 |
| **Equity** | | |
| Share capital | **209,320** | 193,425 |
| Reserves | **3,013,200** | 3,077,089 |
| **TOTAL EQUITY** | **3,222,520** | 3,270,514 |

## 38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| HKFRS 16, *Leases* | 1 January 2019 |
| HK(IFRIC) 23, *Uncertainty over income tax treatments* | 1 January 2019 |
| Annual Improvements to HKFRSs 2015-2017 Cycle | 1 January 2019 |
| Amendments to HKAS 28, *Long-term interest in associates and joint ventures* | 1 January 2019 |

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

## 38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### HKFRS 16, Leases

As disclosed in note 2(j), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 34(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB2,152,377,000. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to RMB1,639,681,000 and RMB1,413,065,000 respectively, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

## 39 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.

### (b) Loss allowance for receivables from financial services

The Group recognises a loss allowance for receivables from financial services by assessing the ECLs (Note 33(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.

## 39 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### (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.

## 40 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

### (a) Final dividend

Subsequent to 31 December 2018, the directors proposed a final dividend. Further details are disclosed in note 31(b).

### (b) Cancellation of treasury shares

Treasury shares of 1,922,000 repurchased in November 2018 (see note 31(c)(ii)) were cancelled in January 2019.

## 41 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the company as at 31 December 2018 to be Joy Capital Holdings Limited, which was incorporated in the British Virgin Islands.

## 42 COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2(c).

# 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

### Independent Non-executive Directors

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

## REGISTERED OFFICE

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## HEADQUARTERS

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99 Queen's Road Central
Hong Kong

## WEBSITE ADDRESS

www.zhengtongauto.com

## COMPANY SECRETARY

Ms. Yeung Wing Yee

## AUTHORIZED REPRESENTATIVES

Mr. Shao Yong Jun
Mr. Li Zhubo

## 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 Wubei 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
Certified Public Accountants

## HONG KONG LEGAL COUNSEL

Chiu & Partners

正通

CHINA ZHENGTONG
AUTO SERVICES HOLDINGS LIMITED
中國正通汽車服務控股有限公司

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