润东汽车

China Rundong Auto Group Limited
中國潤東汽車集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1365)

ANNOUNCEMENT OF THE AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

Reference is made to the announcement of China Rundong Auto Group Limited (the "**Company**") dated 31 March 2020 in relation to the unaudited annual results (the "**Unaudited Annual Results**") of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2019 (the "**Unaudited Annual Results Announcement**"). Unless otherwise specified, capitalised terms used in this announcement shall have the same meaning as those defined in the Unaudited Annual Results Announcement.

The Board of Directors is pleased to announce that the Group has completed the audit process of the annual results for the year ended 31 December 2019. As the Group has made certain adjustments to the Unaudited Annual Results of the Group as set out in the Unaudited Annual Results Announcement, according to Rule 13.49 (3)(ii)(b) of the Listing Rules, differences between the Unaudited Annual Results Announcement and the audited annual results for the year ended 31 December 2019 (the "**Audited Annual Results**") contained in this announcement are set out in "Material Differences between the Unaudited and Audited Annual Results" section of this announcement. The audited consolidated results for the year ended 31 December 2019, together with the comparative figures for the year ended 31 December 2018 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	5(a)	**7,635,941**	12,712,630
Cost of sales	6(b)	**(8,677,565)**	(12,300,471)
Gross (loss)/profit		**(1,041,624)**	412,159
Other income and gains	5(b)	**204,709**	559,133
Selling and distribution expenses		**(423,735)**	(482,712)
Administrative expenses		**(759,341)**	(587,831)
Other expenses	6(c)	**(3,550,601)**	(823,869)
Finance costs	7	**(353,920)**	(531,119)
Loss before tax	6	**(5,924,512)**	(1,454,239)
Income tax credit/(expense)	8	**79,432**	(64,047)
Loss for the year		**(5,845,080)**	(1,518,286)
Loss for the year attributable to:			
Owners of the parent		**(5,843,776)**	(1,513,797)
Non-controlling interests		**(1,304)**	(4,489)
		(5,845,080)	(1,518,286)
Loss per share attributable to ordinary equity holders of the parent:	11		
Basic and diluted			
For loss for the year (RMB)		**(6.17)**	(1.60)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019	2018
	RMB'000	*RMB'000*
Loss for the year	**(5,845,080)**	(1,518,286)
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(3,012)**	(5,011)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**2,456**	(1,835)
Other comprehensive loss for the year, net of tax	**(556)**	(6,846)
Total comprehensive loss for the year, net of tax	**(5,845,636)**	(1,525,132)
Total comprehensive loss for the year attributable to:		
Owners of the parent	**(5,844,332)**	(1,520,643)
Non-controlling interests	**(1,304)**	(4,489)
	(5,845,636)	(1,525,132)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	31 December 2019 RMB'000	31 December 2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,323,883**	3,342,558
Land use rights		**688,620**	710,009
Intangible assets		**1,985**	490,162
Right-of-use assets		**193,886**	–
Finance lease receivables		**–**	13
Goodwill		**–**	869,107
Equity investments designated at fair value through other comprehensive income		**49,100**	55,719
Deferred tax assets		**–**	1,510
Total non-current assets		**3,257,474**	5,469,078
CURRENT ASSETS			
Inventories		**491,834**	1,480,761
Trade receivables	*9*	**109,961**	311,029
Finance lease receivables		**3,066**	2,587
Prepayments, other receivables and other assets		**899,977**	3,907,031
Cash in transit		**4,386**	9,821
Pledged bank deposits		**73,188**	1,386,631
Cash and cash equivalents		**55,224**	865,950
Total current assets		**1,637,636**	7,963,810
TOTAL ASSETS		**4,895,110**	13,432,888
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*13*	**299,215**	679,976
Deferred tax liabilities		**103,198**	190,800
Lease liabilities		**280,653**	–
Total non-current liabilities		**683,066**	870,776

