



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

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

Stock Code 股份代號 : 1293

2020

Annual Report 年報

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. LU Wei (*Chairman*) (appointed on 28 August 2020)

Mr. WANG Xinming (*President*)

Mr. LU Ao

Ms. XU Xing

Mr. LI Jianping (resigned on 28 August 2020)

Mr. QI Junjie (resigned on 1 May 2020)

Independent Non-executive Directors

Mr. DIAO Jianshen

Ms. LIU Yangfang

Mr. CHAN Wan Tsun Adrian Alan

AUDIT COMMITTEE

Mr. DIAO Jianshen (*Chairman*)

Ms. LIU Yangfang

Mr. CHAN Wan Tsun Adrian Alan

REMUNERATION COMMITTEE

Mr. DIAO Jianshen (*Chairman*)

Mr. LU Wei (appointed on 28 August 2020)

Ms. LIU Yangfang

Mr. LI Jianping (resigned on 28 August 2020)

NOMINATION COMMITTEE

Ms. LIU Yangfang (*Chairman*)

Mr. LU Wei (appointed on 28 August 2020)

Mr. DIAO Jianshen

Mr. LI Jianping (resigned on 28 August 2020)

JOINT COMPANY SECRETARIES

Ms. XU Xing

Ms. WONG Pui Yin Peony (appointed on 1 May 2020)

Ms. CHENG Mei Chun (resigned on 1 May 2020)

AUTHORISED REPRESENTATIVES

Mr. LU Wei (appointed on 28 August 2020)

Ms. XU Xing

Mr. LI Jianping (resigned on 28 August 2020)

STOCK CODE

1293

WEBSITE

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REGISTERED OFFICE

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Grand Cayman KY1-1104,
Cayman Islands

PRINCIPAL SHARE REGISTRAR

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

HONG KONG BRANCH SHARE REGISTRAR

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

LEGAL ADVISER TO HONG KONG LAW

JINGTIAN & GONGCHENG LLP
Suite 3203-3207, 32/F,
Edinburgh Tower, The Landmark, 15 Queen's Road Central,
Central, Hong Kong

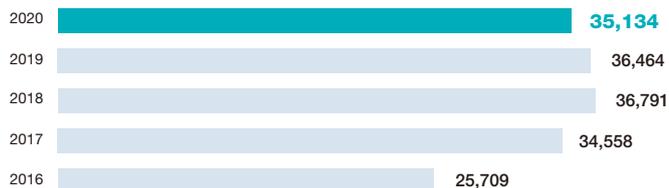
AUDITORS

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower,
1 Tim Mei Avenue, Central, Hong Kong

FINANCIAL HIGHLIGHTS

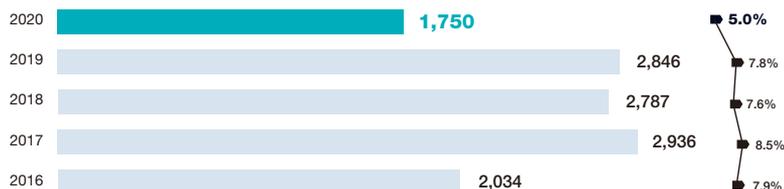
REVENUE

(in RMB million)



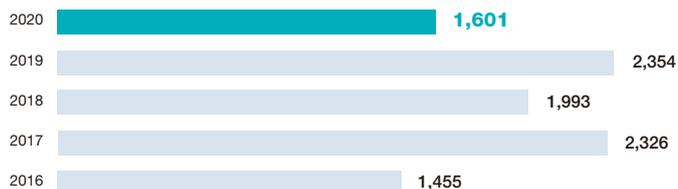
GROSS PROFIT AND GROSS PROFIT MARGIN

(in RMB million)



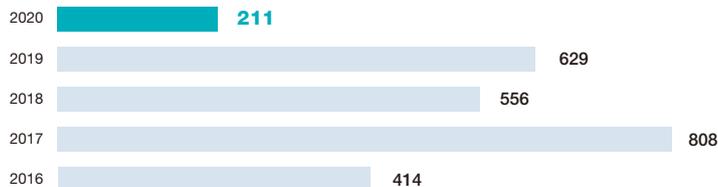
EBITDA

(in RMB million)



PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

(in RMB million)



CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

On behalf of the board (the "**Board**") of directors (the "**Directors**") and the management of Grand Baoxin Auto Group Limited (the "**Company**" or "**our Company**"), I am pleased to present the annual report of the Company and its subsidiaries (collectively, the "**Group**", "**our Group**", "**we**" or "**us**") for the twelve months ended 31 December 2020 (the "**Reporting Period**").

In 2020, the global pandemic continued to spread, and the International Monetary Fund has anticipated that the global economy will shrink by 4.4%. However, as China has been policy-oriented, its economy was able to rise in time of adversity after the pandemic was under control. According to the 2020 macroeconomic data released by the National Bureau of Statistics, China's gross domestic product for the year amounted to RMB101,600 billion, representing an increase of 2.3% as compared with the previous year calculated based on comparable prices. China achieved an aggregate economic output exceeding RMB100 trillion for the first time, and such have clearly demonstrated the superiority of China's policy system and exhibited the strong resilience of China's economy. Economic indicators on consumption, investment and industry suggested steady improvements.

CHAIRMAN'S STATEMENT

In the first half of 2020, as the automobile industry in China was affected by the COVID-19 pandemic, production and sales volume of automobiles continued to decline, and sales volume of passenger vehicles decreased at a greater extent than the decrease in the overall automobile market. But as the pandemic was under control in the second half of the year, the automobile industry resumed quickly and sales volume recorded a strong rebound, with only a slight decrease throughout the year. According to the statistics of China Association of Automobile Manufacturers, throughout 2020, there were 25,230,000 units and 25,310,000 units of automobile produced and sold in China respectively, representing a year-on-year decrease of 2.0% and 1.9% respectively, and rate of decrease narrowed down by 5.5 percentage points and 6.3 percentage points respectively compared to the previous year. However, benefiting from consumption upgrade and strong demand elasticity of luxury brands, the luxury car market has maintained rapid growth since April 2020. According to the statistics of China Passenger Car Association (CPCA, 中國乘用車市場信息聯席會), in December 2020, retail sales of luxury cars had a year-on-year growth of 26%, with growth rate far exceeding the overall market, and the growth brought by such structural adjustment is expected to continue. Meanwhile, the sales volume of new energy vehicle had a year-on-year growth of 10.9% for 2020, reaching 1,367,000 units, and among which, battery electric vehicles (純電動汽車) accounted for 81.6%. New automobiles and traditional brands have introduced the latest new energy vehicles, which has greatly improved the quality and applicability of new energy vehicles, and further supplemented and expanded the overall market share of luxury cars.

In 2020, while sustaining the overall stable growth in sales performance of new automobiles, the Group focused on the Company's full-scale coordination and development, as well as adhered to the operating strategy of coordinating the development of both "sales-led" approach and "service-led" approach. While optimizing its profit structure, the Group also enhanced service quality for users, increased customer loyalty, and explored new businesses to attract potential consumers. During the Reporting Period, the Group recorded the total revenue and gross profit of RMB35,134 million and RMB1,750.1 million respectively, the Group's profit attributable to owners of the parent was RMB211.4 million, and earnings per share were RMB0.07.

Looking forward to 2021, driven by the dual factors of strong demand for consumption upgrade and the policy of boosting consumption in the future, the consumption market for luxury passenger vehicles in China will maintain steady growth, and the share of luxury automobile market will be further expanded. The Group will also continue focusing on sales service business of traditional luxury car brands and its derivative business, continue optimizing brand structure, integrate resources to develop brand advantages, increase concentration of quality brands, adapt to the new development pattern of "dual circulation economy", and concentrate on creating dual properties of "quality + service". Through methods such as refined management and constant optimization of business structure, the Group will continue to improve the profitability of its existing network, revitalize its existing assets, as well as optimize brand structure and network distribution, in order to strengthen its business results and increase its core competitiveness.

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

Yours sincerely,

LU Wei

Chairman

Hong Kong, 26 March 2021



MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

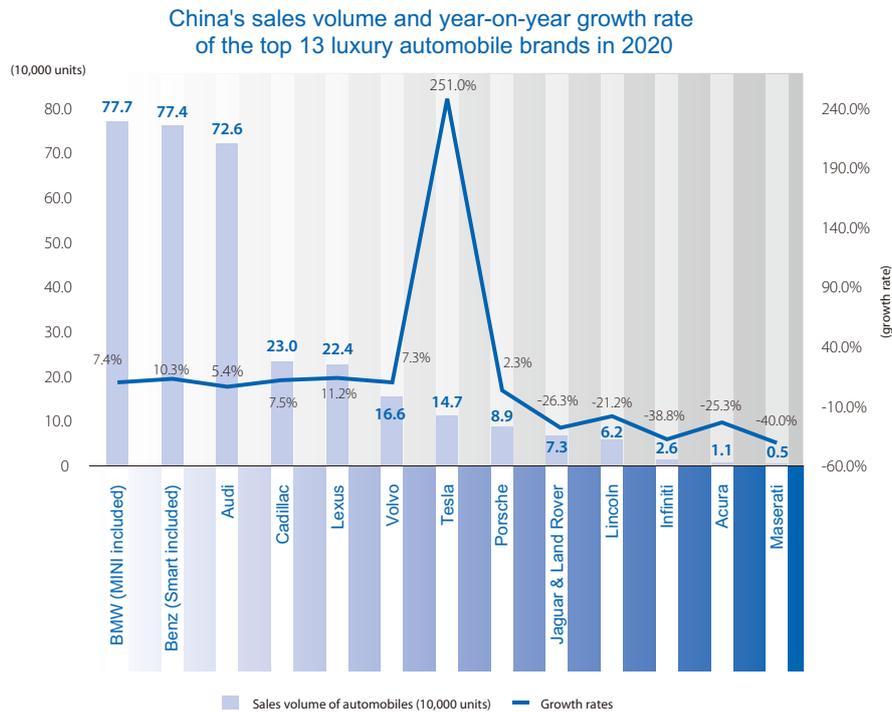
Industry review

In retrospect, China confronted a volatile and complex domestic and international environment in 2020, yet nevertheless, China's economy exhibited strong resilience. In particular, under the impact of the COVID-19 pandemic, various industries once suspended work and production and the economy contracted by 6.8% in one single quarter, but under stringent pandemic prevention and control measures implemented by the government, China withstood an unprecedented and tough challenge and achieved an aggregate economic output exceeding RMB100 trillion in 2020. Moreover, China won a crucial victory in alleviating poverty as well as making steady progress in economic restructuring and significant improvement in people's livelihood, thus further unlocking the consumption potential in the market.

China's automobile market is like a roller coaster ride in 2020. Due to the widespread impact of the pandemic outbreak, all regions across the country entered into a "stay-at-home" mode (宅模式) at the beginning of the year, offline consumption scenarios stagnated, and all automobile enterprises suspended work and production, which caused an unprecedented impact on the automobile market. According to the data analysis, during the pandemic outbreak in February, the sales volume of passenger vehicles in China was only 197,000 units, representing a year-on-year decrease of up to 77.6%, which was a record low, and a year-on-year decrease of 24.5% in June. However, the automobile market has bounced back since July, with sales volume exceeding 1,578,000 units, representing a year-on-year growth of 15.7%, and growth rate returned to positive for the first time since the beginning of the COVID-19 pandemic. Since then, the growth rate was above double digits for six consecutive months, and market recovery trend were strong. At the end of the year, according to the statistics of the China Association of Automobile Manufacturers, the production and sales volume of passenger vehicles in China were 19,994,000 units and 20,178,000 units respectively, and the production and sales volume decreased by 6.4% and 5.9% respectively compared to the corresponding period of last year. The recovery in automobile market has exceeded our expectation.

In 2020, although the sales volume of passenger vehicles in China continued to drop, the luxury brands in the market still managed to rise against the tides, and this was also the third year that sales in luxury car soared against the market. According to the statistics of the China Automobile Dealers Association, in 2020, the sales volume of the luxury car retail market in China was 3,236,000 units, representing a year-on-year growth of 6.5%, which accounted for 16.2% of the overall sales volume of passenger vehicles. The sales volume of the three first-tier luxury brands – BMW, Benz and Audi (BBA) was relatively stable and maintained at an increase of over 5%, which became the core momentum for the growth of luxury car market. Among which, BMW (MINI included) led the luxury car market with an annual sales volume of 777,000 units, representing a year-on-year growth of 7.4%. The annual sales volume of Benz (V grade included) was 774,000 units, representing a year-on-year growth of 10.3% when compared to 2019, and the annual sales volume of Audi had a year-on-year growth of 5.4%. Among the second-tier luxury brands, Cadillac ranked fourth in terms of sales volume of luxury cars with 230,000 units, representing an increase of 7.5%. Performance of other brands, such as Jaguar & Land Rover and Infiniti, were flat, which further intensified the segmentation in the luxury car market.

In addition, the new energy vehicle industry has risen to the level of national development strategy and has become an irreversible development direction. In the year 2020, China and its local governments have successively launched various policies to encourage the development of new energy vehicles, which has laid a solid foundation and provided substantial support to the development of the new energy vehicle industry in the next 15 years. It is expected that the policy support will continue to play an integral role within the next 5 years. According to the statistics of "CAAM", in 2020, the production and sales volume of new energy vehicles in China were 1,366,000 units and 1,367,000 units respectively, representing a year-on-year increase of 7.5% and 10.9% respectively. It was worth noting that the emergence of Tesla's new energy vehicles shook the market with extremely aggressive price strategy and had a year-on-year growth of 251% in annual sales volume. The sales volume further rose with the launch of Tesla's Model Y which were manufactured in China.



(Note: The top 13 luxury automobile brands are: BMW, Benz, Audi, Cadillac, Lexus, Volvo, Tesla, Porsche, Jaguar & Land Rover, Lincoln, Infiniti, Acura, Maserati)

BUSINESS OVERVIEW

During the Reporting Period, the Company emphasized automobile sales just as much as service quality in its policy concern. Along with sustaining the overall stable growth in sales performance of new automobiles, the Company also focused on its business transformation and upgrade, as well as coordinating the development of both “sales-led” approach and “service-led” approach. Such approach has given impetus to the Company to optimize its profit structure, as well as to improve on after-sale services quality and expand the service scope of derivative business. Ultimately, the Company can deliver the best services most agreeable to the needs of customers, so as to mitigate the impact of industry volatility on the Company, and to safeguard the healthy, steady and sustainable growth of the Company in the long run.

As of 31 December 2020, our revenue amounted to approximately RMB35,134.3 million, a decrease of 3.6%, year-on-year; gross profit amounted to RMB1,750.1 million, a decrease of 38.5%; profit attributable to equity holders amounted to RMB211.4 million, a decrease of 66.4%, and earnings per share recorded RMB0.07.

MANAGEMENT DISCUSSION AND ANALYSIS

New automobile sales

In the full year of 2020, affected by the everchanging business environment, the Group adopted more prudent operational strategies and slowed down the pace of bulk purchasing in order to diminish inventory pressure. As of 31 December 2020, the Group sold a total of 101,511 units of new automobiles, representing a year-on-year decrease of 8.6%, and the Group achieved a new automobile sales revenue of RMB30,829.2 million, representing a year-on-year decrease of 2.7%, in which the sales revenue of luxury and ultra-luxury cars was RMB28,078.6 million, representing a year-on-year decrease of 0.9%, which accounted for 91.1% of new automobile sales revenue. In the full year of 2020, the overall gross profit margin of new automobiles of the Group was 1.2%.

During the Reporting Period, due to the impact of the spread of COVID-19 pandemic, the Group's sales volume of new automobiles was evidently impacted in the first quarter. The customer traffic and the sales volume of new automobiles from various dealing stores dropped considerably, while other areas such as the number of admissions from after-sales services and our derivative business were being indirectly affected as well. With the COVID-19 pandemic gradually being under control in the second quarter, the market has steadily recovered, and the Group's production and operation also resumed to normal level and gradually reduced the losses arising from the impact of the pandemic at the early phase. Moreover, during the Reporting Period, the Group has made strategic adjustments targeting on certain operating stores which had low operational efficiency and/or were loss-making for a long time, with higher operating costs and not in line with its long-term strategies, whereby indirectly affected the Group's sales volume of new automobiles.

After-sales services

During the Reporting Period, the revenue of after-sales services was RMB4,270.0 million, representing a year-on-year decrease of 9.8%, accounting for 12.2% of the total revenue of the Group. The gross profit of after-sales services was RMB1,364.5 million, representing a year-on-year decrease of 34.3%, and the gross profit margin of after-sales services was 32.0%.

In 2020, as the decrease in the Company's sales volume of new automobiles has led to a decrease in the business volume of car decoration, the Group's performance in after-sales services was therefore affected. During the Reporting Period, the Group continued to strengthen its cost control while increasing its income sources and reducing expenditure, and leveraged the advantages of its business scale to centralize procurement and allocation of parts and components in various regions. While ensuring the quality of its services and products, the Group further controlled its procurement costs in order to minimize the adverse impact of the COVID-19 pandemic.

Derivative business

During the Reporting Period, the Group promptly adjusted its operating strategies according to the changes in market environment, so as to deal with the impact of pandemic on the derivative business. Meanwhile, the Group further improved the customer solicitation system, expanded internal customer maintenance and development of external after-sales customers, and actively launched sales activities for various products that helped to increase customer loyalty, and these enabled the derivative business to achieve stable growth. As of 31 December 2020, the Group recorded a revenue of RMB1,048.5 million from automobile derivative business, representing a year-on-year increase of 40.7%.

- Automobile finance business

During the Reporting Period, the Group recorded an income of financial services business of RMB249.8 million, which was basically the same when compared with the same period in 2019. Meanwhile, the penetration rate of automobile finance in the new automobile business increased from 60.0% in 2019 to 65.4% during the Reporting Period.

During the Reporting Period, the Group adhered to the development concept of stable operations by steadily promoting the strategic adjustment of finance business, integrating existing resources and promoting the replacement and repurchase of financial customers to maintain the stability of the Company's financial service business.

- Secondhand automobile business

During the Reporting Period, the penetration rate of the Group's secondhand automobile business was 32.0%.

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

- Insurance business

During the Reporting Period, the commission income of the Group's insurance business was RMB694.3 million, representing an increase of 91.5% as compared to that of RMB362.5 million in 2019.

During the Reporting Period, the Company constantly improved the management system and operating model of its insurance business. Supplemented by the "specialized and refined" services, the Company increased the market share (penetration rate) of its extended warranty business. Meanwhile, the Company vigorously launched the innovative insurance service products (non-automobile insurance, Hassle-free Double Insurances), thus ensuring the increase of both the penetration rate and quality of insurance renewal. In addition, responding to the comprehensive insurance reforms and the different rules being implemented in various regions, the Company adopted certain targeted professional response measures in order to ensure the continuous expansion of the Company's premium scale.

MANAGEMENT DISCUSSION AND ANALYSIS

Network layout

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

During the Reporting Period, the Group implemented its strategic policy that emphasized on internal adjustment based on the changes in the business environment, adopted a cautious attitude towards network expansion, focused on the improvement on management optimization and operational efficiency of existing stores, enhanced the concentration on high-quality brands and eliminated weaker brands, so as to achieve the objectives of cost reduction and optimization. During the Reporting Period, the Group sold and/or adjusted 5 stores that had weaker profitability. Meanwhile, the Group also rebuilt and improved its existing stores, and managed to reduce capital expenditure of the Company while further raised the efficiency of capital usage, thus allowing itself to have a steady transition throughout the current industry adjustment period.

As of 31 December 2020, the Group operated a total of 111 stores and owned a diversified car brand portfolio comprising 10 luxury and ultra-luxury automobile brands (namely BMW (including MINI), Audi, Jaguar & Land Rover, Volvo, Cadillac, Infiniti, Alfa Romeo, Porsche, Rolls Royce and Maserati).

FUTURE OUTLOOK AND STRATEGIES

Year 2021 is the first year of China's "14th Five-Year Plan". At such special period of time, being a core pillar industry of China's economic development, the automobile industry will certainly be in a year of innovation and reform. In order to adapt to the new development pattern of "dual circulation economy", the major theme of the automobile industry will be achieved accordingly on the basis of main principles of "Focus on strategy; Enhance quality; Expand demand", setting the development philosophy of "Support the competent and eliminate the weak; Focus on internal strengths", and striving to promote its three modernizations "electrification, computerization and networking" in the industry upgrading process.

The Group will continue to position itself as a dealer and service provider of luxury brand automobiles, concentrate on creating "quality + services" properties, keep abreast with the trends, and undertake the mission of "leading industry management and service standards; promoting industry reforms". While strengthening and improving existing luxury brands, it will also revitalize its existing assets, optimize brand structure and network distribution. Moreover, while continuing the marketing and services of traditional luxury brand new energy vehicle models, the Company will also seize the opportunity to rearrange the new energy service industry chain, actively explore a new service model, so as to adapt to the new development trend of future automobile industry.