	Notes	**31 December 2019** **RMB'000**	31 December 2018 RMB'000
CURRENT LIABILITIES			
Trade and bills payables	*10*	**408,085**	2,150,700
Other payables and accruals	*12*	**3,279,177**	1,998,749
Amount due to a related party		**191,929**	361,416
Interest-bearing bank and other borrowings	*13*	**3,848,140**	5,702,266
Income tax payable		**219,331**	246,262
Lease liabilities		**19,234**	–
Total current liabilities		**7,965,896**	10,459,393
NET CURRENT LIABILITIES		**(6,328,260)**	(2,495,583)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(3,070,786)**	2,973,495
EQUITY			
Equity attributable to owners of the parent			
Share capital		**5**	5
Reserves		**(3,754,122)**	2,097,150
		(3,754,117)	2,097,155
Non-controlling interests		**265**	5,564
Total equity		**(3,753,852)**	2,102,719
TOTAL EQUITY AND LIABILITIES		**4,895,110**	13,432,888

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated on 15 January 2014 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 12 August 2014.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "**Group**") were principally engaged in the sale and service of motor vehicles in Mainland China.

On 27 January 2017, the Company changed its registered name from China Greenland Rundong Auto Group Limited (中國綠地潤東汽車集團有限公司) to China Rundong Auto Group Limited (中國潤東汽車集團有限公司).

2. BASIS OF PRESENTATION

The consolidated 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**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income, 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.

Going concern basis

During the year ended 31 December 2019, the Group incurred a net loss of RMB5,845,080,000. As at 31 December 2019, the Group had a shareholders' deficit of RMB3,753,852,000, the Group's current liabilities exceeded its current assets by RMB6,328,260,000 and the Group only had cash and cash equivalents of RMB55,224,000. The status of the Group's borrowings as at 31 December 2019 was further detailed in Note 13 to the consolidated financial statements.

As disclosed in the Company's profit warning announcement dated 20 December 2019, in view of the overall declining growth in the automobile industry and post-acquisition integration over acquired stores that are yet to be crystalised as per the Group's expectation, the Group continuously realigns its business strategy and restructures the business operation. The Group's management is actively communicating with auto manufacturers, business partners and creditors, and closely monitoring the working capital and overall liquidity of the Group.

All of the above conditions indicate the existence of multiple material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

In view of the circumstances and conditions mentioned above, the directors have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group has implemented, or is in the process of implementing, the following key plans and measures:

(i) Business strategy plan

The Company's management is reviewing the business operation situation and considering a range of action plans to address the working capital and liquidity position of the Group. During the financial year, the Group carried out its business strategy plan that includes realignment of certain automotive brands, reassessment of geographical operation scale, refocusing of stores operation performance, and other applicable reorganisation initiatives in order to optimize the overall business operational structure, and to improve the liquidity and working capital of the Group.

The Group is contemplating to expand business activities for additional sources of incomes, which inter alia, providing short term operating leases of certain premises of the Group to independent third parties, and entering into a joint business operation agreement with an independent third party that enables the Group to provide management operation service for 4S dealership stores subsequent to balance sheet date. In addition, the Group will be exploring and seeking opportunities with independent third party for strategic capital Investment into the Group within the next twelve months.

(ii) Extension of due dates of financial institutions and other loans

The Group is actively negotiating with financial institutions and other lenders to seek for extension of due dates of bank and other loans. As of the date of this announcement, notwithstanding the COVID-19 outbreak situation, the Group has entered into extension agreements with three financial institutions in Mainland China. Pursuant to the extension agreements, the due date of bank loans aggregating to RMB101,400,000 (the "**extended loans**") as at 31 December 2019, have been extended to September 2020, October 2020 and December 2020 respectively.

(iii) Creditors' repayment schedules

The Group has been actively seeking appropriate opportunities to engage with its creditors to stabilise the current liquidity situation and will continue to conduct a regular dialogue with a view to identifying and implementing a consensual resolution of the terms of repayments with these creditors.

(iv) Cost control measurements

The Group is taking measures to downsize the overall operation scale and tighten cost controls over the daily administrative and other operating expenses, and to optimize the organization structure and employee head-counts, aiming at improving the working capital and cash flow position of the Group for the next twelve months.