In the future, the Group will rely on its core competitiveness including industry status, resources and advantages to organically combine technology application with automobile service industry, as well as leverage the establishment of "digitalization" and "digital intelligence" platforms, so as to strengthen the effective relationship between customers and their automobiles. The Group will focus on being customer experience-oriented, and with the use of core customers data storage, acquire in-depth data based on all-round marketing perspectives such as car models, users, interests, grades and advertisements. By integrating information technology such as big data and artificial intelligence, the Group will create a more customized interactive new marketing model, with the aim to build a connection among car manufacturers, dealers and end-users, thereby forming an internet ecosystem in the automobile industry.

Facing the challenges and opportunities brought by the transformation and upgrading of China's automobile market, the Group will continue to adhere to the management philosophy of "people-oriented, customers first" and enhance in-depth cooperation with the upstream and downstream industry chain. Through constantly optimizing the refined management system, increasing operational management efficiency, consolidating core brand advantages, and fully promoting digital transformation both internally and externally, while being market-oriented with the goal of providing high-quality services and a focus on achieving the Group's healthy, sustainable and stable long-term development, the Group strives to become a luxury car dealer and service provider in China with efficient operation management and long-term sustainable development.

FINANCIAL REVIEW

Revenue

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

| Revenue source | Year ended 31 December | | 2019 | |
|---------------------------------|------------------------------|---|----------------------|---|
| | 2020 Revenue (RMB'000) | Contribution to total revenue (%) | Revenue (RMB'000) | Contribution to total revenue (%) |
| Automobile sales | 30,829,162 | 87.7 | 31,687,726 | 86.9 |
| Luxury and ultra-luxury brands | 28,078,632 | 79.9 | 28,341,202 | 77.7 |
| Mid-to-upper market brands | 2,750,530 | 7.8 | 3,346,524 | 9.2 |
| After-sales business | 4,269,980 | 12.2 | 4,732,762 | 13.0 |
| Luxury and ultra-luxury brands | 3,983,160 | 11.3 | 4,356,197 | 12.0 |
| Mid-to-upper market brands | 286,820 | 0.9 | 376,565 | 1.0 |
| Finance leasing services | 35,199 | 0.1 | 43,390 | 0.1 |
| Total revenue | 35,134,341 | 100 | 36,463,878 | 100 |

Revenue from the sales of automobiles decreased by 2.7% as compared to the year ended 31 December 2019 due to the fact that the overall performance of the new automobile sales market was under pressure while being affected by the volatility of the pandemic and the external macro-environment. At the same time, sales among the luxury car brands, Jaguar & Land Rover and Maserati had underperformed in China during the Reporting Period.

Automobile sales generated a substantial portion of our revenue, accounting for 87.7% of our total revenue for the year ended 31 December 2020. Revenue generated from the sales of luxury and ultra-luxury brands and our mid-to-upper market brands accounted for approximately 79.9% (2019: 77.7%) and 7.8% (2019: 9.2%), respectively, of our total revenue.

Revenue from the after-sales business decreased by 9.8% from RMB4,732.8 million for the year ended 31 December 2019 to RMB4,270.0 million for the same period in 2020. Such decrease was mainly due to the impact of the pandemic which affected the Group's revenue from after-sales business during the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of sales and services

For the year ended 31 December 2020, our cost of sales and services decreased by 0.7%, from RMB33,618.0 million for the same period in 2019 to RMB33,384.3 million.

The cost of sales and services attributable to our automobile sales business amounted to RMB30,472.4 million for the year ended 31 December 2020, representing a decrease of RMB490.2 million, or 1.6%, from the same period in 2019. The cost of sales attributable to our after-sales business amounted to RMB2,905.5 million for the year ended 31 December 2020, representing an increase of RMB251.2 million, or 9.5% from the same period in 2019.

Gross profit and gross profit margin

Gross profit for the year ended 31 December 2020 was RMB1,750.1 million, representing a decrease of RMB1,095.8 million or 38.5% from the same period in 2019 which was primarily due to the drop in revenue. Gross profit from automobile sales decreased by 50.8% from RMB725.2 million for the year ended 31 December 2019 to RMB356.8 million for the same period in 2020. Gross profit from after-sales business decreased by 34.3% from RMB2,078.4 million for the year ended 31 December 2019 to RMB1,364.5 million for the same period in 2020. Automobile sales and after-sales business contributed to 20.4% (2019: 25.5%) and 78.0% (2019: 73.0%), respectively, to the total gross profit for the year ended 31 December 2020.

Gross profit margin for the year ended 31 December 2020 was 5.0% (2019: 7.8%), of which the gross profit margin of automobile sales was 1.2% (2019: 2.3%) and of after-sales business was 32.0% (2019: 43.9%).

Other income and gains, net

Other income and net gains increased by 24.5% from RMB869.6 million for the same period in 2019 to RMB1,082.4 million for the year ended 31 December 2020, mainly due to the increase in commission income and government grants during the Reporting Period.

Selling and distribution costs and administrative expenses

For the year ended 31 December 2020, our selling and distribution costs decreased by 8.4% to RMB1,108.7 million from RMB1,210.6 million for the same period in 2019. Our administrative expenses decreased by 7.6% from RMB727.1 million for the same period in 2019 to RMB671.8 million, which was primarily due to the Group's adoption of a more stringent policy on reducing cost and increasing efficiency, which in turn further controlled expenditures and raised the efficiency of capital usage during the Reporting Period.

Profit from operations

As a result of the foregoing, our profit from operations for the year ended 31 December 2020 decreased by 40.8% to RMB1,052.0 million from RMB1,777.8 million for the same period in 2019.

Finance costs

Finance costs decreased by 21.4% from RMB822.2 million for the year ended 31 December 2019 to RMB646.3 million for the same period in 2020.

Profit for the year

As a result of the cumulative effect of the foregoing, our profit for the year ended 31 December 2020 decreased by 67.8% to RMB200.7 million from RMB622.8 million for the same period in 2019.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

As at 31 December 2020, our cash and bank balances amounted to RMB1,945.6 million, representing an increase of 17.0% from RMB1,663.1 million as at 31 December 2019. Such increase was primarily due to the decreased use of cash payments and the increased use of note payments by the Group to repay certain debts to our suppliers during the Reporting Period.

Our primary uses of cash were to purchase new automobiles, spare parts and automobile accessories, to establish new dealership stores and to fund our working capital and normal operating costs. We financed our liquidity requirements through a combination of short-term bank loans and other borrowings and cash flows generated from our operating activities. Going forward, we believe that our liquidity requirements will be satisfied by using a combination of bank loans and other borrowings, cash flow generated from our operating activities and other funds raised from the capital markets from time to time.

Net current assets

As at 31 December 2020, we had net current assets of RMB5,121.4 million, representing an increase of RMB2,873.3 million from RMB2,248.1 million as at 31 December 2019.

Capital expenditure

Our capital expenditures primarily comprised of expenditures on property, plant and equipment, land use rights and intangible assets. During the year ended 31 December 2020, our total capital expenditures amounted to RMB479.4 million (2019: RMB673.2 million).

Inventories

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

Our inventories increased by 12.3% from RMB3,503.6 million as at 31 December 2019 to RMB3,934.6 million as at 31 December 2020.

Our average inventory turnover days for the year ended 31 December 2020 decreased to 40.1 days from 41.5 days in 2019. This was primarily due to the fact that we put more efforts on the analysis and forecast of the supply and demand plan for sales of new automobiles as well as enhanced quota management of the costs on inventory during the Reporting Period, which in turn increased the efficiency of inventory turnover, ensured the continuous optimization of our inventory structure to meet market demands, and also controlled financial costs.

MANAGEMENT DISCUSSION AND ANALYSIS

Trade Receivables

Trade receivables decreased from RMB613.5 million for the year ended 31 December 2019 to RMB406.7 million for the year ended 31 December 2020, primarily due to the decrease of trade receivables of new automobiles and insurance commission.

Interest-bearing bank and other borrowings

As at 31 December 2020, the Group's available and unutilised banking facilities amounted to approximately RMB8,474.7 million (31 December 2019: RMB7,189.5 million).

Our interest-bearing bank and other borrowings as at 31 December 2020 were RMB6,049.2 million, representing a decrease of RMB3,578.9 million from RMB9,628.1 million as at 31 December 2019. The decrease was mainly due to the repayment of a number of bank loans by the Group during the Reporting Period.

Interest rate risk and foreign exchange rate risk

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

Substantially all of our revenue, costs and expenses are denominated in Renminbi. We also use Renminbi as our reporting currency. We believe our operations currently are not subject to any significant and direct foreign exchange risk. We do not currently use any derivative financial instruments to hedge our exposure to foreign exchange risk.

Gearing ratio

The Group monitors capital by using a gearing ratio, which is net debt divided by the equity attributable to owners of the parent plus net debt. Net debt includes bank loans and other borrowings, trade and bills payables, other payables and accruals, non current amounts due to related parties less cash and bank balances. Our gearing ratio for the year ended 31 December 2020 was 66.7% (2019: 67.5%).

Human resources

As at 31 December 2020, the Group had 6,953 employees (31 December 2019: 7,210). Total staff costs for the year ended 31 December 2020, excluding Directors' remuneration were approximately RMB958.2 million (2019: RMB1,089.1 million).

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

Contingent liabilities

As at 31 December 2020, the Group had no significant contingent liabilities (31 December 2019: Nil).

Pledge of the Group's assets

Our Group had pledged our group assets, shares in certain subsidiaries and letters of credit as securities against bank loans and other borrowings and bills payable which were used to finance daily business operation and acquisition. As at 31 December 2020, the pledged group assets amounted to approximately RMB6,779.2 million (31 December 2019: RMB6,263.7 million).

SIGNIFICANT ACQUISITION, DISPOSAL OR INVESTMENT

Acquisitions

The Group did not have any significant acquisitions of subsidiaries and affiliated companies during the year ended 31 December 2020.

Disposals

The Group did not have any significant disposals of subsidiaries and affiliated companies during the year ended 31 December 2020.

INVESTMENT

The Group did not have any significant investment during the year ended 31 December 2020.

Event after the Reporting Period

As at the date of this report, there is no significant event occurred after 31 December 2020 which is required to be disclosed by the Company.

Important events after 31 December 2020

In response to the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been implemented across China. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving good corporate governance standards.

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

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

In the opinion of the Directors, throughout the year ended 31 December 2020, the Company has complied with all of the code provisions as set out in the CG Code, save and except for provision A.2.1.

Under the code provision A.2.1, the division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Mr. Li Jianping, being the former chairman and executive Director of the Company, was responsible for the operation and management of the Board. Following the resignation of Mr. Li Jianping as the chairman and executive Director of the Company on 28 August 2020, Mr. Lu Wei was appointed as the chairman and executive Director of the Company on the same date. No chief executive officer has been appointed by the Company. The day-to-day management of the Group is delegated to other executive Directors and the management of the Company. The Board is of the view that the current management structure can effectively facilitate the Group’s operation and business development.

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made to all the Directors who have confirmed that they have complied with the Model Code throughout the year ended 31 December 2020.

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

BOARD OF DIRECTORS

Role of the Board

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

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

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

Composition

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

The Board

Executive Directors

Mr. Lu Wei (*Chairman*)
 Mr. Wang Xinming (*President*)
 Mr. Lu Ao
 Ms. Xu Xing

Independent non-executive Directors

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

The biographical details of the Directors are set out on pages 33 to 35 of this annual report. In addition, a list of the names of the Directors and their role and function is published on the websites of the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

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

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

CORPORATE GOVERNANCE REPORT

Insurance Coverage

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

Chairman and Chief Executive Officer

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

Following the resignation of Mr. Li Jianping as the chairman and executive Director of the Company on 20 August 2020, the position of Chairman has been held by Mr. Lu Wei, while Mr. Wang Xinming, an executive Director, acted as the President of the Company. The role and responsibilities of the chief executive officer are delegated to other executive Directors and management of the Company. The Board is of the view that the current management structure can effectively facilitate the Company's operation and business development.

Independent Non-executive Directors

During the year ended 31 December 2020, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board, with one of whom possesses appropriate professional qualification, accounting or related financial management expertise.

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

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

Appointment and Re-election of Directors

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

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

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

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

In accordance with articles 16.18 and 16.2 of the Company's articles of association and code provision A.4.3 of the CG Code, Mr. Lu Wei, Mr. Wang Xinming, Mr. Lu Ao, Ms Xu Xing, Mr. Diao Jianshen and Mr. Chan Wan Tsun Adrian Alan shall retire at the Annual General Meeting of the Company to be held on 11 June 2021 (the "2021 AGM"). All of the above retiring Directors, being eligible, will offer themselves for re-election at the 2021 AGM.

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

Board Committees

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

The Board committees are provided with sufficient resources to discharge their duties and are able to seek independent professional advice where appropriate and upon request. Details of these Board committees, including their compositions, major responsibilities and functions, and work performed during the year ended 31 December 2020 are set out below.

Audit Committee

The Audit Committee consists of the following members during the year ended 31 December 2020:

Independent non-executive Directors

Mr. Diao Jianshen (*Chairman*)

Ms. Liu Yangfang

Mr. Chan Wan Tsun Adrian Alan

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

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2020, the Audit Committee met twice to:

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

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

Remuneration Committee

The Remuneration Committee consists of the following members during the year ended 31 December 2020:

Independent non-executive Directors

Mr. Diao Jianshen (*Chairman*)

Ms. Liu Yangfang

Executive Director

Mr. Lu Wei

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

During the year ended 31 December 2020, the Remuneration Committee met twice to:

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

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

Nomination Committee

The Nomination Committee consists of the following members during the year ended 31 December 2020:

Independent non-executive Directors

Ms. Liu Yangfang (*Chairman*)

Mr. Diao Jianshen

Executive Director

Mr. Lu Wei

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

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

During the year ended 31 December 2020, the Nomination Committee met twice to:

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

CORPORATE GOVERNANCE REPORT

Board Meetings

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

During the year ended 31 December 2020, the Board has held six board meetings to review financial and operating performance of the Company and to discuss future strategies. The Directors participated in the Board meetings in person or through electronic means.

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

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

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

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

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

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

Attendance Record of Directors and Committee Members

The attendance record of each Director at the Board and Board Committee meetings and the general meeting of the Company held during the year ended 31 December 2020 is set out in the table below:

| Name of Directors | Board | Audit Committee | Remuneration Committee | Nomination Committee | General Meeting |
|--|-------|-----------------|------------------------|----------------------|-----------------|
| <i>Executive Directors</i> | | | | | |
| Mr. Lu Wei (Note 1) | 2/2 | N/A | 1/1 | 1/1 | N/A |
| Mr. Wang Xinming | 6/6 | N/A | N/A | N/A | 1/1 |
| Mr. Lu Ao | 6/6 | N/A | N/A | N/A | 1/1 |
| Ms. Xu Xing | 6/6 | N/A | N/A | N/A | 1/1 |
| Mr. Li Jianping (Note 2) | 4/4 | N/A | 1/1 | 1/1 | 1/1 |
| Mr. Qi Junjie (Note 3) | 3/3 | N/A | N/A | N/A | N/A |
| <i>Independent non-executive Directors</i> | | | | | |
| Mr. Diao Jianshen | 6/6 | 2/2 | 2/2 | 2/2 | 1/1 |
| Ms. Liu Yangfang | 6/6 | 2/2 | 2/2 | 2/2 | 1/1 |
| Mr. Chan Wan Tsun Adrian Alan | 6/6 | 2/2 | N/A | N/A | 1/1 |

Notes:

1. Mr. Lu Wei was appointed as an executive Director and a member of each of the Nomination Committee and Remuneration Committee with effect from 28 August 2020. Two board meetings, one remuneration committee meeting and one nomination committee meeting were held after his appointment.
2. Mr. Li Jianping resigned as an executive Director and a member of each of the Nomination Committee and Remuneration Committee with effect from 28 August 2020. Four board meetings one remuneration committee meeting, one nomination committee meeting and one general meeting were held prior to his resignation.
3. Mr. Qi Junjie resigned as an executive Director on 1 May 2020. Three board meetings were held prior to his resignation.

Apart from regular Board meetings, the Chairman of the Board also held a meeting with the independent non-executive Directors without the presence of executive Directors during the year ended 31 December 2020.

Continuous Professional Development of Directors

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

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

CORPORATE GOVERNANCE REPORT

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

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

During the year ended 31 December 2020, all Directors have been required to provide the Company with a record of the training they received on a half-year basis, and such records have been maintained by the Company.

A summary of the Directors' participation in internal and other external training for the year ended 31 December 2020 is as follows:

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

BOARD DIVERSITY POLICY

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

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

BOARD NOMINATION POLICY

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group for the year ended 31 December 2020.

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

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

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report on pages 48 to 52 of this annual report.

AUDITORS' REMUNERATION

The remuneration paid to the Group's external auditors, Ernst & Young for the year ended 31 December 2020 is set out below:

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

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

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

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

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

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

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

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

Based on the results of evaluations and representations made by the management and the internal auditor during the year ended 31 December 2020, the Board, as supported by the Audit Committee, is satisfied that (i) there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business objectives; (ii) that appropriate systems of risk management and internal control have been in place during the year ended 31 December 2020 and up to the date of approval of this annual report; and (iii) that the Company's risk management and internal control systems are effective and adequate.

CORPORATE GOVERNANCE REPORT

JOINT COMPANY SECRETARIES

Ms. Xu Xing (“**Ms. Xu**”) and Ms. Wong Pui Yiu Peony (“**Ms. Wong**”) are joint company secretaries of the Company.

Ms. Xu, who is the executive Director of the Company, was appointed as a joint company secretary on 20 November 2018. The Company has appointed Ms. Wong of Tricor Services Limited, an external service provider, as the Company’s joint company secretary on 1 May 2020 in replacement of the former joint company secretary, Ms. Cheng Mei Chun (“**Ms. Cheng**”). Ms. Wong’s primary contact person at the Company is Ms. Xu.

Ms. Xu currently does not possess the qualifications of a company secretary as required under Rules 3.28 and 8.17 of the Listing Rules. However, the Company considers that Ms. Xu is capable of discharging the functions of a joint company secretary, and, therefore, the Company has applied for, and the Stock Exchange has granted a waiver (the “**Waiver**”) to the Company from strict compliance with the requirements for the qualifications of a company secretary under Rules 3.28 and 8.17 of the Listing Rules for a period of three years from the date of Ms. Xu’s appointment as the joint company secretary of the Company (the “**Waiver Period**”). The Waiver Period was revoked upon the resignation of Ms. Cheng and the Company has applied for, and the Stock Exchange has granted a waiver to the Company for the remaining period (i.e. up to 19 November 2021) of the Waiver Period (the “**Remaining Period**”) on the condition that: (i) Ms. Xu will be assisted by Ms. Wong during the Remaining Period; (ii) the Company shall notify the Stock Exchange at the end of the Remaining Period for the Stock Exchange to re-visit the situation. The Stock Exchange expects that after the end of the Remaining Period, the Company will be able to demonstrate that Ms. Xu satisfies Rule 3.28 of the Listing Rules, having had the benefit of Ms. Wong’s assistance such that a further waiver will not be necessary; and (iii) the Company will announce details of the Waiver, including its reasons and conditions.

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

Ms. Xu and Ms. Wong have each complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of professional training to update her skills and knowledge for the year ended 31 December 2020.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on the remuneration of senior management of the Group. The goal of developing staff remuneration packages is to enable the Company to motivate the executive Directors and senior management by linking their remuneration to the Company’s operating results, individual performances and comparable market rates. Details of the remuneration of each Director for the year ended 31 December 2020 are set out in note 9 to the financial statements of this annual report.

For the year ended 31 December 2020, the aggregate emolument paid to members of non-director senior management was within the following bands:

| By Band | Number of Individuals |
|---------------------------|--------------------------|
| RMB1,500,001-RMB2,000,000 | 3 |
| RMB2,000,001-RMB2,500,000 | 1 |

SHAREHOLDERS' RIGHTS

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

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

Procedure for Convening an Extraordinary General Meeting by Shareholders

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

Procedure for Putting Forward Proposals at General Meetings

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

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

Procedure for Putting Forward Enquiries to the Board

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

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

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

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

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

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

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

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

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2020, the Company did not make any changes to its articles of association. An up-to-date version of the Company's article of association is available on both the websites of the Stock Exchange and the Company.

DIVIDEND POLICY

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

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Lu Wei (陸偉), aged 56, has been an executive Director, the chairman of the Board and a member of the Remuneration Committee and the Nomination Committee of the Company since 28 August 2020. Mr. Lu is currently serving as the director and vice president of Xinjiang Guanghui Industrial Investment (Group) Company Limited (新疆廣匯實業投資(集團)有限責任公司), and the director of China Grand Automotive Services Group Company Limited (廣匯汽車服務集團股份公司), a company listed on Shanghai Stock Exchange (SSE Stock Code: 600297) (“CGA”). From April 2001 to August 2005, he served as the deputy general manager, general manager and chairman of Xinjiang Yazhong Logistics Business Network Co., Ltd.* (新疆亞中物流商務網絡有限責任公司). From May 2005 to December 2016, he served as the director and general manager of Guanghui Energy Co., Ltd. (廣匯能源股份有限公司), a company listed on Shanghai Stock Exchange (SSE Stock Code: 600256). From August 2005 to October 2012, he served as the chairman of Xinjiang Guanghui Liquefied Natural Gas Development Co., Ltd.* (新疆廣匯液化天然氣發展有限責任公司) and from August 2004 to October 2007, he served as the chairman of Xinjiang Guanghui Chemical Building Materials Company Limited* (新疆廣匯化工建材有限責任公司).

Mr. WANG Xinming (王新明), aged 48, has been an executive Director and the President of the Company since 21 June 2016. Mr. Wang has been a director of CGA since June 2016, and a president of CGA since May 2016. Mr. Wang served as a vice president of CGA from July 2015 to May 2016. From December 2013 to July 2015, Mr. Wang was the assistant to the president of China Grand Automotive Service Co., Ltd. (廣匯汽車服務有限責任公司) (“CGA Limited”) and its predecessor. Mr. Wang served successively as a deputy store manager, vice general manager of operations, executive vice general manager of operations and general manager of Hebei region, general manager of the north China region and general manager of the greater north China region of CGA from November 2008 to November 2013. Mr. Wang served successively as the store manager and general manager for store operations of Shijiazhuang Tianhe Automobile Dealership Co., Ltd. (石家莊天河汽車貿易有限公司) from January 2002 to November 2008. Mr. Wang obtained a bachelor’s degree in administrative management from Hebei University of Economics and Business (河北經貿大學) in July 1994.

Mr. LU Ao (盧翱), aged 48, has been an executive Director of the Company since 21 June 2016. Mr. Lu has been the vice president and chief financial officer of CGA since July 2015 and he has been a director of CGA since September 2020. Mr. Lu served as the chief business development officer, vice president and chief financial officer of CGA Limited and its predecessor from January 2007 until July 2015. Mr. Lu served as a manager of the corporate development department of the Asia Pacific region of Danone from August 2005 to September 2006, and a manager of the corporate investment and M&A strategic consulting department of PricewaterhouseCoopers from January 2004 to August 2005. Mr. Lu obtained a bachelor’s degree in economics from Southwest University of Finance & Economics (西南財經大學) in July 1995, and obtained an MBA degree from Fordham University in the Beijing International MBA program at Peking University in February 2004. Mr. Lu was admitted as a certified public accountant of PRC by Chinese Institute of Certified Public Accountants in August 1998.

* For identification purpose only

DIRECTORS AND SENIOR MANAGEMENT

Ms. XU Xing (許星), aged 43, has been the executive director of the Company since 8 June 2018 and was the non-executive director of the Company from October 2017 to June 2018. She was also appointed as a joint company secretary of the Company on 20 November 2018. Ms. Xu is primarily responsible for the corporate governance and capital market related matters of the Company and therefore has extensive experience in matters concerning the board of directors and the corporate governance of the Company. Ms. Xu was also appointed as the vice president of the Company in May 2017. Ms. Xu is the director and the secretary of the board and vice president of CGA and was the assistant to the president of CGA from October 2016 to June 2018. Prior to joining CGA, Ms. Xu was the executive president of Shanghai Yanhua Smartech Group Co., Ltd (上海延華智能科技(集團)股份有限公司) (“SYSG”), a company listed on Shenzhen Stock Exchange (SHE: 002178) from January 2014 to October 2016. Ms. Xu was also the deputy general manager and secretary of the board of SYSG from December 2009 to August 2014. From November 2007 to May 2009, Ms. Xu was a senior consultant in Han Consulting (China) Ltd. (漢普管理諮詢(中國)有限公司). Ms. Xu has over 10 years of experience in senior management. Ms. Xu obtained a master’s degree from University of Portsmouth, United Kingdom in 2006 and a MBA degree from Shanghai University of Finance and Economics (上海財經大學) in 2007. Ms. Xu also obtained a EMBA from China Europe International Business School (中歐國際工商學院) and the Certificate of Secretary of the Board (董事會秘書資格證書) issued by the Shenzhen Stock Exchange in 2009.

Independent non-executive Directors

Mr. DIAO Jianshen (刁建申), aged 67, is an independent non-executive director of the Company, the chairman of each of the Audit Committee and the Remuneration Committee, and a member of the Nomination Committee of the Company. Mr. Diao has been a vice president of the China Automobile Dealers Association since 2008. He was a director and executive deputy general manager of 華星新世界汽車服務有限公司 (Huaxing New World Auto Service Company Limited) from 2002 to 2008. From 1998 to 2002, he was a general manager of 中國汽車貿易華北公司 (China Automobile Trading (North China) Corporation). He graduated from 中共北京市委黨校 (CPC Beijing Municipal Party School) with a major in economic management in 1988 and from the Chinese Academy of Social Sciences with a major in business economics in 1998. Mr. Diao was appointed as an independent non-executive director of the Company on 22 November 2011.

Ms. LIU Yangfang (劉陽芳), aged 49, is an independent non-executive director, the chairman of the Nomination Committee, and a member of each of the Audit Committee and the Remuneration Committee of the Company. Ms. Liu has been the managing partner of HENG TAI LAW OFFICES (“HENG TAI”) (Previously name as C & S Law Firm) since January 2016. She was the partner of HENG TAI from December 2008 to December 2015 and the practicing lawyer of HENG TAI from July 2000 to November 2008. Ms. Liu has over 15 years of professional legal service experience in corporate law. Ms. Liu obtained a bachelor’s degree of law majoring in International Economic Law of Fudan University in July 2000 and a master’s degree (LLM) from Chicago-Kent College of Law of Illinois Institute of Technology in the United States of America in May 2010, respectively. Ms. Liu was appointed as an independent non-executive director of the Company on 8 June 2018.

Mr. CHAN Wan Tsun Adrian Alan (陳弘俊), aged 42, is an independent non-executive director and a member of the Audit Committee of the Company. Mr. Chan has been the chief financial officer of Sun Ray Capital Investment Corporation since July 2015. He has been the chief financial officer of LabyRx Immunologic Therapeutics Limited since July 2018 and has been the chief financial officer of Lifepans Limited since August 2018. Since 21 October 2019, Mr. Chan has been appointed as an independent non-executive director of Best Linking Group Holdings Limited (stock code: 8617), the shares of which are listed on the GEM of the Stock Exchange. Mr. Chan has also been appointed as an independent non-executive director of Cheerwin Group Limited (stock code: 6601) since 19 February 2021 and he was also the chief financial officer of Enviro Energy International Holdings Limited (stock code: 1102) from 2009 to June 2015, two companies whose shares are listed on the Main Board of the Stock Exchange. He has over 15 years of experience in corporate finance. He was an associate director of UOB Asia (Hong Kong) Limited from 2005 to 2009, mainly responsible

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

SENIOR MANAGEMENT

Our senior management team are as follows:

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

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

JOINT COMPANY SECRETARIES

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

Ms. Wong Pui Yin Peony (黃佩彥), has been appointed as a joint company secretary of the Company since 1 May 2020. Ms. Wong is a senior manager of Corporate Services of Tricor Services Limited. Ms. Wong is currently the company secretary of SinoMab BioScience Limited (stock code: 3681), Channel Micron Holdings Company Limited (stock code: 2115) and Sino Gas Holdings Group Limited (stock code: 1759), the shares of which are listed on the Stock Exchange.

Ms. Wong is a member of the Hong Kong Institute of Certified Public Accountants and a member of the CPA Australia. She holds a Bachelor of Commerce (Accounting and Finance) and a Master of Business Administration from the University of New South Wales.

REPORT OF THE DIRECTORS

The Directors are pleased to present this annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

The business review of the Group as at 31 December 2020 is set out in the section headed "Management Discussion and Analysis" from pages 8 to 17 of this annual report.

RESULTS

The Group's results for the year ended 31 December 2020 are set out in the consolidated statement of comprehensive income on page 54 of this annual report.

FINANCIAL STATEMENTS

The profits of the Group for the year ended 31 December 2020 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 53 to 161 of this annual report.

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2020 and for the last five financial years are set out on page 162 of this annual report.

RESERVES

As at 31 December 2020, distributable reserves of the Company amounted to RMB2,383.2 million (2019: RMB2,380.3 million). Details of movements in reserves of the Company during the year are set out in note 46 to the financial statements.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2020.

ANNUAL GENERAL MEETING

The 2021 AGM will be held on 11 June 2021. Notice of the 2021 AGM will be published and issued to shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders of the Company who are eligible to attend and vote at the 2021 AGM, the register of members of the Company will be closed from Tuesday, 8 June 2021 to Friday, 11 June 2021, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the 2021 AGM, all duly stamped share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Monday, 7 June 2021.

PROPERTY AND EQUIPMENT

Details of movements in property and equipment during the year ended 31 December 2020 are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year are set out in note 34 to the financial statements.

Except as disclosed in this annual report, during the year ended 31 December 2020, the Company had no material investment held, had not carried out any material acquisition or disposal of subsidiaries, associates and joint ventures, and had no definite plan for material investment or acquisition of capital assets.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

Save as disclosed otherwise below, each of the transactions carried out with CGA, the controlling shareholder of the Company, or CGA's subsidiary, which was set out in note 43 to the financial statements, constitutes connected transactions under Chapter 14A of the Listing Rules but are exempt from the relevant reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules.

REPORT OF THE DIRECTORS

2018 Sale and Leaseback Framework Agreement

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

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

Baoxin Property Leasing Framework Agreement

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

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

CGA Property Leasing Framework Agreement

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

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

Save as disclosed above, all related-party transactions set out in note 43 to the financial statements did not constitute connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Confirmation by auditor

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

Confirmation by independent non-executive Directors

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

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

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

During the year ended 31 December 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

REPORT OF THE DIRECTORS

COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended 31 December 2020, as far as the Directors are aware, the Group has complied with all relevant laws and regulations that have significant impact on the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”) POLICY

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

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

DIRECTORS

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

Executive Directors

Mr. LU Wei (*Chairman*) (appointed on 28 August 2020)

Mr. WANG Xinming (*President*)

Mr. LU Ao

Ms. XU Xing

Mr. LI Jianping (resigned on 28 August 2020)

Mr. QI Junjie (resigned on 1 May 2020)

Independent Non-Executive Directors

Mr. DIAO Jianshen

Ms. LIU Yangfang

Mr. CHAN Wan Tsun Adrian Alan

Pursuant to articles 16.18 and 16.2 of the Company's articles of association and code provision A.4.3 of the CG Code, Mr. Lu Wei, Mr. Wang Xinming, Mr. Lu Ao, Ms. Xu Xing, Mr. Diao Jianshen and Mr. Chan Wan Tsun Adrian Alan will retire at the 2021 AGM. All the above Directors, being eligible, will offer themselves for re-election at the 2021 AGM.

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

DIRECTORS' INTERESTS IN CONTRACTS

Other than the connected transactions set out in this annual report, no transaction, arrangement or contract of significance to which the Company or its subsidiaries was a party, and in which a Director or an entity connected with a Director had a direct or indirect material interest, subsisted at the end of the year or at any time during the year ended 31 December 2020.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or substantial part of the business of the Company were entered into or existed during the year ended 31 December 2020.

PERMITTED INDEMNITY PROVISION

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

EQUITY-LINKED ARRANGEMENTS

Apart from the Share Option Scheme (as defined below) of the Company set forth in note 35 to the financial statements, the Company did not enter into any equity-linked agreement during the year ended 31 December 2020, nor was there any subsisting equity-linked agreement entered into by the Company at the end of the reporting year.

SHARE OPTION SCHEME

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

During the year ended 31 December 2020, no share option has been granted by the Company pursuant to the share option scheme adopted by the Company on 14 December 2011 (the "**Share Option Scheme**"). A summary of the terms of the Share Option Scheme is set out in appendix VI to the Company's prospectus dated 2 December 2011 and Note 35 to the financial statements.

REPORT OF THE DIRECTORS

Movements of option shares under the Share Option Scheme during the year ended 31 December 2020 were as follows:

| | Date of grant | Exercise price per share | Exercise period | | Vesting period (Notes) | Outstanding as at 01/01/2020 | Number of shares options | | | | Outstanding as at 31/12/2020 |
|--------------------------------|---------------|--------------------------|-----------------|------------|------------------------|------------------------------|-------------------------------------|---------------------------------------|---------------------------------------|------------------------------------|------------------------------|
| | | | | | | | Granted during the Reporting Period | Exercised during the Reporting Period | Cancelled during the Reporting Period | Lapsed during the Reporting Period | |
| (i) Directors | | | | | | | | | | | |
| WANG Xinming | 28/03/2018 | 3.256 (iv) | 28/03/2018 | 27/03/2028 | (i) (ii) (iii) | 3,600,000 | - | - | - | - | 3,600,000 |
| LU Ao | 28/03/2018 | 3.256 (iv) | 28/03/2018 | 27/03/2028 | (i) (ii) (iii) | 1,800,000 | - | - | - | - | 1,800,000 |
| XU Xing | 28/03/2018 | 3.256 (iv) | 28/03/2018 | 27/03/2028 | (i) (ii) (iii) | 1,800,000 | - | - | - | - | 1,800,000 |
| LI Jianping (v) | 28/03/2018 | 3.256 (iv) | 28/03/2018 | 27/03/2028 | (i) (ii) (iii) | 3,600,000 | - | - | 3,600,000 | - | - |
| QI Junjie (vi) | 28/03/2018 | 3.256 (iv) | 28/03/2018 | 27/03/2028 | (i) (ii) (iii) | 1,800,000 | - | - | 1,800,000 | - | - |
| (ii) Eligible employees | | | | | | | | | | | |
| | 28/03/2018 | 3.256 (iv) | 28/03/2018 | 27/03/2028 | (i) (ii) (iii) | 55,120,000 | - | - | 5,170,000 | - | 49,950,000 |
| Total: | | | | | | 67,720,000 | - | - | 10,570,000 | - | 57,150,000 |

Notes:

- (i) 30% of the share options will be vested on, and exercisable from, the first anniversary of the date of grant;
- (ii) a further 30% of the share options will be vested on, and exercisable from, the second anniversary of the date of grant;
- (iii) a further 40% of the share options will be vested on, and exercisable from, the third anniversary of the date of grant;
- (iv) The closing price of the shares of the Company immediately before the date of grant (i.e. as at 27 March 2018) was HK\$3.27.
- (v) Mr. Li Jianping resigned as an executive Director with effect from 28 August 2020. For the details, please refer to the announcement of the Company dated 28 August 2020.
- (vi) Mr. Qi Junjie resigned as an executive Director with effect from 1 May 2020. For the details, please refer to the announcement of the Company dated 1 May 2020.

Details of Share Option Scheme and the share options issued under the Share Option Scheme are included in note 35 to the financial statements.

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

As at 31 December 2020, the interests and short positions of the Directors or chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

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

Notes:

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

Save as disclosed above, as at 31 December 2020, none of the Directors, chief executives and their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Apart from the Share Option Scheme, during the year ended 31 December 2020, the Company and any of its subsidiaries were not a party to any arrangements whose objects are, or one of whose objects is, to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. Save for those disclosed above, during the year 31 December 2020, none of the Directors (including their respective spouses and children under the age of 18) had any interests in or was granted any right to subscribe for the securities of the Company or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

RETIREMENT BENEFIT SCHEME

Details of the retirement benefits plans of our Group are set out in note 32 to the financial statements.

REPORT OF THE DIRECTORS

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 2020, the interests or short positions of substantial shareholders, other than the Directors or the chief executives of the Company whose interests or short positions in the shares and underlying shares of the Company and of its associated corporations (within the meaning of Part XV of the SFO) as set out above, who had 5% or more interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be maintained by the Company under section 336 of the SFO were as follows:

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

(L) — long position;

* For identification purpose only

Notes:

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

Save as disclosed above, the Company has not been notified of any other interests or short positions in the shares or underlying shares representing 5% or more of the issued share capital of the Company as at 31 December 2020.

MAJOR CUSTOMERS AND SUPPLIERS

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

The aggregate purchase attributable to the Group's five largest suppliers accounted for approximately 77.9% (2019: 78.8%) and the largest supplier accounted for approximately 42.2% (2019: 41.2%) of the Group's total purchases for the year ended 31 December 2020.

At no time during the year ended 31 December 2020 have the Directors, their close associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

TAX RELIEF FOR HOLDERS OF LISTED SECURITIES

As at 31 December 2020, holders of listed securities of the Company were not entitled to obtain any relief from taxation by reason of their holding of such securities pursuant to the laws of the Cayman Islands.

REPORT OF THE DIRECTORS

RELATIONSHIP WITH STAKEHOLDERS

The Company recognises that our employees, customers and business associates are key to our sustainability development. We strive to achieve corporate sustainability through engaging our employees, providing quality services for our customers, collaborating with business partners and supporting the community and social welfare.

The Company places significant emphasis on human capital. The Company provides a fair workplace, promoting non-discrimination and diversity to our staff, together with competitive remuneration and benefits, as well as a range of opportunities for career advancement based on employees' merits and performance. Furthermore, we have established and will continue to promote our KPI-driven corporate culture with a clear career and promotion system to motivate our employees. Our employees are provided with rotation opportunities both cross-stores and cross-functions to develop their skills and their own career path with us.

We promote a customer-oriented culture within the Company. The Company values the feedback from customers by daily communication and other means. The Company has also established the mechanism about customer service and support. The Company treats providing customer support as an opportunity to improve our relationship with the customer, addressing customer's concern in a timely manner and in accordance with international standards.

We have strong and established working relationships with leading global automakers and their PRC joint venture corporations. We believe that our suppliers are equally important in our development into a first-class automobile dealer enterprise. Therefore, we proactively collaborate with our business partners to deliver quality sustainable services.

With the goal of developing into a preeminent international enterprise and a trustworthy public company, the Company actively fulfill its social responsibility. The Group, with high quality products and services, is committed to creating good internal and external corporate relationships, and build a harmonious enterprise to undertake its responsibilities for employees, customers, suppliers and the shareholders.

ASSESSMENT OF PROPERTY INTERESTS OR TANGIBLE ASSETS

During the year ended 31 December 2020, the Company has not valued its property interests or other tangible assets in accordance with Chapter 5 of the Listing Rules.

CONTINUING OBLIGATIONS UNDER CHAPTER 13 OF THE LISTING RULES

In accordance with the requirements under Rule 13.21 of the Listing Rules, the Directors report below details of loan facilities, which existed during the year ended 31 December 2020 and up to the date of this annual report and included conditions relating to specific performance of the controlling shareholder of the Company:

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

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

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

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

AUDITORS

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

On behalf of the Board

LU Wei
Chairman

Hong Kong, 26 March 2021

INDEPENDENT AUDITOR'S REPORT



Ernst & Young
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1 Tim Mei Avenue
Central, Hong Kong

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香港中環添美道1號
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To the shareholders of Grand Baoxin Auto Group Limited

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

OPINION

We have audited the consolidated financial statements of Grand Baoxin Auto Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 53 to 161, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (continued)

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters

How our audit addressed the key audit matter

Impairment assessment of goodwill

The carrying value of goodwill amounted to RMB1,222,016,000, after provision for impairment of RMB25,051,000 as at 31 December 2020. The Group is required to perform an impairment test for goodwill at least annually. The impairment test was based on the recoverable values of the respective cash-generating units ("CGUs") to which the goodwill were assigned. We focused on this area because management's impairment assessment processes were complex and involved significant judgements, including the degree of subjectivity of expected future cash flow forecasts, associated growth rates and the discount rates applied.

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

Vendor rebates

The Group recognised volume-related vendor rebates on an accrual basis based on the terms of the suppliers' contracts. As at 31 December 2020, the rebates receivable included in the consolidated statement of financial position amounted to approximately RMB7,342,944,000. We focused on this area because the balance of rebates receivable was significant and the process of calculation of the accrual was complex.

Specific disclosures about vendor rebates are included in note 2.4 "Summary of significant accounting policies" and note 24 "Prepayments, other receivables and other assets" to the financial statements.

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

We obtained an understanding of and tested management's key internal controls in relation to the recognition of vendor rebates. We checked the rebate policies adopted against the terms of the relevant supplier contracts and checked the calculation of the rebates receivables based on the rebate policies. We also checked the subsequent settlement of the rebates against the accrued balances.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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 Lai Chee Kong.

Ernst & Young

Certified Public Accountants

Hong Kong

26 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|--|-------|---------------------|-----------------|
| REVENUE | 5(a) | 35,134,341 | 36,463,878 |
| Cost of sales and services provided | 6(b) | (33,384,256) | (33,617,970) |
| Gross profit | | 1,750,085 | 2,845,908 |
| Other income and gains, net | 5(b) | 1,082,446 | 869,641 |
| Selling and distribution expenses | | (1,108,724) | (1,210,639) |
| Administrative expenses | | (671,809) | (727,135) |
| Profit from operations | | 1,051,998 | 1,777,775 |
| Finance costs | 7 | (646,330) | (822,183) |
| Share of profits and losses of: | | | |
| Joint ventures | 20 | 265 | 1,988 |
| Associates | 21 | 50 | 59,229 |
| Profit before tax | 6 | 405,983 | 1,016,809 |
| Income tax expense | 8 | (205,301) | (394,052) |
| Profit for the year | | 200,682 | 622,757 |
| Incl: Net loss of the parties being absorbed before business combination involving the entities under common control in 2019 | | - | (7,301) |
| Attributable to: | | | |
| Owners of the parent | | 211,418 | 629,202 |
| Non-controlling interests | | (10,736) | (6,445) |
| | | 200,682 | 622,757 |
| Earnings per share attributable to ordinary equity holders of the parent | 12 | | |
| Basic and diluted | | | |
| – For profit for the year (RMB) | | 0.07 | 0.22 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| PROFIT FOR THE YEAR | 200,682 | 622,757 |
| OTHER COMPREHENSIVE INCOME | | |
| Other comprehensive income that may be reclassified to profit or loss in subsequent periods: | | |
| Cash flow hedges: | | |
| Effective portion of changes in fair value of hedging instruments arising during the year | (31,757) | (29,764) |
| Reclassification adjustments for gains included in the consolidated statement of profit or loss | 24,341 | 2,888 |
| Time value component of fair value hedges | 32 | 54,670 |
| Exchange differences on translation of financial statements | 122,000 | (78,801) |
| Net other comprehensive income that may be reclassified to profit or loss in subsequent periods | 114,616 | (51,007) |
| OTHER COMPREHENSIVE GAIN/(LOSS) FOR THE YEAR, NET OF TAX | 114,616 | (51,007) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | 315,298 | 571,750 |
| Attributable to: | | |
| Owners of the parent | 326,034 | 578,195 |
| Non-controlling interests | (10,736) | (6,445) |
| | 315,298 | 571,750 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

| | Notes | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--|-------|--------------------------------|--------------------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | 3,353,836 | 3,460,341 |
| Investment properties | 14 | 393,353 | 398,144 |
| Right-of-use assets | 15(a) | 1,918,915 | 1,920,323 |
| Goodwill | 19 | 1,222,016 | 1,222,016 |
| Other intangible assets | 16 | 1,406,346 | 1,465,459 |
| Prepayments and deposits | 17 | 56,627 | 91,632 |
| Finance lease receivables | 18 | 60,182 | 110,672 |
| Investments in joint ventures | 20 | 102,248 | 101,983 |
| Investments in associates | 21 | 123,707 | 126,092 |
| Deferred tax assets | 33(a) | 302,349 | 243,694 |
| Total non-current assets | | 8,939,579 | 9,140,356 |
| CURRENT ASSETS | | | |
| Inventories | 22 | 3,934,610 | 3,503,624 |
| Trade receivables | 23 | 406,719 | 613,544 |
| Finance lease receivables | 18 | 182,804 | 208,701 |
| Prepayments, other receivables and other assets | 24 | 9,778,204 | 10,098,416 |
| Amounts due from related parties | 43(c) | 67,339 | 26,474 |
| Derivative financial instruments | 31 | – | 26,127 |
| Pledged deposits | 25 | 3,280,534 | 3,447,803 |
| Cash in transit | 26 | 26,059 | 49,669 |
| Cash and bank balances | 27 | 1,945,627 | 1,663,106 |
| Total current assets | | 19,621,896 | 19,637,464 |
| CURRENT LIABILITIES | | | |
| Interest-bearing bank and other borrowings | 28 | 5,357,650 | 7,688,337 |
| Trade and bills payables | 29 | 6,949,166 | 6,586,920 |
| Other payables and accruals | 30 | 1,327,024 | 1,366,849 |
| Lease liabilities | 15(b) | 168,153 | 226,303 |
| Amounts due to related parties | 43(c) | 57,838 | 888,947 |
| Income tax payable | | 640,621 | 631,963 |
| Total current liabilities | | 14,500,452 | 17,389,319 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

| | Notes | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--|-------|--------------------------------|--------------------------------|
| NET CURRENT ASSETS | | 5,121,444 | 2,248,145 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 14,061,023 | 11,388,501 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank and other borrowings | 28 | 691,527 | 1,939,752 |
| Derivative financial instruments | 31 | 35,973 | 27,342 |
| Other payables | | 9,612 | 13,704 |
| Lease liabilities | 15(b) | 1,210,183 | 1,209,947 |
| Amounts due to related parties | 43(c) | 3,621,875 | – |
| Deferred tax liabilities | 33(b) | 479,679 | 500,577 |
| Total non-current liabilities | | 6,048,849 | 3,691,322 |
| Net assets | | 8,012,174 | 7,697,179 |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | 34 | 23,277 | 23,277 |
| Reserves | 36 | 7,979,892 | 7,646,307 |
| Non-controlling interests | | 8,003,169 | 7,669,584 |
| | | 9,005 | 27,595 |
| Total equity | | 8,012,174 | 7,697,179 |

LU Wei
Director

LU Ao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

| | Share capital | Share premium* | Share option reserve* | Statutory reserve* | Merger reserve* | Other reserve* | Exchange fluctuation reserve* | Retained profits* | Total | Non-controlling interests | Total equity |
|--|---------------|------------------|-----------------------|--------------------|-----------------|-----------------|-------------------------------|-------------------|------------------|---------------------------|------------------|
| | RMB '000 | RMB '000 | RMB '000 | RMB '000 | RMB '000 | RMB '000 | RMB '000 | RMB '000 | RMB '000 | RMB '000 | RMB '000 |
| At 1 January 2019 | 23,275 | 2,372,411 | 76,998 | 708,731 | (6,982) | (11,363) | (555,445) | 4,464,120 | 7,071,745 | 35,040 | 7,106,785 |
| Profit for the year | - | - | - | - | - | - | - | 629,202 | 629,202 | (6,445) | 622,757 |
| Transfer upon a financial instrument becoming an associate | - | - | - | - | - | (18,616) | - | 18,616 | - | - | - |
| Cash flow hedges | - | - | - | - | - | (26,876) | - | - | (26,876) | - | (26,876) |
| Time value component of fair value hedges | - | - | - | - | - | 54,670 | - | - | 54,670 | - | 54,670 |
| Exchange differences related to foreign operations | - | - | - | - | - | - | (78,801) | - | (78,801) | - | (78,801) |
| Total comprehensive income for the year | - | - | - | - | - | 9,178 | (78,801) | 647,818 | 578,195 | (6,445) | 571,750 |
| Business combination under common control | - | - | - | - | (11,550) | - | - | - | (11,550) | - | (11,550) |
| Dividends paid to non-controlling interests | - | - | - | - | - | - | - | - | - | (1,000) | (1,000) |
| Transfer from retained profits | - | - | - | 590,498 | - | - | - | (590,498) | - | - | - |
| Equity-settled share options exercised | 2 | 571 | (274) | - | - | - | - | 274 | 573 | - | 573 |
| Equity-settled share options forfeited | - | - | (7,049) | - | - | - | - | 7,049 | - | - | - |
| Equity-settled share option arrangements | - | - | 30,621 | - | - | - | - | - | 30,621 | - | 30,621 |
| At 31 December 2019 | 23,277 | 2,372,982 | 100,296 | 1,299,229 | (18,532) | (2,185) | (634,246) | 4,528,763 | 7,669,584 | 27,595 | 7,697,179 |
| At 1 January 2020 | 23,277 | 2,372,982 | 100,296 | 1,299,229 | (18,532) | (2,185) | (634,246) | 4,528,763 | 7,669,584 | 27,595 | 7,697,179 |
| Profit for the year | - | - | - | - | - | - | - | 211,418 | 211,418 | (10,736) | 200,682 |
| Cash flow hedges | - | - | - | - | - | (7,416) | - | - | (7,416) | - | (7,416) |
| Time value component of fair value hedges | - | - | - | - | - | 32 | - | - | 32 | - | 32 |
| Exchange differences related to foreign operations | - | - | - | - | - | - | 122,000 | - | 122,000 | - | 122,000 |
| Total comprehensive income for the year | - | - | - | - | - | (7,384) | 122,000 | 211,418 | 326,034 | (10,736) | 315,298 |
| Acquisition of non-controlling interests | - | - | - | - | - | (5,146) | - | - | (5,146) | (7,854) | (13,000) |
| Transfer from retained profits | - | - | - | 963 | - | - | - | (963) | - | - | - |
| Equity-settled share options forfeited | - | - | (2,944) | - | - | - | - | 2,944 | - | - | - |
| Equity-settled share option arrangements | - | - | 12,697 | - | - | - | - | - | 12,697 | - | 12,697 |
| At 31 December 2020 | 23,277 | 2,372,982 | 110,049 | 1,300,192 | (18,532) | (14,715) | (512,246) | 4,742,162 | 8,003,169 | 9,005 | 8,012,174 |

* These reserve accounts comprise the consolidated reserves of RMB7,979,892,000 (2019: RMB7,646,307,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|-------|------------------|-----------------|
| Operating activities | | | |
| Profit before tax | | 405,983 | 1,016,809 |
| Adjustments for: | | | |
| Share of profits of joint ventures | 20(b) | (265) | (1,988) |
| Share of profits of associates | 21 | (50) | (59,229) |
| Depreciation of property, plant and equipment | 6 | 268,631 | 272,105 |
| Depreciation of right-of-use assets | 15(a) | 234,889 | 213,809 |
| Amortisation of other intangible assets | 16 | 61,712 | 61,811 |
| Fair value losses/(gains), net: | | | |
| Intrinsic value of hedging instruments | | 26,159 | 27,176 |
| Non-hedging instruments | 6 | (4,490) | 1,019 |
| Bank interest income | 5 | (16,513) | (33,084) |
| Loss on disposal of items of property, plant and equipment | 5 | 33,204 | 10,373 |
| Gain on disposal of items of other intangible assets | 5 | (998) | (187) |
| Write-down of inventories to net realisable value | 6 | 36,791 | 19,589 |
| Finance costs | 7 | 646,330 | 822,183 |
| Provision for impairment of trade receivables, finance lease receivables, prepayments, other receivables and other assets | 6 | 33,778 | 23,694 |
| Covid-19 related rent concessions from lessors | 15 | (11,963) | – |
| Fair value loss/(gain) of investment properties | 6 | 4,791 | (27,239) |
| Equity-settled share option expense | | 12,697 | 30,621 |
| Gain from revision of a lease term arising from a change in the non-cancellable period of a lease | | (651) | – |
| Loss on disposal of subsidiaries | | 1,387 | – |
| | | 1,731,422 | 2,377,462 |
| Operating activities | | | |
| Decrease in pledged deposits | | 235,269 | 100,104 |
| Decrease/(increase) in cash in transit | | 23,610 | (3,456) |
| Decrease/(increase) in trade receivables | | 199,157 | (57,823) |
| Decrease/(increase) in prepayments, deposits and other receivables | | 307,972 | (1,162,077) |
| (Increase)/decrease in inventories | | (467,777) | 608,855 |
| Decrease in finance lease receivables | | 65,352 | 1,287 |
| (Increase)/decrease in amounts due from related parties – trade-related | | (40,865) | 22,325 |
| Increase/(decrease) in trade and bills payables | | 362,246 | (933,401) |
| (Decrease)/increase in other payables and accruals | | (14,033) | 29,582 |
| Increase/(decrease) in amounts due to related parties – trade-related | | 18,555 | (15,429) |
| Cash generated from operations | | 2,420,908 | 967,429 |
| Income tax paid | | (277,509) | (305,179) |
| Net cash flows generated from operating activities | | 2,143,399 | 662,250 |

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

| Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|--------------------|-----------------|
| Investing activities | | |
| Purchase of items of property, plant and equipment | (476,804) | (637,489) |
| Proceeds from disposal of items of property, plant and equipment | 313,128 | 717,347 |
| Purchase of items of other intangible assets | (2,634) | (2,923) |
| Proceeds from disposal of items of other intangible assets | 1,121 | 399 |
| Acquisition of subsidiaries | (11,380) | (51,053) |
| Disposal of subsidiaries | 8,974 | – |
| Settlement of derivative financial instruments | 4,490 | 24,361 |
| Interest received | 16,338 | 39,359 |
| Dividends received | 6,608 | 693 |
| Business combination under common control | – | (34,370) |
| (Increase)/decrease of term deposits of maturity over three months | (6,120) | 19,819 |
| Net cash flows (used in)/generated from investing activities | (146,279) | 76,143 |
| Financing activities | | |
| Proceeds from bank and other borrowings | 8,941,924 | 18,851,711 |
| Repayment of bank and other borrowings | (12,535,876) | (19,080,992) |
| Increase in pledged deposits for bank and other borrowings | (68,000) | – |
| Borrowings from related parties | 4,174,045 | 1,201,800 |
| Repayment of borrowings from related parties | (1,505,368) | (1,590,819) |
| Interest paid | (445,271) | (639,754) |
| Proceeds from exercise of share options | – | 573 |
| Acquisition of non-controlling interests | (5,200) | – |
| Principal portion of lease payments | (251,082) | (355,611) |
| Dividends paid | – | (1,000) |
| Net cash flows used in financing activities | (1,694,828) | (1,614,092) |
| Net increase/(decrease) in cash and cash equivalents | | |
| Cash and cash equivalents at the beginning of year | 1,663,106 | 2,542,450 |
| Effect of foreign exchange rate changes, net | (25,891) | (3,645) |
| Cash and cash equivalents at the end of year | 1,939,507 | 1,663,106 |
| Analysis of balances of cash and cash equivalents | | |
| Cash and bank balances as stated in the statement of financial position | 1,945,627 | 1,663,106 |
| Short-term deposits with maturity over three months, not restricted as to use | (6,120) | – |
| Cash and cash equivalents as stated in the statement of cash flows | 1,939,507 | 1,663,106 |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION

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

During the year, the Group was principally engaged in the sale and service of motor vehicles. In the opinion of the directors of the Company (the "Directors"), the ultimate holding company of the Company is CGA, the shares of which are listed on the Shanghai Stock Exchange (SSE stock code: 600297).

Information about subsidiaries

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

| Company name | Place of operation/ date of incorporation or registration | Authorised/registered/ paid-in/issued capital | Proportion of ownership interest | | Principal activities |
|--|--|--|-------------------------------------|-------------------------|---------------------------------------|
| | | | Held by the Company | Held by a subsidiary | |
| NCGA Holdings Limited | Hong Kong 2006 | Registered and paid-in capital of US\$117,839,975 | 100% | – | Investment holding |
| 燕駿汽車有限公司 (Yan Jun Auto Co., Limited) | Hong Kong 1993 | Registered and paid-in capital of HK\$59,900,000 | – | 100% | Investment holding |
| 金花企業集團(香港)有限公司 (Gin Wi Enterprises Group (HK) Limited) | Hong Kong 1999 | Registered and paid-in capital of HK\$10,000 | – | 100% | Investment holding |
| 聯鷹集團有限公司 (Eagle Reach Group Co., Ltd.) | Hong Kong 2013 | Registered and paid-in capital of Nil | – | 100% | Investment holding |
| 開隆投資管理有限公司 (Kailong Investments Management Limited) | Hong Kong 2010 | Authorised capital of HK\$10,000, issued capital of HK\$1 and paid-in capital of nil | – | 100% | Investment holding |
| 上海寶信汽車銷售服務有限公司 (Shanghai Baoxin Automobile Sales & Services Co., Ltd.) | Shanghai, the PRC 2004 | Registered and paid-in capital of RMB214,650,000 | – | 100% | Sale and service of motor vehicles |
| 上海開隆汽車貿易有限公司 (Shanghai Kailong Automobile Trading Co., Ltd.) | Shanghai, the PRC 1999 | Registered and paid-in capital of RMB87,000,000 | – | 100% | Sale and service of motor vehicles |
| 蘇州寶信汽車銷售服務有限公司 (Suzhou Baoxin Automobile Sales & Services Co., Ltd.) | Suzhou, the PRC 2004 | Registered and paid-in capital of RMB1,100,000,000 | – | 100% | Sale and service of motor vehicles |

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

| Company name | Place of operation/ date of incorporation or registration | Authorised/registered/ paid-in/issued capital | Proportion of ownership interest | | Principal activities |
|--|--|---|-------------------------------------|-------------------------|---|
| | | | Held by the Company | Held by a subsidiary | |
| 青島信實行汽車銷售服務有限公司 (Qingdao Xinbaohang Automobile Sales & Services Co., Ltd.) | Qingdao, the PRC 2008 | Registered and paid-in capital of RMB138,400,000 | – | 100% | Sale and service of motor vehicles |
| 天津寶信汽車銷售服務有限公司 (Tianjin Baoxin Automobile Sales & Services Co., Ltd.) | Tianjin, the PRC 2008 | Registered and paid-in capital of RMB138,600,000 | – | 100% | Sale and service of motor vehicles |
| 常熟寶信汽車銷售服務有限公司 (Changshu Baoxin Automobile Sales & Services Co., Ltd.) | Changshu, the PRC 2006 | Registered and paid-in capital of RMB90,000,000 | – | 100% | Sale and service of motor vehicles |
| 杭州寶信汽車銷售服務有限公司 (Hangzhou Baoxin Automobile Sales & Services Co., Ltd.) | Hangzhou, the PRC 2008 | Registered and paid-in capital of RMB110,000,000 | – | 100% | Sale and service of motor vehicles |
| 泰州信實行汽車銷售服務有限公司 (Taizhou Xinbaohang Automobile Sales & Services Co., Ltd.) | Taizhou, the PRC 2010 | Registered and paid-in capital of RMB20,000,000 | – | 100% | Sale and service of motor vehicles |
| 蘇州信實行汽車銷售服務有限公司 (Suzhou Xinbaohang Automobile Sales & Services Co., Ltd.) | Suzhou, the PRC 2010 | Registered and paid-in capital of RMB85,000,000 | – | 100% | Sale and service of motor vehicles |
| 北京燕寶汽車服務有限公司 (Beijing Yanbao Auto Services Co., Ltd.) | Beijing, the PRC 1995 | Registered and paid-in capital of RMB89,350,000 | – | 100% | Rendering of car repair and maintenance services |
| 北京燕德寶汽車銷售有限公司 (Beijing Yan De Bao Auto Sales Co., Ltd.) | Beijing, the PRC 2002 | Registered and paid-in capital of RMB320,030,000 | – | 100% | Sale of motor vehicles |
| 烏魯木齊燕寶汽車銷售服務有限公司 (Urumqi Yanbao Auto Sales & Services Co., Ltd.) | Urumqi, the PRC 2005 | Registered and paid-in capital of RMB145,600,000 | – | 100% | Sale and service of motor vehicles |
| 北京燕英捷燕順捷汽車銷售服務有限公司 (Beijing Yanyingjie & Yanshunjie Auto Sales & Services Co., Ltd.) | Beijing, the PRC 1998 | Registered and paid-in capital of RMB115,000,000 | – | 100% | Sale and service of motor vehicles |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

| Company name | Place of operation/ date of incorporation or registration | Authorised/registered/ paid-in/issued capital | Proportion of ownership interest | | Principal activities |
|--|--|---|-------------------------------------|-------------------------|---------------------------------------|
| | | | Held by the Company | Held by a subsidiary | |
| 北京燕豪汽車銷售服務有限公司 (Beijing Yanhao Auto Sales & Services Co., Ltd.) | Beijing, the PRC 2009 | Registered and paid-in capital of RMB169,130,000 | – | 100% | Sale and service of motor vehicles |
| 大連燕德寶汽車銷售有限公司 (Dalian Yandebao Auto Sales Co., Ltd.) | Dalian, the PRC 2002 | Registered and paid-in capital of RMB176,000,000 | – | 100% | Sale and service of motor vehicles |
| 西安金花寶鼎汽車銷售服務有限公司 (Xi'an Ginwi Baoding Auto Services Co., Ltd.) | Xi'an, the PRC 2001 | Registered and paid-in capital of RMB121,000,000 | – | 100% | Sale and service of motor vehicle |
| 北京晨德寶汽車銷售服務有限公司 (Beijing Chendebao Auto Sales and Services Co., Ltd.) | Beijing, the PRC 2003 | Registered and paid-in capital of RMB344,500,000 | – | 100% | Sale and service of motor vehicles |
| 廊坊燕寶汽車銷售服務有限公司 (Langfang Yanbao Auto Sales & Services Co., Ltd.) | Langfang, the PRC 2011 | Registered and paid-in capital of RMB85,000,000 | – | 100% | Sale and service of motor vehicles |
| 四川港宏汽車銷售有限責任公司 (Sichuan Ganghong Auto Sales Co., Ltd.) | Sichuan, the PRC 1996 | Registered and paid-in capital of RMB35,000,000 | – | 100% | Sale and service of motor vehicles |
| 揚州信寶行汽車銷售服務有限公司 (Yangzhou Xinbaohang Automobile Sales & Services Co., Ltd.) | Yangzhou, the PRC 2010 | Registered and paid-in capital of RMB33,000,000 | – | 100% | Sale and service of motor vehicles |
| 蕪湖眾國寶泓汽車銷售服務有限公司 (Wuhu Zhongguo Baohong Automobile Sales & Services Co., Ltd.) | Wuhu, the PRC 2013 | Registered and paid-in capital of RMB55,000,000 | – | 100% | Sale and service of motor vehicles |
| 四川港宏風神汽車銷售有限公司 (Sichuan Ganghong Fengshen Automobile Sales Co., Ltd.) | Sichuan, the PRC 2000 | Registered and paid-in capital of RMB53,000,000 | – | 100% | Sale and service of motor vehicles |
| 四川港宏西物時代汽車銷售有限公司 (Sichuan Ganghong Xiwushidai Automobile Sales Co., Ltd.) | Sichuan, the PRC 2003 | Registered and paid-in capital of RMB38,000,000 | – | 100% | Sale and service of motor vehicles |
| 寧波寶信汽車銷售服務有限公司 (Ningbo Baixin Automobile Sales & Services Co., Ltd.) | Ningbo, the PRC 2008 | Registered and paid-in capital of RMB40,000,000 | – | 100% | Sale and service of motor vehicles |

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

| Company name | Place of operation/ date of incorporation or registration | Authorised/registered/ paid-in/issued capital | Proportion of ownership interest | | Principal activities |
|--|--|---|-------------------------------------|-------------------------|---------------------------------------|
| | | | Held by the Company | Held by a subsidiary | |
| 東莞寶信汽車銷售服務有限公司 (Dongguan Baoxin Automobile Sales & Services Co., Ltd.) | Dongguan, the PRC 2012 | Registered and paid-in capital of RMB50,000,000 | – | 100% | Sale and service of motor vehicles |
| 溫州捷順汽車技術服務有限公司 (Wenzhou Jieshun Auto technique & Services Co., Ltd.) | Wenzhou, the PRC 2006 | Registered and paid-in capital of RMB120,000,000 | – | 100% | Sale and service of motor vehicles |
| 溫州好德寶汽車服務有限公司 (Wenzhou Haodebao Auto Services Co., Ltd.) | Wenzhou, the PRC 2006 | Registered and paid-in capital of RMB55,000,000 | – | 100% | Sale and service of motor vehicles |
| 上海晨隆汽車銷售有限公司 (Shanghai Chenlong Automobile Sales Co., Ltd.) | Shanghai, the PRC 2010 | Registered and paid-in capital of RMB39,000,000 | – | 100% | Sale and service of motor vehicles |
| 上海徐匯開隆汽車銷售服務有限公司 (Shanghai Xuhui Kailong Automobile Sales & Services Co., Ltd.) | Shanghai, the PRC 2006 | Registered and paid-in capital of RMB12,000,000 | – | 100% | Sale and service of motor vehicles |
| 合肥寶泓汽車銷售服務有限公司 (Hefei Baohong Automobile Sales & Services Co., Ltd.) | Hefei, the PRC 2012 | Registered and paid-in capital of RMB76,000,000 | – | 100% | Sale and service of motor vehicles |
| 上海眾國寶泓汽車銷售服務有限公司 (Shanghai Zhongguo Baohong Automobile Sales & Services Co., Ltd.) | Shanghai, the PRC 2010 | Registered and paid-in capital of RMB80,000,000 | – | 100% | Sale and service of motor vehicles |
| 四川港宏凱威行汽車銷售服務有限公司 (Sichuan Ganghongkaiweihehang Automobile Sales & Services Co., Ltd.) | Sichuan, the PRC 2011 | Registered and paid-in capital of RMB25,000,000 | – | 100% | Sale and service of motor vehicles |
| 煙台寶信汽車銷售服務有限公司 (Yantai Baoxin Automobile Sales & Services Co., Ltd.) | Yantai, the PRC 2012 | Registered and paid-in capital of RMB87,000,000 | – | 100% | Sale and service of motor vehicles |
| 上海寶信實嘉汽車銷售有限公司 (Shanghai Baoxin Shijia Automobile Sales Co., Ltd.) | Shanghai, the PRC 2012 | Registered capital of RMB1,698,145,214 and paid-in capital of RMB1,298,231,656 | – | 100% | Sale and service of motor vehicles |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

| Company name | Place of operation/ date of incorporation or registration | Authorised/registered/ paid-in/issued capital | Proportion of ownership interest | | Principal activities |
|---|--|---|-------------------------------------|-------------------------|---------------------------------------|
| | | | Held by the Company | Held by a subsidiary | |
| 上海鼎信融資租賃有限公司 (Shanghai Dingxin Finance Leasing Co., Ltd.) | Shanghai, the PRC 2013 | Registered and paid-in capital of US\$30,000,000 | 100% | – | Finance leasing |
| 溫州市好達機電有限公司 (Wenzhou Haoda electromechanical Co., Ltd.) | Wenzhou, the PRC 2000 | Registered and paid-in capital of RMB50,000,000 | – | 100% | Sale and service of motor vehicles |
| 紹興捷順汽車銷售服務有限公司 (Shaoxing Jieshun Automobile Sales & Services Co., Ltd.) | Shaoxing, the PRC 2010 | Registered and paid-in capital of RMB60,000,000 | – | 100% | Sale and service of motor vehicles |
| 瑞安市寶隆汽車銷售服務有限公司 (Ruian Baolong Automobile Sales & Services Co., Ltd.) | Ruian, the PRC 2008 | Registered and paid-in capital of RMB43,800,000 | – | 100% | Sale and service of motor vehicles |
| 北京寶信行汽車銷售服務有限公司 (Beijing Baoxinhang Auto Sales and Services Co., Ltd.) | Beijing, the PRC 2013 | Registered and paid-in capital of RMB150,000,000 | – | 100% | Sale and service of motor vehicles |
| 石家莊銘之寶汽車銷售服務有限公司 (Shijiazhuang Mingzhibao Automobile Sales & Services Co., Ltd.) | Shijiazhuang, the PRC 2018 | Registered and paid-in capital of RMB22,000,000 | – | 100% | Sale and service of motor vehicles |
| 四川港宏盛業汽車銷售服務有限公司 (Sichuan Ganghong Shengye Automotive Sales & Services Co., Ltd.) | Chengdu, the PRC 2010 | Registered and paid-in capital of RMB40,000,000 | – | 100% | Sale and service of motor vehicles |
| 四川港宏盛豐汽車銷售服務有限公司 (Sichuan Ganghong Shengfeng Automotive Sales & Services Co., Ltd.) | Chengdu, the PRC 2010 | Registered and paid-in capital of RMB30,000,000 | – | 100% | Sale and service of motor vehicles |
| 寧海寶信汽車銷售服務有限公司 (Ninghai Baoxin Automobile Sales & Services Co., Ltd.) | Ninghai, the PRC 2010 | Registered and paid-in capital of RMB49,000,000 | – | 100% | Sale and service of motor vehicles |
| 杭州富陽寶信汽車銷售服務有限公司 (Hangzhou Fuyang Baoxin Automobile Sales & Services Co., Ltd.) | Hangzhou, the PRC 2011 | Registered and paid-in capital of RMB60,000,000 | – | 100% | Sale and service of motor vehicles |

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

| Company name | Place of operation/ date of incorporation or registration | Authorised/registered/ paid-in/issued capital | Proportion of ownership interest | | Principal activities |
|---|--|---|-------------------------------------|-------------------------|---------------------------------------|
| | | | Held by the Company | Held by a subsidiary | |
| 無錫信實行汽車銷售服務有限公司 (Wuxi Xinbaohang Automobile Sales & Services Co., Ltd.) | Wuxi, the PRC 2012 | Registered and paid-in capital of RMB10,000,000 | – | 90% | Sale and service of motor vehicles |
| 上海五角場開隆汽車貿易有限公司 (Shanghai Wujiachang Kailong Automobile Trading Co., Ltd.) | Shanghai, the PRC 2011 | Registered and paid-in capital of RMB50,000,000 | – | 70% | Sale and service of motor vehicles |
| 上海天華汽車銷售有限公司 (Shanghai Tianhua Automobile Sales Co., Ltd.) | Shanghai, the PRC 2002 | Registered and paid-in capital of RMB30,000,000 | – | 100% | Sale and service of motor vehicles |
| 天津申隆汽車銷售服務有限公司 (Tianjin Shenlong Automobile Sales & Services Co., Ltd.) | Tianjin, the PRC 2011 | Registered and paid-in capital of RMB100,000,000 | – | 100% | Sale and service of motor vehicles |
| 陝西天華汽車銷售服務有限公司 (Shaanxi Tianhua Automotive Sales & Services Co., Ltd.) | Xian, the PRC 2012 | Registered and paid-in capital of RMB40,000,000 | – | 100% | Sale and service of motor vehicles |
| 深圳申隆汽車銷售服務有限公司 (Shenzhen Shenlong Automotive Sales & Services Co., Ltd.) | Shenzhen, the PRC 2012 | Registered and paid-in capital of RMB65,000,000 | – | 100% | Sale and service of motor vehicles |
| 唐山燕時達汽車銷售服務有限公司 (Tangshan Yanshida Automobile Sales & Services Co., Ltd.) | Tangshan, the PRC 2011 | Registered and paid-in capital of RMB30,000,000 | – | 100% | Sale and service of motor vehicles |
| 天津榮沃汽車銷售服務有限公司 (Tianjin Rongwo Automobile Sales & Services Co., Ltd.) | Tianjin, the PRC 2014 | Registered and paid-in capital of RMB90,000,000 | – | 100% | Sale and service of motor vehicles |
| 上海匯實行汽車銷售服務有限公司 (Shanghai Huibaohang Automobile Sales & Services Co., Ltd.) | Shanghai, the PRC 2013 | Registered and paid-in capital of RMB45,000,000 | – | 100% | Sale and service of motor vehicles |
| 霍爾果斯實衡服務有限公司 (Horgos Baoheng Service Co., Ltd.) | Horgos, the PRC 2019 | Registered capital of RMB1,000,000 and paid-in capital of RMB500,000 | – | 100% | Other services |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (together, the “Group”) for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|--|
| Amendments to HKFRS 3 | <i>Definition of a Business</i> |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | <i>Interest Rate Benchmark Reform</i> |
| Amendment to HKFRS 16 | <i>Covid-19-Related Rent Concessions</i> (early adopted) |
| Amendments to HKAS 1 and HKAS 8 | <i>Definition of Material</i> |

Other than as explained below regarding the impact of Amendment to HKFRS 16 *Covid-19-Related Rent Concessions*, the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs did not have any significant impact on the financial position and performance of the Group:

Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's buildings have been reduced or waived by the lessors upon reducing the scale of production as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB11,963,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|--|---|
| Amendments to HKFRS 3 | <i>Reference to the Conceptual Framework²</i> |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16 | <i>Interest Rate Benchmark Reform – Phase 2¹</i> |
| Amendments to HKFRS 10 and HKAS 28 (2011) | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i> |
| HKFRS 17 | <i>Insurance Contracts³</i> |
| Amendments to HKFRS 17 | <i>Insurance Contracts^{3,6}</i> |
| Amendments to HKAS 1 | <i>Classification of Liabilities as Current or Non-current^{3,5}</i> |
| Amendments to HKAS 16 | <i>Property, Plant and Equipment: Proceeds before Intended Use²</i> |
| Amendments to HKAS 37 | <i>Onerous Contracts – Cost of Fulfilling a Contract²</i> |
| <i>Annual Improvements to HKFRSs 2018-2020</i> | <i>Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41²</i> |

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ No mandatory effective date yet determined but available for adoption

⁵ As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

⁶ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

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

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank borrowings denominated in United States Dollar ("US\$") based on the London Interbank Offered Rate ("LIBOR") as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

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

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

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Annual Improvements to HKFRSs 2018-2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

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

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

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

Business combinations and goodwill

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

Business combinations involving entities under common control

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations involving entities under common control (continued)

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

Business combinations not involving entities under common control

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

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations not involving entities under common control (continued)

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

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

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

Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

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

Non-current assets held for sale

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

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

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

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

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

| | |
|----------------|----------------|
| Leasehold land | 20 to 45 years |
| Buildings | 2 to 30 years |
| Motor vehicles | 1 to 2 years |

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that is considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition".

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

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

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

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

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

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

Cash flow hedges

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

Fair value hedges

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

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

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

Hedges of a net investment

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

Current versus non-current classification

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits with initial terms of three months or less, which are not restricted as to use.

Income tax

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of motor vehicles

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

(b) Rendering of after-sales services

For the rendering of after-sales services related to repairs and maintenance under manufacturers warranties or covered by insurance companies and customer-paid repairs and maintenance, the control is transferred overtime and therefore, the performance obligation is satisfied and revenue is recognised over time, if one of the following criteria is met:

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from other sources

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

Other income

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

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

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

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Vendor rebates

Volume-related vendor rebates are recognised as a deduction from cost of sales on an accrual basis according to the expected entitlement earned up to the reporting date for each relevant supplier contract.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

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

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

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

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

Dividends

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

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

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Judgement in the timing of satisfaction of performance obligations

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

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets as at 31 December 2020 was RMB320,818,000 (31 December 2019: RMB245,950,000). More details are given in note 33(a).

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2020 of goodwill was RMB1,222,016,000 (31 December 2019: RM1,222,016,000). Further details are given in note 19.

Provision for expected credit losses on trade receivables and other financial assets

The Group uses a provision matrix to calculate ECLs for trade receivables, finance lease receivables, financial assets included in prepayments, other receivables and other assets and amounts due from related parties. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type and rating and other forms of credit insurance).

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECLs on the Group's trade receivables and other financial assets is disclosed in note 18, note 23, note 24 and note 45 to the financial statements, respectively.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate (“IBR”) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group “would have to pay”, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary’s functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Estimation of fair value of investment properties

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

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

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

The fair value of investment properties at 31 December 2020 was RMB393,353,000 (2019: RMB398,144,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Useful lives of property, plant and equipment

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

Write-down of inventories to net realisable value

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

Impairment of non-financial assets (other than goodwill)

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

4. OPERATING SEGMENT INFORMATION

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Information about geographical areas

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

Information about major customers

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

5. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue:

An analysis of revenue is as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-------------------|-----------------|
| Revenue from contracts with customers | | |
| Sale of motor vehicles | 30,829,162 | 31,687,726 |
| After-sales services | 4,269,980 | 4,732,762 |
| Revenue from other sources | | |
| Finance leasing services | 35,199 | 43,390 |
| | 35,134,341 | 36,463,878 |

Revenue from contracts with customers

(i) Disaggregated revenue information

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-------------------|-----------------|
| Types of goods or service | | |
| Sale of motor vehicles | 30,829,162 | 31,687,726 |
| After-sales services | 4,269,980 | 4,732,762 |
| Total revenue from contracts with customers | 35,099,142 | 36,420,488 |
| Timing of revenue recognition | | |
| At a point in time | 35,099,142 | 36,420,488 |

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

(a) Revenue: (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

The following table shows the amounts of revenue recognised that were included in the contract liabilities at the beginning of each of the reporting periods and recognised from performance obligations satisfied in previous periods:

| | 2020 RMB'000 | 2019 RMB'000 |
|----------------------------|-----------------|-----------------|
| Sale of motor vehicles | 694,028 | 678,301 |
| After-sales services | 218,762 | 213,794 |
| Total contract liabilities | 912,790 | 892,095 |

(ii) Performance obligations

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

Sale of motor vehicles

Each sale of motor vehicles is a single performance obligation. The transaction price for a vehicle sale is determined with the customer at the time of sale. The performance obligation is satisfied upon delivery of the motor vehicles. The Group generally receive payment directly from the customer at the time of sale or from the third-party financial institutions within 30 days following the sale. In certain cases, the Group arranges finance lease with a period of one to two years.

After-sales services

Each after-sales service related to repairs and maintenance under manufacturer warranties or customer-paid repairs and maintenance is a single performance obligation. The transaction price for automotive repair and maintenance services is based on the parts used, the number of labour hours applied, and standardised hourly labour rates. The performance obligation is satisfied upon finalisation, delivery and acceptance upon the service completion. The Group generally receives payment on the delivery date for the customer-paid repairs and maintenance services and within two to three months for repairs and maintenance services under manufacturer warranties or covered by insurance companies.

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

(b) Other income and gains, net:

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|--|-------|------------------|-----------------|
| Commission income | | 1,048,545 | 745,028 |
| Advertisement support received from automobile manufacturers | | 17,356 | 19,699 |
| Gross rental income from investment property operating leases* | | 15,014 | 21,218 |
| Rental income from subleases | | 38,083 | 43,248 |
| Government grants** | | 86,176 | 58,838 |
| Bank interest income | | 16,513 | 33,084 |
| Loss on disposal of items of property, plant and equipment | | (33,204) | (10,373) |
| Gain on disposal of items of other intangible assets | | 998 | 187 |
| Fair value (loss)/gain on investment properties | 14 | (4,791) | 27,239 |
| Fair value gain/(loss) on derivative instruments | | 4,490 | (1,019) |
| Foreign exchange differences, net | | (151,776) | (59,015) |
| Loss on disposal of subsidiaries | 37 | (1,387) | – |
| Others | | 46,429 | (8,493) |
| Total | | 1,082,446 | 869,641 |

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

** There are no unfulfilled conditions or contingencies related to these grants.

6. PROFIT BEFORE TAX

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

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-------------------|-----------------|
| (a) Employee benefit expense (including Directors' and chief executive's remuneration (note 9)): | | |
| Wages and salaries | 815,225 | 844,320 |
| Other welfare | 134,697 | 224,907 |
| Equity-settled share option expense | 12,697 | 30,621 |
| | 962,619 | 1,099,848 |
| (b) Cost of sales and services: | | |
| Cost of sales of motor vehicles | 30,472,383 | 30,962,554 |
| Others | 2,911,873 | 2,655,416 |
| | 33,384,256 | 33,617,970 |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

6. PROFIT BEFORE TAX (continued)

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

| (c) Other items: | Notes | 2020 RMB'000 | 2019 RMB'000 |
|--|-------|-----------------|-----------------|
| Depreciation of property, plant and equipment* | 13 | 268,631 | 272,105 |
| Depreciation of right-of-use assets* | 15(a) | 234,889 | 213,809 |
| Amortisation of other intangible assets* | 16 | 61,712 | 61,811 |
| Advertisement and business promotion expenses | | 242,504 | 268,039 |
| Auditor's remuneration | | 6,100 | 6,100 |
| Bank charges | | 27,187 | 28,318 |
| Foreign exchange differences, net | | 151,776 | 59,015 |
| Lease payments not included in the measurement of lease liabilities* | | 19,180 | 28,303 |
| Logistics and petroleum expenses | | 72,983 | 71,225 |
| Office expenses | | 18,880 | 20,636 |
| Impairment of financial assets: | | | |
| Impairment of trade receivables | 23 | 3,543 | 4,790 |
| Impairment of prepayments, other receivables and other assets | | 19,200 | 16,516 |
| Impairment of finance lease receivables | | 11,035 | 2,388 |
| Write-down of inventories to net realisable value** | | 36,791 | 19,589 |
| Loss on disposal of items of property, plant and equipment | | 33,204 | 10,373 |
| Gain on disposal of items of other intangible assets | | (998) | (187) |
| Gross rental income from investment properties | | (15,014) | (21,218) |
| Rental income from subleases | | (38,083) | (43,248) |
| Government grants | | (86,176) | (58,838) |
| Fair value loss/(gain) on investment properties | 14 | 4,791 | (27,239) |
| Fair value (gain)/loss on derivative instruments | | (4,490) | 1,019 |
| Bank interest income | | (16,513) | (33,084) |
| Loss on disposal of subsidiaries | | 1,387 | – |

* the amount of these depreciation of property, plant and equipment, amortisation of other intangible assets, depreciation of right-of-use assets and lease expenses are included in "cost of sales and services provided", "selling and distribution expenses" and "administrative expenses" in the consolidated statement of profit or loss.

** The amount of these write-down of inventories to net realisable value are included in "cost of sales and services provided" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-------------------------------|-----------------|
| Interest on bank and other borrowings (including amounts due to related parties) | 561,337 | 731,841 |
| Incl: Loan arrangement fee | 37,314 | 79,899 |
| Interest on lease liabilities (note 15) | 84,993 | 90,342 |
| Total interest expense on financial liabilities not at fair value through profit or loss | 646,330 | 822,183 |

8. INCOME TAX

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

| | 2020 RMB'000 | 2019 RMB'000 |
|-------------------------------|-------------------------------|-----------------|
| Current tax | 284,854 | 503,978 |
| Deferred tax (note 33) | (79,553) | (109,926) |
| Total tax charge for the year | 205,301 | 394,052 |

Pursuant to the relevant rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Company and the subsidiaries of the Company incorporated therein are not subject to any income tax in the Cayman Islands and the BVI.

The subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (2019: 16.5%). Hong Kong profit tax has been provided on the estimated assessable profits arising in Hong Kong during the year presented.

According to the Corporate Income Tax Law of the People's Republic of China (the "CIT Law"), the uniform income tax rate is 25% (2019: 25%), except for two subsidiaries in Xinjiang Uygur Autonomous Region which were exempted from income tax in the first five years and 16 subsidiaries in Sichuan Province which were entitled to income tax rate of 15% under the western development policy.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

8. INCOME TAX (continued)

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

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

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-------------------------------|-----------------|
| Profit before tax | 405,983 | 1,016,809 |
| Tax at the statutory tax rates | 84,837 | 294,847 |
| Tax losses not recognised | 117,715 | 116,423 |
| Expenses not deductible for tax | 2,271 | 2,902 |
| Effect of withholding tax* | 26,427 | – |
| Income not subject to tax | (22,967) | – |
| Profits and losses attributable to joint ventures and associates | (79) | (15,304) |
| Tax losses utilised from previous periods | (2,903) | (4,816) |
| Tax charge | 205,301 | 394,052 |

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

* In the year ended 31 December 2020, the Group restructured the holding structure within the Group for the purpose of future tax planning. The intra-group disposal gain eliminated and intra-group interest income were subject to the withholding tax of 10% in PRC amounted to RMB26,427,000.

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

| | Year ended 31 December 2020 | | | | Total RMB'000 |
|--|-----------------------------|---|---|--|------------------|
| | Fees RMB'000 | Salaries, allowances and other benefits RMB'000 | Contributions to defined contribution retirement schemes RMB'000 | Equity-settled share option expense RMB'000 | |
| Independent non-executive directors | | | | | |
| – Diao Jianshen | 258 | – | – | – | 258 |
| – Chan Wan Tsun Adrian Alan | 258 | – | – | – | 258 |
| – Liu Yangfang | 258 | – | – | – | 258 |
| Executive directors | | | | | |
| – Lu Wei ⁽¹⁾ | – | 341 | – | – | 341 |
| – Wang Xinming | – | 800 | – | 1,017 | 1,817 |
| – Lu Ao | – | 800 | – | 508 | 1,308 |
| – Xu Xing | – | 500 | – | 508 | 1,008 |
| – Qi Junjie ⁽²⁾ | – | 200 | – | (564) | (364) |
| – Li Jianping ⁽³⁾ | – | 659 | – | (1,128) | (469) |
| | 774 | 3,300 | – | 341 | 4,415 |

⁽¹⁾ Mr. Lu Wei was appointed on 28 August 2020.

⁽²⁾ Mr. Qi Junjie resigned on 1 May 2020.

⁽³⁾ Mr. Li Jianping resigned on 28 August 2020.

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31 December 2020

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

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

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

During the years ended 31 December 2019 and 2020, there was no options granted to executive directors. The fair value of options granted in 2018, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above Directors' and chief executive's remuneration disclosures.

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included one executive directors (2019: five executive directors), details of whose remuneration are detailed in note 9 above. Details of the remuneration for the year of the remaining four (2019: nil) highest paid employee who are not executive directors are as follows:

| | 2020 RMB'000 |
|--|-----------------|
| Salaries, allowances and other benefits | 6,300 |
| Equity-settled share option expense | 1,155 |
| Contributions to defined contribution retirement schemes | 383 |
| | 7,838 |

10. FIVE HIGHEST PAID INDIVIDUALS (continued)

Remuneration of the three and one non-executive director highest paid employees fell within the band of RMB1,500,001 to RMB2,000,000 and the band of RMB2,000,001 to RMB2,500,000 respectively.

During the years ended 31 December 2019 and 2020, there was no options granted to employees. The fair value of options granted in 2018, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above disclosures.

11. DIVIDENDS

No dividend was recommended for the year ended 31 December 2020 (2019: Nil).

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,837,511,429 in issue during the year ended 31 December 2020 (2019: 2,837,418,048).

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019. The Group also did not include share options in the computation of diluted earnings per share for the years ended 31 December 2019 and 2020 because those share options were anti-dilutive for earnings per share.

The calculation of basic and diluted earnings per share is based on:

| | | |
|---|-------------------------------|-----------------|
| Earnings | 2020 RMB'000 | 2019 RMB'000 |
| Profit attributable to ordinary equity holders of the parent | 211,418 | 629,202 |
| Shares | 2020 | 2019 |
| Weighted average number of ordinary shares in issue during the year | 2,837,511,429 | 2,837,418,048 |
| Earnings per share | 2020 RMB | 2019 RMB |
| Basic and diluted | 0.07 | 0.22 |

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13. PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Leasehold improvements RMB'000 | Plant and machinery RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|--|----------------------|--------------------------------------|-----------------------------------|--------------------------------------|------------------------------|--|------------------|
| 31 December 2020 | | | | | | | |
| At 1 January 2020: | | | | | | | |
| Cost | 3,169,092 | 976,749 | 425,426 | 290,436 | 414,985 | 24,672 | 5,301,360 |
| Accumulation depreciation | (613,394) | (657,929) | (269,981) | (231,576) | (68,139) | - | (1,841,019) |
| Net carrying amount | 2,555,698 | 318,820 | 155,445 | 58,860 | 346,846 | 24,672 | 3,460,341 |
| At 1 January 2020, net of accumulated depreciation | 2,555,698 | 318,820 | 155,445 | 58,860 | 346,846 | 24,672 | 3,460,341 |
| Additions | 7,216 | 52,999 | 29,075 | 13,181 | 375,264 | 31,947 | 509,682 |
| Disposals of subsidiaries | - | (1,066) | (4) | (66) | - | - | (1,136) |
| Disposals | (32,448) | (9,434) | (2,252) | (1,620) | (300,578) | - | (346,332) |
| Depreciation provided during the year (note 6) | (89,097) | (78,717) | (34,934) | (18,566) | (47,317) | - | (268,631) |
| Transfers | 11,044 | 17,802 | 231 | 434 | 344 | (29,855) | - |
| Transfers to intangible assets | - | - | - | - | - | (88) | (88) |
| At 31 December 2020, net of accumulated depreciation | 2,452,413 | 300,404 | 147,561 | 52,223 | 374,559 | 26,676 | 3,353,836 |
| At 31 December 2020: | | | | | | | |
| Cost | 3,147,988 | 1,038,705 | 444,423 | 285,684 | 441,631 | 26,676 | 5,385,107 |
| Accumulated depreciation | (695,575) | (738,301) | (296,862) | (233,461) | (67,072) | - | (2,031,271) |
| Net carrying amount | 2,452,413 | 300,404 | 147,561 | 52,223 | 374,559 | 26,676 | 3,353,836 |

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

As at 31 December 2020, the application for the property ownership certificates for certain buildings with a net book value of RMB212,707,000 (31 December 2019: RMB234,165,000) was still in progress.

As at 31 December 2020, certain of the Group's buildings, leasehold improvements and furniture with an aggregate net book value of RMB84,492,000 (31 December 2019: RMB81,276,000) were pledged as security for the Group interest-bearing bank and other borrowings (note 28(b)).

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14. INVESTMENT PROPERTIES

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-----------------|-----------------|
| Carrying amount at 1 January | 398,144 | 370,905 |
| Net (loss)/gain from a fair value adjustment | (4,791) | 27,239 |
| Carrying amount at 31 December | 393,353 | 398,144 |

The Group's investment properties consist of three commercial properties in PRC. The Group's investment properties were revalued on 31 December 2020 based on valuations performed by an independent professionally qualified valuer, at RMB393,353,000 (31 December 2019: RMB398,144,000). The Group's management decides to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

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

Fair value hierarchy

Investment properties held by the Group in the consolidated statement of financial position were valued into level 3 in the fair value hierarchy. During the year, there were no transfers of fair value measurement between level 1 and level 2 and no transfers into or out of level 3 (2019: Nil).

The valuation technique is the discounted cash flow method and the key inputs are as follows:

Significant unobservable inputs

| | 2020 | 2019 |
|--|----------------|---------------|
| Estimated rental value (per sq.m. per month) | RMB35 – RMB116 | RMB51 – RMB71 |
| Long term growth rate p.a | 1% – 3% | 1% – 3% |
| Long term vacancy rate | 5% | 0% – 10% |
| Discount rate | 5% – 6% | 5%-6% |

14. INVESTMENT PROPERTIES (continued)

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

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

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

As at 31 December 2020, certain of the Group's investment property with an aggregate net book value of appropriately RMB228,436,000 (31 December 2019: Nil) were pledged as security for certain of the Group interest-bearing bank and other borrowings (note 28(b)).

The application for the ownership certificates of a certain building located in Yangzhou City of Jiangsu Province, the PRC, with a fair value of RMB79,395,000 as at 31 December 2020 (31 December 2019: RMB78,940,000), is in progress.

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15. LEASES

The Group as a lessee

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

(a) Right-of-use assets

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

| | Leasehold land | Buildings | Motor vehicles | Total |
|---|---------------------------|------------------|---------------------------|------------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| As at 1 January 2019 | 644,409 | 1,151,823 | 248,467 | 2,044,699 |
| Additions | – | 166,200 | 147,403 | 313,603 |
| Depreciation charge | (32,891) | (154,108) | (26,810) | (213,809) |
| Transfer to property, plant and equipment | – | – | (224,170) | (224,170) |
| As at 31 December 2019 and 1 January 2020 | 611,518 | 1,163,915 | 144,890 | 1,920,323 |
| Additions | 17,628 | 217,262 | 20,281 | 255,171 |
| Depreciation charge | (33,636) | (180,093) | (21,160) | (234,889) |
| Revision of a lease term arising from a change in the non-cancellable period of a lease | – | (21,690) | – | (21,690) |
| As at 31 December 2020 | 595,510 | 1,179,394 | 144,011 | 1,918,915 |

As at 31 December 2020, certain of the Group's leasehold land with an aggregate net book value of appropriately RMB31,417,000 (31 December 2019: Nil) were pledged as security for the Group interest-bearing bank and other borrowings (note 28(b)).

As at 31 December 2020, the application for the land use right certificates for certain leasehold land with a net book value of approximately RMB1,554,000 (31 December 2019: RMB1,648,000) was still in progress.

15. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Carrying amount at 1 January | 1,436,250 | 1,507,355 |
| New leases | 227,473 | 284,506 |
| Accretion of interest recognised during the year | 84,993 | 90,342 |
| Covid-19-related rent concessions from lessors | (11,963) | – |
| Payments | (336,075) | (445,953) |
| Revision of a lease term arising from a change in the non-cancellable period of a lease | (22,342) | – |
| Carrying amount at 31 December | 1,378,336 | 1,436,250 |
| Analysed into: | | |
| Current portion | 168,153 | 226,303 |
| Non-current portion | 1,210,183 | 1,209,947 |

The maturity analysis of lease liabilities is disclosed in note 45 to the financial statements.

As disclosed in note 2.2. to the financial statements, the Group has early adopted the amendment to HKFRS 16 and applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain plant and equipment during the year.

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

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Interest on lease liabilities | 84,993 | 90,342 |
| Depreciation charge of right-of-use assets | 234,889 | 213,809 |
| Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales, administrative and selling and distribution expenses) | 19,114 | 28,244 |
| Expense relating to leases of low-value assets (included in cost of sales, administrative and selling and distribution expenses) | 66 | 59 |
| Covid-19-related rent concessions from lessors | (11,963) | – |
| Gain from revision of a lease term arising from a change in the non-cancellable period of a lease | (651) | – |
| Total amount recognised in profit or loss | 326,448 | 332,454 |

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15. LEASES (continued)

The Group as a lessor

The Group leases its investment properties (note 14) consisting of three commercial properties under operating lease arrangements and the Group also subleases certain of its building and land. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB53,097,000 (2019: RMB64,466,000), details of which are included in note 5(b) to the financial statements.

At 31 December 2020 and 2019, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Within one year | 43,758 | 46,406 |
| After one year but within two years | 42,738 | 41,906 |
| After two years but within three years | 41,112 | 42,807 |
| After three years but within four years | 41,901 | 38,213 |
| After four years but within five years | 42,355 | 42,630 |
| After five years | 232,978 | 273,030 |
| | 444,842 | 484,992 |

16. OTHER INTANGIBLE ASSETS

| | Software RMB'000 | Dealership agreements RMB'000 | Customer relationship RMB'000 | Car licences RMB'000 | Club membership RMB'000 | Total RMB'000 |
|---|---------------------|-------------------------------------|-------------------------------------|----------------------------|-------------------------------|------------------|
| Cost: | | | | | | |
| At 1 January 2020 | 32,681 | 1,445,755 | 299,894 | 18,554 | 2,454 | 1,799,338 |
| Additions | 1,480 | - | - | 1,154 | - | 2,634 |
| Disposals | (5,138) | - | - | (45) | - | (5,183) |
| Transfer from construction in progress | 88 | - | - | - | - | 88 |
| At 31 December 2020 | 29,111 | 1,445,755 | 299,894 | 19,663 | 2,454 | 1,796,877 |
| Accumulated amortisation: | | | | | | |
| At 1 January 2020 | 15,502 | 174,814 | 142,955 | - | 608 | 333,879 |
| Charge for the year | 2,708 | 38,926 | 19,993 | - | 85 | 61,712 |
| Disposals | (5,060) | - | - | - | - | (5,060) |
| At 31 December 2020 | 13,150 | 213,740 | 162,948 | - | 693 | 390,531 |
| Net book value: | | | | | | |
| At 31 December 2020 | 15,961 | 1,232,015 | 136,946 | 19,663 | 1,761 | 1,406,346 |

16. OTHER INTANGIBLE ASSETS (continued)

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

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

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

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17. PREPAYMENTS AND DEPOSITS

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|----------------------------|---|--------------------------------|
| Prepayments for investment | – | 31,500 |
| Long term deposits | 56,627 | 60,132 |
| | 56,627 | 91,632 |

18. FINANCE LEASE RECEIVABLES

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--------------|---|--------------------------------|
| Analysed as: | | |
| Current | 182,804 | 208,701 |
| Non-current | 60,182 | 110,672 |
| | 242,986 | 319,373 |

At 31 December 2020, the future minimum lease receivables under finance leases and their present values were as follows:

| | Minimum lease receivables 31 December 2020 RMB'000 | Present value of minimum lease receivables 31 December 2020 RMB'000 |
|--|---|--|
| Finance lease receivables: | | |
| Within one year | 217,511 | 182,804 |
| Later than one year and not later than five years | 67,095 | 60,182 |
| | 284,606 | 242,986 |
| Less: Unearned finance lease income | 27,194 | |
| Present value of minimum lease payment receivables | 257,412 | |
| Less: Allowances for impairment losses | 14,426 | |
| Total net finance lease receivables | 242,986 | |

18. FINANCE LEASE RECEIVABLES (continued)

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

As at 31 December 2020, finance lease receivables amounting to RMB109,998,000 was pledged to secure interest-bearing bank borrowings (note 28(b)) (31 December 2019: RMB62,856,000).

Measurements of allowances for impairment losses are as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---------------------|-------------------------------|-----------------|
| At 1 January | 3,391 | 1,003 |
| Charge for the year | 11,035 | 2,388 |
| At 31 December | 14,426 | 3,391 |

The information about the credit risk exposure on the Group's finance lease receivables using a provision matrix is disclosed in note 45 to the financial statements.

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19. GOODWILL

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|------------------------------|---|--------------------------------|
| Cost: | | |
| At the beginning of the year | 1,247,067 | 1,247,067 |
| Accumulated impairment | (25,051) | (25,051) |
| | 1,222,016 | 1,222,016 |

Impairment testing of goodwill

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

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

The recoverable amount of each cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The growth rate used to extrapolate the cash flows of the cash-generating unit beyond the five-year period from the end of the reporting period is 3% (2019: 3%) for all years. The discount rate applied to the cash flow projections beyond the one-year period is 13% (2019: 13.5%).

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

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|------------------------|---|--------------------------------|
| 4S dealership business | 1,222,016 | 1,222,016 |

Key assumptions used in the value in use calculation

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

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

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

19. GOODWILL (continued)

Sensitivity to changes in assumptions

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

20. INVESTMENTS IN JOINT VENTURES

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--------------------------|---|--------------------------------|
| Share of net assets | 61,413 | 61,148 |
| Loans to a joint venture | 40,835 | 40,835 |
| | 102,248 | 101,983 |

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

(a) Particulars of joint ventures

| Joint venture | Place of registration and business | Registered and paid-in capital | Percentage of | | | Principal activities |
|--|------------------------------------|--|--------------------|--------------|----------------|------------------------------------|
| | | | Ownership interest | Voting power | Profit sharing | |
| Shenyang Yeqiao | Shenyang, the PRC | RMB10,000,000 | 50% | 50% | 50% | Sale and service of motor vehicles |
| Shanghai Rongzhi Catering Management Co., Ltd. | Shanghai, the PRC | Registered capital of US\$1,000,000 and paid-in capital of nil | 50% | 50% | 50% | Catering management |

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

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-------------------------|-----------------|
| Share of the joint ventures' profit for the year | 265 | 1,988 |
| Share of the joint ventures' total comprehensive income for the year | 265 | 1,988 |

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20. INVESTMENTS IN JOINT VENTURES (continued)

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

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-----------------|-----------------|
| Aggregate carrying amount of the Group's investments in the joint ventures | 102,248 | 101,983 |

21. INVESTMENTS IN ASSOCIATES

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---------------------|--------------------------------|--------------------------------|
| Share of net assets | 123,707 | 126,092 |

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

(a) Particulars of associates

| Associates | Place of registration and business | Registered and paid-in capital | Percentage of | | | Principal activities |
|---|------------------------------------|---|--------------------|--------------|----------------|------------------------------------|
| | | | Ownership interest | Voting power | Profit sharing | |
| Wuxi Kailong Real Estate Co., Ltd. | Jiangsu, the PRC | Registered capital of RMB120,000,000 and paid-in capital of RMB70,000,000 | 30% | 30% | 30% | Real estate development |
| Deyang Nan Ling Gang Hong Automobile Sales & Services Co., Ltd. | Sichuan, the PRC | Registered and paid-in capital of RMB25,000,000 | 49% | 49% | 49% | Sale and service of motor vehicles |
| Sichuan Gang Hong Vehicle Trade Co., Ltd. | Sichuan, the PRC | Registered and paid-in capital of RMB31,000,000 | 40% | 40% | 40% | Sale and service of motor vehicles |
| Qingdao Motors (H.K.) Limited | Hong Kong | HK\$1,000 | 26% | 26% | 26% | Sale and service of motor vehicles |
| Xinjiang Baoqian motor vehicle auction service Co., Ltd. | Xinjiang, the PRC | Registered capital of RMB60,000,000 and paid-in capital of nil | 49% | 49% | 49% | Used car agency |

21. INVESTMENTS IN ASSOCIATES (continued)

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

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--|---|--------------------------------|
| Share of the associates' profit for the year | 50 | 59,229 |
| Share of the associates' total comprehensive income for the year | 50 | 59,229 |
| Aggregate carrying amount of the Group's investments in associates | 123,707 | 126,092 |

The Group's amounts due from the associates are disclosed in note 43 to the financial statements.

22. INVENTORIES

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|-------------------------------------|---|--------------------------------|
| Motor vehicles | 3,652,791 | 3,260,531 |
| Spare parts, accessories and others | 309,645 | 262,682 |
| | 3,962,436 | 3,523,213 |
| Less: Provision for inventories | 27,826 | 19,589 |
| | 3,934,610 | 3,503,624 |

As at 31 December 2020, vehicle certificates (“車輛合格證”) for certain of the Group's inventories with an aggregate carrying amount of RMB1,094,856,000 (31 December 2019: RMB787,311,000) were pledged as security for the Group's interest-bearing bank and other borrowings (note 28(b) and note 28(c)).

As at 31 December 2020, vehicle certificates for certain of the Group's inventories with an aggregate carrying amount of RMB1,949,452,000 (31 December 2019: RMB1,884,428,000) were pledged as security for the Group's bills payable.

As at 31 December 2020, the carrying amount of inventories with provision carried at net realisable value was RMB285,449,000 (31 December 2019: RMB221,398,000).

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23. TRADE RECEIVABLES

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|-------------------|---|--------------------------------|
| Trade receivables | 409,040 | 617,686 |
| Impairment | (2,321) | (4,142) |
| | 406,719 | 613,544 |

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. The Group generally provides a credit term of 30 days to customers for the automobile sales price financed by the financial institutions. The Group also generally provides a credit term of two to three months to automobile manufacturers or insurance companies for the claims of repairs and maintenance under manufacturer warranties or covered by insurance companies. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|--------------------------------|
| Within 3 months | 354,440 | 544,161 |
| More than 3 months but less than 1 year | 39,712 | 48,174 |
| Over 1 year | 12,567 | 21,209 |
| | 406,719 | 613,544 |

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

| | 2020 RMB'000 | 2019 RMB'000 |
|-------------------------------------|-------------------------|-----------------|
| At 1 January | 4,142 | 3,715 |
| Impairment losses (note 6) | 3,543 | 4,790 |
| Amount written off as uncollectible | (5,364) | (4,363) |
| At 31 December | 2,321 | 4,142 |

23. TRADE RECEIVABLES (continued)

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

The information about the credit risk exposure on the Group's trade receivables using a provision matrix is disclosed in note 45 to the financial statements.

24. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|--------------------------------|
| Prepayments to suppliers | 1,980,057 | 1,977,670 |
| Rebates | 7,342,944 | 7,434,768 |
| VAT recoverable (i) | 220,328 | 173,720 |
| Prepaid lease for short-term leases | 347 | 8,820 |
| Prepayments of purchase of items of property, plant and equipment | 21,295 | 50,270 |
| Prepaid interest expense | 20,159 | 15,380 |
| Loans to employees | 3,329 | 12,398 |
| Others | 195,814 | 441,609 |
| | 9,784,273 | 10,114,635 |
| Impairment allowance | (6,069) | (16,219) |
| | 9,778,204 | 10,098,416 |

Note:

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

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. An impairment analysis was performed at each reporting date. The Group has applied the general approach to provide for expected credit losses for non-trade other receivables under HKFRS 9. The Group considered the historical loss rate and adjusted it for forward-looking macroeconomic data in calculating the expected credit loss rate. As at 31 December 2019 and 2020, the Group estimated that the expected loss rate for non-trade other receivables was minimal under the 12-month expected credit loss method.

The information about the credit risk exposure on the Group's prepayments, other receivables and other assets is disclosed in note 45 to the financial statements.

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25. PLEDGED DEPOSITS

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|--------------------------------|
| Deposits pledged with banks as collateral against | | |
| – letters of credit granted by the banks | 23,351 | 31,400 |
| – bill facilities granted by the banks | 3,189,183 | 3,416,403 |
| – short term bank and other borrowings (note 28) | 68,000 | – |
| | 3,280,534 | 3,447,803 |

As at 31 December 2020, the above pledged bank deposits amounting to RMB3,280,534,000 (31 December 2019: RMB3,447,803,000) were denominated in RMB and earned interest at interest rates stipulated by the respective finance institutions.

26. CASH IN TRANSIT

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|-----------------|---|--------------------------------|
| Cash in transit | 26,059 | 49,669 |

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

27. CASH AND BANK BALANCES

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--|---|--------------------------------|
| Cash and cash equivalents | 1,939,507 | 1,663,106 |
| Short term deposits with maturity over three months, not restricted as to use | 6,120 | – |
| | 1,945,627 | 1,663,106 |

At the end of the reporting period, the cash and bank balances and short term deposits of the Group denominated in Renminbi ("RMB") amounted to RMB1,841,555,000 (2019: RMB1,494,913,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | 31 December 2020 | | |
|------------------------------|-----------------------------|-------------------|-----------|
| | Effective interest rate (%) | Original maturity | RMB'000 |
| Current | | | |
| Bank borrowings | | | |
| – guaranteed (a) | 3.9-6.5 | 2021 | 1,777,932 |
| – guaranteed (a) *** | LIBOR*+3.08 | On demand | 1,223,158 |
| – secured (b) | 4.1-8.0 | 2021 | 125,425 |
| – unsecured | 6.6 | On demand | 29,000 |
| – unsecured | 4.0-7.2 | 2021 | 429,584 |
| – secured and guaranteed (c) | 3.7-5.5 | 2021 | 366,283 |
| | | | 3,951,382 |
| Other borrowings | | | |
| – guaranteed (a) | 5.1 | 2021 | 24,642 |
| – secured (b) | 7.7-8.5 | 2021 | 36,660 |
| – secured and guaranteed (c) | 3.5-11.0 | 2021 | 1,117,788 |
| – unsecured | 6.1-9.0 | 2021 | 227,178 |
| | | | 1,406,268 |
| | | | 5,357,650 |
| Non-current | | | |
| Bank borrowings | | | |
| – guaranteed (a) | 4.9 | 2022-2025 | 467,050 |
| – secured (b) | 5.2-8.0 | 2022-2023 | 224,477 |
| | | | 691,527 |
| | | | 6,049,177 |

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

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

* London Inter-Bank Offered Rate

** Hong Kong Inter-Bank Offered Rate

*** As at 31 December 2020, long term bank borrowings with an aggregate carrying amount of approximately US\$190,500,000 of which US\$29,575,000 repayable in the second half of 2021 and the remaining repayable in 2022 per loan agreements, with repayment on demand clause, have been classified as current liabilities as at 31 December 2020 in order to comply with the requirements set out in Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* as one repayment on demand clause stipulated in the loan contracts is triggered. Taking into account the Group's current financial position and recent positive feedbacks from the banks, the directors are very confident to believe that the bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

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

- (a) The Group's certain bank borrowings and other borrowings are guaranteed by CGA and its subsidiary as at 31 December 2020 and 2019;
- (b) The Group's certain bank and other borrowings are secured by:
 - (i) the property, plant and equipment with an aggregate net book value of RMB84,492,000 (31 December 2019: RMB81,276,000), leasehold land with an aggregate net book value of RMB31,417,000 (31 December 2019: nil) and investment property amounting to RMB228,436,000 (31 December 2019: nil);
 - (ii) finance lease receivables which amounted to RMB109,998,000 (31 December 2019: RMB62,856,000);
 - (iii) the pledge of certain of the Group's time deposits amounting to RMB20,000,000 (31 December 2019: nil); and
 - (iv) mortgages over the vehicle certificates for certain of the Group's inventories with a carrying value of RMB25,773,000 (31 December 2019: RMB157,545,000).
- (c) The Group's certain bank and other borrowings are secured and guaranteed as follows:
 - (i) the pledge of certain of the Group's time deposits amounting to RMB48,000,000 and guaranteed by CGA and its subsidiary as at 31 December 2020 (31 December 2019: Nil); and
 - (ii) by mortgages over the vehicle certificates for certain of the Group's inventories, which had an aggregate carrying value of RMB1,069,083,000 and guaranteed by CGA as at 31 December 2020 (31 December 2019: RMB629,766,000).
- (d) As at 31 December 2020, the Group had unutilised banking facilities of RMB8,474,657,000 (31 December 2019: RMB7,189,542,000).

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29. TRADE AND BILLS PAYABLES

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--------------------------|---|--------------------------------|
| Trade payables | 452,380 | 348,363 |
| Bills payable | 6,496,786 | 6,238,557 |
| Trade and bills payables | 6,949,166 | 6,586,920 |

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

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|-----------------|---|--------------------------------|
| Within 3 months | 6,173,411 | 6,258,045 |
| 3 to 6 months | 602,668 | 294,285 |
| 6 to 12 months | 171,035 | 7,832 |
| Over 12 months | 2,052 | 26,758 |
| | 6,949,166 | 6,586,920 |

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

30. OTHER PAYABLES AND ACCRUALS

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--|---|--------------------------------|
| Contract liabilities | 976,576 | 912,790 |
| Taxes payable (other than income tax) | 67,946 | 107,974 |
| Payables for purchase of items of property, plant and equipment | 14,548 | 10,645 |
| Payables for short-term lease | 16,029 | 17,168 |
| Interest payables | 10,339 | 31,558 |
| Staff payroll and welfare payables | 67,633 | 83,298 |
| Payables for purchase of equity interests from third parties and acquisition of non-controlling interests | 14,800 | 9,303 |
| Others | 159,153 | 194,113 |
| | 1,327,024 | 1,366,849 |

Details of contract liabilities are as follows:

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--|---|--------------------------------|
| <i>Short-term advances received from customers</i> | | |
| Sale of motor vehicles | 757,808 | 694,028 |
| After-sales services | 218,768 | 218,762 |
| Total contract liabilities | 976,576 | 912,790 |

Contract liabilities include short-term advances received to deliver new motor vehicles and after-sales services. The increase in contract liabilities in 2020 was mainly due to the increase in short-term advances received from customers in relation to the sale of new motor vehicles and after-sales services at the end of the year. In December 2020, the Company also disposed of contract liabilities to a third party for a consideration of RMB31,542,000.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

31. DERIVATIVE FINANCIAL INSTRUMENTS

| | 31 December 2020 | |
|---------------------------------------|-------------------|------------------------|
| | Assets RMB'000 | Liabilities RMB'000 |
| Qualified for hedge accounting | | |
| Interest rate swaps | - | 35,973 |
| Analysed as: | | |
| Current | - | - |
| Non-current | - | 35,973 |

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

The Group has entered into various currency contracts and interest rate swaps. As at 31 December 2020, the forward currency contracts have been already settled. As at 31 December 2020, the interest rate swaps are designated for hedging purpose.

31. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge – Interest rate risk

As at 31 December 2020, the Group had interest rate swaps with financial institutions with an aggregate notional amount of US\$190,500,000 whereby it received a floating rate of interest on the notional amount at the LIBOR monthly and pays a fixed rate of interest on the notional amount. The interest rate swaps are being used to hedge the interest rate risk in relation to a US\$ denominated floating rate bank borrowing with a principal of US\$190,500,000.

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

Hedge ineffectiveness can arise from:

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

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

| | Notional amount US\$'000 | Carrying amount RMB'000 | Line item in the consolidated statement of financial position | Change in fair value used for measuring hedge ineffectiveness for the year RMB'000 |
|-------------------------------|-----------------------------|----------------------------|---|---|
| As at 31 December 2020 | | | | |
| Interest rate swaps | 190,500 | (35,973) | Derivative financial instruments (liabilities) | (35,973) |
| As at 31 December 2019 | | | | |
| Interest rate swaps | 190,500 | (27,342) | Derivative financial instruments (liabilities) | (27,342) |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

31. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge – Interest rate risk (continued)

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

| | Change in fair value used for measuring hedge ineffectiveness for the year RMB'000 | Cash flow hedge reserve RMB'000 |
|-------------------------------|---|---------------------------------------|
| As at 31 December 2020 | | |
| Interest rate swaps | (35,973) | (34,293) |
| As at 31 December 2019 | | |
| Interest rate swaps | (27,342) | (26,876) |

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

| | Total hedging loss recognised in other comprehensive income | | | Loss amount reclassified from other comprehensive income to profit or loss | | | Line item (gross amount) in the consolidated statement of profit or loss RMB'000 |
|------------------------------------|--|--------------------------|------------------|--|--------------------------|------------------|--|
| | Gross amount RMB'000 | Tax effect RMB'000 | Total RMB'000 | Gross amount RMB'000 | Tax effect RMB'000 | Total RMB'000 | |
| | | | | | | | |
| Year ended 31 December 2020 | | | | | | | |
| Interest rate swaps | (58,634) | - | (58,634) | 24,341 | - | 24,341 | Finance costs |
| Year ended 31 December 2019 | | | | | | | |
| Interest rate swaps | (29,764) | - | (29,764) | 2,888 | - | 2,888 | Finance costs |

Fair value hedge – Foreign currency risk

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

31. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair value hedge – Foreign currency risk (continued)

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

The hedge ineffectiveness can arise from:

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

As of ended 31 December 2020, the forward currency contracts designated for hedging purposes have been settled. The total fair value adjustments loss of settled forward currency contracts that recognised in foreign exchange differences amounted to RMB26,159,000 during the year ended 31 December 2020 (2019: RMB10,049,000).

32. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the People's Republic of China (the "PRC") state regulations, the subsidiaries of Mainland China participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 16% to 40% (2019: 13% to 20%) of the previous year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries. The Group has no obligation for the payment of pension benefits beyond the annual contributions as set out above.

According to the relevant rules and regulations of the PRC, the Mainland China subsidiaries and their employees are each required to make contributions to an accommodation fund at 5% to 12% (2019: 5% to 12%) of the salaries and wages of the employees which is administered by the Public Accumulation Funds Administration Centre. There is no further obligation on the part of the Group except for such contributions to the accommodation fund.

As at 31 December 2020, the Group had no significant obligation apart from the contributions stated above.

NOTES TO FINANCIAL STATEMENTS

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33. DEFERRED TAX

(a) Deferred tax assets

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

| | Losses available for offsetting against future taxable profits RMB'000 | Accrued expenses RMB'000 | Inventory impairment RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|--------------------------------|------------------------------------|-------------------|------------------|
| At 31 December 2018 and 1 January 2019 | 124,159 | 14,100 | 2,982 | 29,595 | 170,836 |
| Deferred tax recognised in the consolidated statement of profit or loss during the year (Note 8(a)) | 43,507 | 7,101 | 1,915 | 22,591 | 75,114 |
| At 31 December 2019 | 167,666 | 21,201 | 4,897 | 52,186 | 245,950 |
| At 31 December 2019 and 1 January 2020 | 167,666 | 21,201 | 4,897 | 52,186 | 245,950 |
| Deferred tax recognised in the consolidated statement of profit or loss during the year (Note 8(a)) | 64,006 | 10,471 | 2,059 | (1,668) | 74,868 |
| At 31 December 2020 | 231,672 | 31,672 | 6,956 | 50,518 | 320,818 |

33. DEFERRED TAX (continued)

(b) Deferred tax liabilities

| | Capitalisation of costs in relation to construction in progress RMB'000 | Fair value adjustment arising from acquisition of subsidiaries RMB'000 | Gain on exchange of assets RMB'000 | Fair value adjustment of investment properties RMB'000 | Others RMB'000 | Total RMB'000 |
|--|--|---|---|--|-------------------|------------------|
| At 31 December 2018 and 1 January 2019 | 38,889 | 399,675 | 53,861 | 28,334 | 16,886 | 537,645 |
| Deferred tax recognised in the consolidated statement of profit or loss during the year (Note 8(a)) | (1,816) | (16,959) | (53,861) | 10,287 | 27,537 | (34,812) |
| At 31 December 2019 | 37,073 | 382,716 | - | 38,621 | 44,423 | 502,833 |
| At 31 December 2019 and 1 January 2020 | 37,073 | 382,716 | - | 38,621 | 44,423 | 502,833 |
| Deferred tax recognised in the consolidated statement of profit or loss during the year (Note 8(a)) | (1,525) | (16,680) | - | 2,280 | 11,240 | (4,685) |
| At 31 December 2020 | 35,548 | 366,036 | - | 40,901 | 55,663 | 498,148 |

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

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--|---|--------------------------------|
| Net deferred tax assets recognised in the consolidated statement of financial position | 302,349 | 243,694 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | (479,679) | (500,577) |
| Net deferred tax liabilities | (177,330) | (256,883) |

33. DEFERRED TAX (continued)

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

At 31 December 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group’s subsidiaries and joint ventures established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries and the joint venture will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries and joint ventures in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB8,041,610,861 at 31 December 2020 (31 December 2019: RMB7,576,865,513).

Deferred tax assets of RMB415,482,000 (31 December 2019: RMB448,161,000) have not been recognised in respect of tax losses arising in Mainland China as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised. These tax losses will expire in one to five years.

34. SHARE CAPITAL

| Shares | 31 December 2020 | 31 December 2019 |
|---|--|--|
| Authorised: Ordinary shares | 5,000,000,000 shares of HK\$0.01 each | 5,000,000,000 shares of HK\$0.01 each |
| Issued and fully paid: Ordinary shares | 2,837,511,429 shares of HK\$0.01 each | 2,837,511,429 shares of HK\$0.01 each |
| Equivalent to RMB'000 | 23,277 | 23,277 |

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

| | Number of shares in issue | Share capital RMB'000 | Share premium RMB'000 | Total RMB'000 |
|---|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------|
| At 1 January 2019 | 2,837,311,429 | 23,275 | 2,372,411 | 2,395,686 |
| Share options exercised | 200,000 | 2 | 571 | 573 |
| At 31 December 2019 | 2,837,511,429 | 23,277 | 2,372,982 | 2,396,259 |
| At 1 January 2020 and 31 December 2020 | 2,837,511,429 | 23,277 | 2,372,982 | 2,396,259 |

Details of the Company's share option scheme and the share options issued under the scheme are included in note 35 to the financial statements.

35. SHARE OPTION SCHEME

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

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

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

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

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

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

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

35. SHARE OPTION SCHEME (continued)

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

| | 2020 | | 2019 | |
|---------------------------|--|-------------------|--|-------------------|
| | Weighted average exercise price HK\$ per share | Number of options | Weighted average exercise price HK\$ per share | Number of options |
| At 1 January | 3.256 | 67,720,000 | 3.256 | 75,000,000 |
| Exercised during the year | N/A | – | 3.256 | (200,000) |
| Forfeited during the year | 3.256 | (10,570,000) | 3.256 | (7,080,000) |
| At 31 December | 3.256 | 57,150,000 | 3.256 | 67,720,000 |

The exercise prices and exercise periods of the share options outstanding as of 31 December 2020 are as follows:

| Number of options | Exercise price HK\$ per share | Exercise period |
|-------------------|----------------------------------|------------------------|
| 17,005,000 | 3.256 | 28-3-2019 to 27-3-2028 |
| 17,205,000 | 3.256 | 28-3-2020 to 27-3-2028 |
| 22,940,000 | 3.256 | 28-3-2021 to 27-3-2028 |

The Group recognised a share option expense of RMB12,697,000 (2019: RMB30,621,000) during the year ended 31 December 2020.

At of 31 December 2020, the Company had 57,150,000 share options outstanding under the Scheme (31 December 2019: 67,720,000). The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 57,150,000 additional ordinary shares of the Company and additional share capital of HK\$572,000 and share premium of HK\$185,509,000 (before issue expenses).

36. RESERVES

(i) Statutory reserve

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

(ii) Merger reserve

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

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36. RESERVES (continued)

(iii) Other reserve

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

(iv) Exchange fluctuation reserve

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

37. DISPOSAL OF SUBSIDIARIES

On 30 June 2020, the Company disposed of 100% equity interests in Sichuan Ganghong Xinyue Automobile Services Co., Ltd., Shanghai Taipingyang Shenlong Automobile Sales & Services Co., Ltd., and Beijing Chendebao Used Motor Vehicles Agent Co., Ltd. to China Grand Auto Services (Hong Kong) Co., Ltd. (a company controlled by CGA) for a total consideration of RMB9,730,000.

Details of the net assets disposed of are as follows:

| | 31 December 2020 RMB'000 |
|---|---|
| Net assets disposed of: | |
| Cash and cash equivalents | 756 |
| Trade receivables | 4,125 |
| Prepayments, other receivables and other assets | 16,950 |
| Inc: Amounts due from related parties | 9,749 |
| Property, plant and equipment | 1,136 |
| Income tax payable | (90) |
| Other payables and accruals | (11,760) |
| Inc: Amounts due to related parties | (6,919) |
| Net assets disposed of | 11,117 |
| Loss on disposal of subsidiaries | 1,387 |
| Consideration satisfied by cash | 9,730 |

An analysis of the cash flows of cash and cash equivalents in respect of disposal of subsidiaries is as follows:

| | RMB'000 |
|--|----------------|
| Cash consideration | 9,730 |
| Cash and cash equivalents disposed of | (756) |
| Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries | 8,974 |

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

| 2020 | Lease liabilities RMB'000 | Amounts due to related parties – non trade RMB'000 | Interest-bearing bank and other borrowings RMB'000 |
|---|------------------------------|---|---|
| At 1 January 2020 | 1,436,250 | 875,782 | 9,628,089 |
| Changes from financing cash flows | (251,082) | 2,668,677 | (3,593,952) |
| New leases | 227,473 | – | – |
| Interest expense | 84,993 | 103,534 | 37,314 |
| Interest paid classified as operating cash flows | (84,993) | – | – |
| Covid-19-related rent concessions from lessors | (11,963) | – | – |
| Revision of a lease term arising from a change in the non-cancellable period of a lease | (22,342) | – | – |
| Foreign exchange movement | – | – | (22,274) |
| At 31 December 2020 | 1,378,336 | 3,647,993 | 6,049,177 |

| 2019 | Lease liabilities RMB'000 | Amounts due to related parties RMB'000 | Interest-bearing bank and other borrowings RMB'000 |
|--|------------------------------|---|---|
| At 31 December 2018 | 240,909 | 1,264,850 | 9,670,476 |
| Effect of adoption of HKFRS 16 | 1,266,446 | – | – |
| At 1 January 2019 (restated) | 1,507,355 | 1,264,850 | 9,670,476 |
| Changes from financing cash flows | (355,611) | 1,201,800 | (229,281) |
| New leases | 284,506 | – | – |
| Foreign exchange movement | – | – | 106,995 |
| Interest expense | 90,342 | 3,859 | 79,899 |
| Interest paid classified as operating cash flows | (90,342) | (3,908) | – |
| Repayment of advances to related parties | – | (1,590,819) | – |
| At 31 December 2019 | 1,436,250 | 875,782 | 9,628,089 |

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

(b) Total cash outflow for leases

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

| | 2020 RMB'000 | 2019 RMB'000 |
|-----------------------------|-------------------------------|-----------------|
| Within operating activities | 84,993 | 90,342 |
| Within financing activities | 251,082 | 355,611 |
| | 336,075 | 445,953 |

39. FINANCIAL INSTRUMENTS BY CATEGORY

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

The carrying amounts of financial assets at fair value through profit or loss – derivative financial instruments and financial assets at amortised cost as at 31 December 2020 were nil and approximately RMB5,969,260,000, respectively (31 December 2019: RMB26,127,000 and RMB14,479,630,000, respectively).

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

The carrying amounts of financial liabilities at fair value through profit or loss – derivative financial instruments and financial liabilities at amortised cost as at 31 December 2020 were approximately RMB35,970,000 and RMB18,350,720,000, respectively (31 December 2019: RMB27,340,000 and RMB18,904,830,000, respectively).

40. CONTINGENT LIABILITIES

As at 31 December 2020, the Group did not have any significant contingent liabilities (31 December 2019: Nil).

41. COMMITMENTS

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

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--|---|--------------------------------|
| Contracted, but not provided for: Land use rights and buildings | 1,021 | 2,214 |
| Authorised, but not contracted for: Land use rights and buildings | 13,689 | 25,189 |
| | 14,710 | 27,403 |

In addition, the Group's share of the associates' own capital commitments, which are not included in the above, is as follows:

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|----------------------------------|---|--------------------------------|
| Contracted, but not provided for | 29,400 | – |

42. PLEDGE OF ASSETS

Details of the Group's assets pledged for its bank and other borrowings and bills payable are disclosed in note 13, note 14, note 15, note 18, note 22 and note 25, respectively, to the consolidated financial statements.

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43. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Transactions with related parties

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

| | | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--|--------|---|--------------------------------|
| Sales of goods to: | (i) | | |
| CGA's joint venture | | 15,510 | – |
| CGA and companies controlled by CGA | | 947 | 1,469 |
| | | 16,457 | 1,469 |
| Purchases of goods from: | (ii) | | |
| CGA and companies controlled by CGA | | 328 | 1,057 |
| Office rental income from: | (iii) | | |
| CGA and companies controlled by CGA | | 861 | 271 |
| Office lease expenses paid or payable by: | (iv) | | |
| CGA and companies controlled by CGA | | 4,208 | 2,509 |
| Commission charged by: | (v) | | |
| Xinjiang Baoqian Motor Vehicle Auction Service Co., Ltd. | | 6,358 | – |
| Service rendered to: | (vi) | | |
| CGA and companies controlled by CGA | | 130 | – |
| Service received from: | (vi) | | |
| A company controlled by CGA's joint venture | | 289 | 2,776 |
| A company controlled by CGA | | – | 101 |
| | | 289 | 2,877 |
| Borrowings from related parties: | (vii) | | |
| CGA and companies controlled by CGA | | 4,174,045 | 1,201,800 |
| Repayment of borrowings from related parties: | (vii) | | |
| CGA and companies controlled by CGA | | 1,505,368 | 1,590,819 |
| Interest expenses: | (vii) | | |
| CGA and companies controlled by CGA | | 103,534 | 4,812 |
| Disposal of subsidiaries to a related party: | (viii) | | |
| A company controlled by CGA | | 9,730 | – |
| Cost from financial leasing services: | | | |
| A company controlled by CGA | | – | 14,996 |

43. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Transactions with related parties (continued)

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

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|--------------------------------|
| Deposits paid to: CGA's joint venture | 14,400 | – |
| Payments on behalf of: | | |
| Deyang Nanling Ganghong Automobile Sales Service Co., Ltd. | 18,553 | – |
| Wuxi Kailong Real Estate Co., Ltd. | 15,002 | 1,397 |
| Shanghai Rongzhi Catering Management Co., Ltd. | 6,984 | – |
| | 40,539 | 1,397 |

- (i) The sales of goods were made according to the published prices and conditions offered to the major customers of the Group.
- (ii) The purchases of goods were made according to the published prices and conditions offered by related parties to their major customers.
- (iii) The office rental income arose from operating lease of the Group's office to CGA and companies controlled by CGA according to the market price.
- (iv) The office lease expenses were charged by CGA and companies controlled by CGA according to the market price. The operating leases have been recognised as right-of-use assets and lease liabilities in the financial statements, upon the adoption of HKFRS 16 *Leases* effective from 1 January 2019. The above-mentioned lease expenses were the amounts paid or payable for the years presented.
- (v) The commission expense was charged for agency service of selling used car provided by the related party. The price was determined according to the published prices and conditions offered to the major customers of the related party.
- (vi) The prices for the technology support services were determined in accordance with the prevailing market prices.
- (vii) In year ended 31 December 2020, the Company borrowed a total of RMB4,174,045,000 from companies controlled by CGA. The loan will be due in one to three years and the interest rate was in line with the benchmark interest rate prescribed by the People's Bank of China.
- (viii) For details of the disposal of subsidiaries, please refer to note 37.

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43. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Transactions with related parties (continued)

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

(b) Other transactions with related parties:

The Company's ultimate holding company has guaranteed certain bank and other borrowings made to the Group of up to RMB4,976,853,000 as at the end of the reporting period, as disclosed in note 28 to the financial statements.

(c) Balances with related parties

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

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--|---|--------------------------------|
| Amounts due from related parties: | | |
| Wuxi Kailong Real Estate Co., Ltd. | 25,289 | 10,287 |
| Deyang Nanling Ganghong Automobile Sales Service Co., Ltd. | 18,553 | – |
| Xinjiang Grand Real Estate Development Co., Ltd. | 8,811 | 8,815 |
| Shanghai Rongzhi Catering Management Co., Ltd. | 6,984 | – |
| Xinjiang Guanghui Coal Clean Refining & Chemical Co., Ltd. | 4,365 | 4,365 |
| CGA and companies controlled by CGA | 3,160 | 2,761 |
| CGA's joint venture | 91 | – |
| A company controlled by CGA's joint venture | 86 | 246 |
| | 67,339 | 26,474 |

The amounts due from related parties are unsecured, interest-free and has no fixed terms of repayment.

43. RELATED PARTY TRANSACTIONS AND BALANCES (continued)**(c) Balances with related parties (continued)**

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--|---|--------------------------------|
| Amounts due to related parties – current | | |
| CGA and companies controlled by CGA | 36,725 | 888,947 |
| CGA's joint venture | 14,400 | – |
| Xinjiang Baoqian Motor Vehicle Auction Service Co., Ltd. | 6,713 | – |
| | 57,838 | 888,947 |
| Amounts due to related parties – non-current | | |
| A company controlled by CGA (note) | 3,621,875 | – |

Note: On 18 May 2020, the Group borrowed a loan of RMB3,520,000,000 from a company controlled by CGA with a interest rate of 4.6% per annum. The principal and interest due on 18 May 2023. Early repayment is allowed.

Apart from the above-mentioned loan, the amounts due to related parties are unsecured, interest-free and has no fixed terms of repayment. Please refer to note 45 for maturity profile.

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

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|--------------------------------|
| Short term employee benefits | 4,074 | 4,701 |
| Equity-settled share option expense | 341 | 6,060 |
| Total compensation paid to key management personnel | 4,415 | 10,761 |

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

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44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

The fair values of the non-current portion of prepayments and deposits, finance lease receivables, interest-bearing bank and other borrowings, lease liabilities and other payables have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for finance lease receivables, interest-bearing bank and other borrowings and lease liabilities as 31 December 2020 was assessed to be insignificant. Management has assessed that the fair values of the non-current portion of bank and other borrowings with floating interest rates approximate to their carrying amounts because the interest rates are adjusted periodically by reference to the fair market interest rates.

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

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

As at 31 December 2020

| | Carrying amounts RMB'000 | Fair value RMB'000 |
|---|--------------------------------|-----------------------|
| Financial liabilities | | |
| Interest-bearing bank and other borrowings at fixed interest rate, non-current | 691,527 | 696,575 |
| Amounts due to related parties, non-current | 3,621,875 | 3,587,668 |
| | 4,313,402 | 4,284,243 |

As at 31 December 2019

| | Carrying amounts RMB'000 | Fair value RMB'000 |
|---|--------------------------------|-----------------------|
| Financial liabilities | | |
| Interest-bearing bank and other borrowings at fixed interest rate, non-current | 1,939,752 | 1,944,029 |

NOTES TO FINANCIAL STATEMENTS

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

Fair value hierarchy

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

As at 31 December 2020

| | Fair value measurement using | | | Total RMB'000 |
|--|---|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| Liabilities measured at fair value: | | | | |
| Derivative financial instruments | – | 35,973 | – | 35,973 |

As at 31 December 2019

| | Fair value measurement using | | | Total RMB'000 |
|--|---|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| Assets measured at fair value: | | | | |
| Derivative financial instruments | – | 26,127 | – | 26,127 |
| Liabilities measured at fair value: | | | | |
| Derivative financial instruments | – | 27,342 | – | 27,342 |

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

In terms of the fair value disclosure for the non-current portions of amounts due from related parties, pledged deposits, interest-bearing bank and other borrowings with fixed interest rate and amounts due to related parties, the fair values were measured using significant observable inputs (level 2).

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Interest rate risk

The Group has no significant interest-bearing assets other than pledged deposits (Note 25) and cash and bank balances (Note 27).

The Group's interest rate risk arises from its interest-bearing bank and other borrowings, details of which are set out in Note 28. Borrowings at floating interest rates expose the Group to the risk of changes in market interest rates.

As at 31 December 2019, the Group has entered into an interest swap contract to manage its interest rate exposures. The interest swap contract is designated for hedge purposes and is measured at fair value through profit or loss. As at 31 December 2020, a liability measured at fair value of RMB35,973,000 was recognised by the Group on the interest rate swap.

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

| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax RMB'000 |
|-------------|---|--|
| 2020 | | |
| US\$ | 50 | (6,201) |
| US\$ | (50) | 6,201 |

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

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

Credit risk

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

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2020 and 2019. The amounts presented are gross carrying amounts for financial assets.

as at 31 December 2020

| | 12-month ECLs | Lifetime ECLs | | | Total RMB'000 |
|--|--------------------|--------------------|--------------------|-----------------------------------|------------------|
| | Stage 1 RMB'000 | Stage 2 RMB'000 | Stage 3 RMB'000 | simplified approach RMB'000 | |
| Trade receivables | - | - | - | 409,040 | 409,040 |
| Finance lease receivables | 245,286 | 1,022 | 11,104 | - | 257,412 |
| Financial assets included in prepayments, other receivables and other assets | 7,813,932 | - | - | - | 7,813,932 |
| Amounts due from related parties | 64,075 | - | - | - | 64,075 |
| | 8,123,293 | 1,022 | 11,104 | 409,040 | 8,544,459 |

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

as at 31 December 2019

| | 12-month ECLs | Lifetime ECLs | | | Total RMB'000 |
|--|--------------------|--------------------|--------------------|-----------------------------------|------------------|
| | Stage 1 RMB'000 | Stage 2 RMB'000 | Stage 3 RMB'000 | simplified approach RMB'000 | |
| Trade receivables | – | – | – | 617,686 | 617,686 |
| Finance lease receivables | 317,728 | 1,714 | 3,322 | – | 322,764 |
| Financial assets included in prepayments, other receivables and other assets | 8,333,183 | – | – | – | 8,333,183 |
| Amounts due from related parties | 26,474 | – | – | – | 26,474 |
| | 8,677,385 | 1,714 | 3,322 | 617,686 | 9,300,107 |

For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix at 31 December 2020 and 2019 is set as below:

31 December 2020

| | Ageing | | |
|----------------------------------|--------------------|-----------------------|-------------|
| | Within 3 months | 3 months to 1 year | Over 1 year |
| Expected credit loss rate | – | 3% | 8% |
| Gross carrying amount (RMB'000) | 354,440 | 40,940 | 13,660 |
| Expected credit losses (RMB'000) | – | 1,228 | 1,093 |

31 December 2019

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

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

For finance lease receivables to which the Group applies general approach for impairment, information based on the provision matrix at 31 December 2020 and 2019 is set as below:

31 December 2020

| | Lifetime ECLs | | |
|----------------------------------|---------------|---------|---------|
| | Stage 1 | Stage 2 | Stage 3 |
| Expected credit loss rate | 2.6% | 25.3% | 70.0% |
| Gross carrying amount (RMB'000) | 245,286 | 1,022 | 11,104 |
| Expected credit losses (RMB'000) | 6,397 | 259 | 7,770 |

31 December 2019

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

For the financial assets included in prepayments, other receivables, amount due from related party and other assets to which the Group applies the general approach for impairment, there was no recent history of default. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate was 0.2% because management estimate the credit quality of these financial assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

As at 31 December 2020 and 2019, all pledged bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

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

As at 31 December 2020

| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to 12 months RMB'000 | 1 to 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
|--|----------------------|----------------------------------|------------------------------|----------------------------|----------------------------|-------------------|
| Interest-bearing bank and other borrowings | 1,305,178 | 2,517,847 | 1,679,563 | 760,667 | – | 6,263,255 |
| Amounts due to related parties | 57,838 | – | – | 4,005,760 | – | 4,063,598 |
| Trade and bills payables | 452,380 | 5,810,832 | 698,265 | – | – | 6,961,477 |
| Financial liabilities in other payables and accruals | 294,333 | – | – | – | – | 294,333 |
| Lease liabilities | – | 74,491 | 184,834 | 743,418 | 959,538 | 1,962,281 |
| | 2,109,729 | 8,403,170 | 2,562,662 | 5,532,533 | 959,538 | 19,544,944 |

As at 31 December 2019

| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to 12 months RMB'000 | 1 to 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
|--|----------------------|----------------------------------|------------------------------|----------------------------|----------------------------|------------------|
| Interest-bearing bank and other borrowings | 29,000 | 2,261,660 | 5,641,023 | 1,819,938 | 304,912 | 10,056,533 |
| Amounts due to related parties | 888,947 | – | – | – | – | 888,947 |
| Trade and bills payables | 348,363 | 5,550,538 | 703,373 | – | – | 6,602,274 |
| Financial liabilities in other payables and accruals | 364,619 | – | – | – | – | 364,619 |
| Lease liabilities | – | 81,741 | 221,005 | 757,757 | 848,134 | 1,908,637 |
| | 1,630,929 | 7,893,939 | 6,565,401 | 2,577,695 | 1,153,046 | 19,821,010 |

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group conducts its business primarily in Renminbi. Certain bank deposits and interest-bearing bank and other borrowings were denominated in foreign currencies. In the year ended 31 December 2019, the Group's operating cash flows and liquidity have not been subject to significant influence from fluctuations in exchange rates, as the Group has entered into forward currency contracts to manage its exchange rate exposures. During the year ended 31 December 2020, the Group has settled the currency contract.

| | Increase/ (decrease) in rate of % | Increase/ (decrease) in profit before tax RMB'000 |
|------------------------------|--|---|
| 2020 | | |
| US\$ strengthens against RMB | 5 | (57,181) |
| US\$ weakens against RMB | (5) | 57,181 |
| HK\$ strengthens against RMB | 5 | 102,185 |
| HK\$ weakens against RMB | (5) | (102,185) |

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 31 December 2019.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|--|---|--------------------------------|
| Interest-bearing bank and other borrowings | 6,049,177 | 9,628,089 |
| Trade and bills payables | 6,949,166 | 6,586,920 |
| Other payables and accruals | 1,336,636 | 1,380,553 |
| Amounts due to related parties - non-current | 3,621,875 | – |
| Less: Cash and bank balances | (1,945,627) | (1,663,106) |
| Net debt | 16,011,227 | 15,932,456 |
| Equity attributable to owners of the parent | 8,003,169 | 7,669,584 |
| Gearing ratio | 66.7% | 67.5% |

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46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

| | 31 December 2020 RMB'000 | 31 December 2019 RMB'000 |
|---|---|--------------------------------|
| NON-CURRENT ASSETS | | |
| Investments in subsidiaries | 1,644,555 | 1,714,614 |
| Total non-current assets | 1,644,555 | 1,714,614 |
| CURRENT ASSETS | | |
| Prepayments, other receivables and other assets | 1,062 | 759 |
| Amounts due from subsidiaries | 5,890,652 | 6,300,836 |
| Derivative financial instruments | – | 26,127 |
| Cash and cash equivalents | 47,398 | 116,831 |
| Total current assets | 5,939,112 | 6,444,553 |
| CURRENT LIABILITIES | | |
| Interest-bearing bank and other borrowings | 186,458 | 4,059,427 |
| Other payables and accruals | 3,592,482 | 102,892 |
| Amounts due to subsidiaries | 1,883,797 | 1,529,423 |
| Total current liabilities | 5,662,737 | 5,691,742 |
| NET CURRENT ASSETS | 276,375 | 752,811 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 1,920,930 | 2,467,425 |
| NON-CURRENT LIABILITIES | | |
| Interest-bearing bank and other borrowings | 1,036,700 | 1,300,543 |
| Derivative financial instruments | 35,973 | 27,342 |
| Total non-current liabilities | 1,072,673 | 1,327,885 |
| NET ASSETS | 848,257 | 1,139,540 |
| EQUITY | | |
| Share capital | 23,277 | 23,277 |
| Reserves (note) | 824,980 | 1,116,263 |
| Total equity | 848,257 | 1,139,540 |

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

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

| | Share premium RMB'000 | Share option reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Other reserve RMB'000 | Accumulated losses RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|---|-----------------------------|---------------------------------------|---|-----------------------------|----------------------------------|---------------------------------|------------------|
| At 1 January 2019 | 2,372,411 | 76,998 | (161,084) | 2,651 | (1,184,231) | - | 1,106,745 |
| Total comprehensive income for the year | - | - | (2,154) | - | (47,314) | - | (49,468) |
| Equity-settled share options exercised | 571 | (274) | - | - | - | 274 | 571 |
| Equity-settled share options forfeited | - | (7,049) | - | - | - | 7,049 | - |
| Equity-settled share option arrangements | - | 30,621 | - | - | - | - | 30,621 |
| Cash flow hedges | - | - | - | (26,876) | - | - | (26,876) |
| Time value component of fair value hedges | - | - | - | 54,670 | - | - | 54,670 |
| At 31 December 2019 and 1 January 2020 | 2,372,982 | 100,296 | (163,238) | 30,445 | (1,231,545) | 7,323 | 1,116,263 |
| Total comprehensive income for the year | - | - | 8,120 | - | (304,716) | - | (296,596) |
| Equity-settled share options forfeited | - | (2,944) | - | - | - | 2,944 | - |
| Equity-settled share option arrangements | - | 12,697 | - | - | - | - | 12,697 |
| Cash flow hedges | - | - | - | (7,416) | - | - | (7,416) |
| Time value component of fair value hedges | - | - | - | 32 | - | - | 32 |
| At 31 December 2020 | 2,372,982 | 110,049 | (155,118) | 23,061 | (1,536,261) | 10,267 | 824,980 |

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

47. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of Directors on 26 March 2021.

FIVE-YEAR FINANCIAL SUMMARY

Year ended 31 December 2020

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

| | 2020 RMB'000 | Year ended December 31, | | | |
|--|---------------------|-------------------------|--------------------------------|--------------------------------|--------------------------------|
| | | 2019 RMB'000 | 2018* RMB'000 (Restated) | 2017* RMB'000 (Restated) | 2016* RMB'000 (Restated) |
| REVENUE | 35,134,341 | 36,463,878 | 36,790,736 | 34,557,985 | 25,708,800 |
| Cost of sales and services provided | (33,384,256) | (33,617,970) | (34,003,949) | (31,622,151) | (23,675,264) |
| Gross profit | 1,750,085 | 2,845,908 | 2,786,787 | 2,935,834 | 2,033,536 |
| Other income and gains, net | 1,082,446 | 869,641 | 834,147 | 601,145 | 524,034 |
| Selling and distribution expenses | (1,108,724) | (1,210,639) | (1,251,045) | (1,091,154) | (878,775) |
| Administrative expenses | (671,809) | (727,135) | (747,465) | (557,014) | (608,355) |
| Profit from operations | 1,051,998 | 1,777,775 | 1,622,424 | 1,888,811 | 1,070,440 |
| Finance costs | (646,330) | (822,183) | (706,522) | (730,513) | (486,616) |
| Share of profit of a joint venture | 265 | 1,988 | 1,978 | 542 | 5,795 |
| Share of profit/(loss) of associates | 50 | 59,229 | (14,550) | 4,919 | (137) |
| Profit before tax | 405,983 | 1,016,809 | 903,330 | 1,163,759 | 589,482 |
| Income tax expense | (205,301) | (394,052) | (346,226) | (357,423) | (172,583) |
| Profit for the year | 200,682 | 622,757 | 557,104 | 806,336 | 416,899 |
| Attributable to: | | | | | |
| Owners of the parent | 211,418 | 629,202 | 556,282 | 807,923 | 414,226 |
| Non-controlling interests | (10,736) | (6,445) | 822 | (1,587) | 2,673 |
| | 200,682 | 622,757 | 557,104 | 806,336 | 416,899 |
| ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS | | | | | |
| TOTAL ASSETS | 28,561,475 | 28,777,820 | 28,157,804 | 25,741,972 | 21,803,552 |
| TOTAL LIABILITIES | 20,549,301 | 21,080,641 | 21,051,019 | 18,792,796 | 16,761,232 |
| NON-CONTROLLING INTEREST | 9,005 | 27,595 | 35,040 | 39,362 | 39,731 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT | 8,003,169 | 7,669,584 | 7,071,745 | 6,909,814 | 5,002,589 |

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



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