The directors of the Company, including members of the audit committee, have reviewed the Group's business strategy plan and cash flow projections prepared by management, covering a period of not less than twelve months from 31 December 2019. Although there is an uncertainty which may cast significant doubt on the Group's ability to continue as a going concern, the directors, after taking into account the above-mentioned plans and measures, are of the opinion that, the Group would have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2019. Accordingly, the directors believe that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the Group will be able to continue as a going concern will depend upon the Group's ability to generate adequate financial and operating cash flows through the following:

(i) Successfully negotiating with financial institutions and other lenders to seek for extension of due dates of bank and other loans;

(ii) Successfully implementing a consensual resolution of the terms of repayments with creditors;

(iii) Successfully carrying out the Group's business strategy plan and cost control measurements so as to improve working capital and cashflow position; and

(iv) Successfully obtaining additional new sources of financing or new strategic capital investments to be injected by independent third party into the Group within next twelve months.

Should the going concern assumption be inappropriate, adjustments may have to be made to write down the values of assets to their recoverable amounts, to provide for any further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019.

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.

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.

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.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKAS12 and HKAS 23*

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Adoption of HKFRS 16

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property and land use rights. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases. Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation and impairment of the right-of-use assets and interest accrued on the outstanding lease liabilities.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and presented separately in the statement of financial position. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 as at 1 January 2019 was as follows:

	Increase/ (decrease) *RMB'000*
Assets	
Increase in right-of-use assets	317,339
Increase in total assets	317,339
Liabilities	
Increase in lease liabilities	317,339
Increase in total liabilities	317,339

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	486,905
Weighted average incremental borrowing rate as at 1 January 2019	9.76%
Discounted operating lease commitments as at 1 January 2019	317,339
Lease liabilities as at 1 January 2019	317,339

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The amendments did not have any impact on the financial position or performance of the Group.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation did not have any impact on the financial position or performance of the Group.

4. 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.

Information about geographical areas

Since all of the Group's revenue was generated from the sale and service of motor vehicles in Mainland China and all of the Group's non-current assets were located in Mainland China, no further geographical information is presented.

Information about major customers

Since no revenue from the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the years ended 31 December 2019 and 2018, no information about major customers is presented.

5. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue

	2019 *RMB'000*	2018 *RMB'000*
Revenue from contracts with customers		
Disaggregated revenue information		
Type of goods or service		
Revenue from the sale of motor vehicles	**6,461,967**	10,948,391
Revenue from after-sales services	**1,173,974**	1,764,239
Total revenue from contracts with customers	**7,635,941**	12,712,630
Timing of revenue recognition		
At a point in time	**7,635,941**	12,712,630

(b) Other income and gains

	2019 *RMB'000*	2018 *RMB'000*
Commission income	**159,253**	276,430
Interest income	**8,450**	39,212
Dividend income from equity investments at fair value through other comprehensive income	**56**	–
Rental income	**32,947**	6,249
Government grants	**3,058**	5,188
Gain on disposal of subsidiaries	**–**	227,881
Others	**945**	4,173
	204,709	559,133

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

		2019	2018
		RMB'000	*RMB'000*
(a)	Employee benefit expense (excluding directors' and chief executive's remuneration):		
	Wages and salaries	**236,467**	264,725
	Equity-settled share option expense	**–**	25
	Other welfare	**111,124**	103,226
		347,591	367,976
(b)	Cost of sales and services:		
	Cost of sales of motor vehicles	**7,782,900**	11,038,986
	Cost of after-sales services	**894,665**	1,261,485
		8,677,565	12,300,471
(c)	Other expenses:		
	Impairment allowance of prepayments, other receivables and other assets	**1,220,032**	102,183
	Impairment of goodwill	**869,107**	488,959
	Impairment of items of property, plant and equipment	**761,933**	169,917
	Impairment of intangible assets	**449,986**	42,797
	Impairment of trade receivables	**99,384**	–
	Impairment of right-of-use assets	**84,260**	–
	Loss on disposal of items of property, plant and equipment	**6,946**	6,289
	Exchange gain	**(50)**	(143)
	Others	**59,003**	13,867
		3,550,601	823,869
(d)	Other items:		
	Depreciation of items of property, plant and equipment	**327,612**	257,076
	Depreciation of right-of-use assets	**39,193**	–
	Lease expenses	**15,460**	64,642
	Advertisement and business promotion expenses	**31,916**	55,672
	Amortisation of intangible assets	**38,364**	42,190
	Write-down of inventories to net realisable value	**64,014**	26,102
	Amortisation of land use rights	**21,389**	21,248
	Bank charges	**4,524**	10,229
	Auditor's remuneration	**3,500**	4,950

7. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
Interest expense on bank borrowings wholly repayable within five years	**260,774**	413,973
Interest expense on other borrowings	**62,901**	117,442
Interest portion of the lease liability	**30,245**	–
Less: Interest capitalised	**–**	(296)
	353,920	531,119

8. TAX

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

	2019	2018
	RMB'000	*RMB'000*
Current:		
Mainland China corporate income tax	**5,680**	76,563
Deferred tax	**(85,112)**	(12,516)
	(79,432)	64,047

Pursuant to Section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gain or appreciation shall apply to the Company or its operations.

The subsidiary incorporated in the British Virgin Islands ("**BVI**") is not subject to income tax as this subsidiary does not have a place of business (other than a registered office only) or carry on any business in the BVI.

The subsidiaries incorporated in Hong Kong were subject to profits tax at the rate of 16.5% during the years ended 31 December 2019 and 2018. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the years ended 31 December 2019 and 2018.

According to the Corporate Income Tax Law of the People's Republic of China (the "**CIT Law**"), the income tax rate is 25%.

(b) Reconciliation between tax (credit)/expense and accounting loss at applicable tax rates:

A reconciliation of the tax (credit)/expense applicable to loss before tax using the applicable rate for the region in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2019	2018
	RMB'000	*RMB'000*
Loss before tax	**(5,924,512)**	(1,454,239)
Tax at the applicable tax rate (25%)	**(1,481,128)**	(363,560)
Adjustments in respect of current tax of previous years	**701**	3,099
Expenses not deductible for tax	**893,369**	188,475
Tax losses utilised from previous years	**(1,997)**	(2,634)
Tax losses not recognised	**509,623**	238,667
Tax charge at the Group's effective rate	**(79,432)**	64,047

9. TRADE RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**209,345**	311,029
Impairment	**(99,384)**	–
	109,961	311,029

The Group's trading terms with its customers are mainly on cash, except for some transactions which are traded on credit. The credit period is generally three months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. 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, and net of loss allowances is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**70,149**	281,244
3 to 12 months	**39,812**	29,156
Over 12 months	**–**	629
	109,961	311,029

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

	2019	2018
	RMB'000	*RMB'000*
At beginning of year	**–**	–
Impairment losses	**99,384**	–
At end of year	**99,384**	–

10. TRADE AND BILLS PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Bills payable	**20,871**	1,632,521
Trade payables	**387,214**	518,179
Trade and bills payables	**408,085**	2,150,700

An aged analysis of the trade and bills payables as at 31 December 2019 and 2018, based on the invoice date, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**188,363**	1,654,327
3 to 6 months	**113,728**	355,776
6 to 12 months	**103,011**	131,774
Over 12 months	**2,983**	8,823
	408,085	2,150,700

The trade payables are non-interest-bearing and are normally settled on terms from 3 to 6 months.

11. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 946,476,000 (2018: 946,476,000) in issue during the year.

The calculation of the diluted loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted loss per share are based on:

	2019	2018
	RMB'000	*RMB'000*
Loss		
Loss attributable to ordinary equity holders of the parent, used in the loss per share calculation:	**(5,843,776)**	(1,513,797)

	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**946,476,000**	946,476,000
Effect of dilution weighted average number of ordinary shares:		
Conversion preference shares	**–**	–
Share options	**–**	–
	946,476,000*	946,476,000*

* Because the Group was loss-making for the years ended 31 December 2019 and 2018, the conversion preference shares and share options had no dilutive impact.

12. OTHER PAYABLES AND ACCRUALS

	2019	2018
	RMB'000	*RMB'000*
Contract liabilities *((i))*	**691,436**	801,812
Payables for purchase of items of property, plant and equipment and land use rights	**305,038**	379,313
Taxes payable (other than income tax)	**307,149**	253,888
Unsettled consideration for business combinations	**73,154**	73,154
Accrued expenses	**254,327**	196,953
Dividend payable	**13,320**	13,320
Advancements from former shareholders and employees arising from acquisitions	**8,679**	34,316
Other payables *((ii))*	**1,230,498**	–
Provision	**176,830**	–
Others	**218,746**	245,993
	3,279,177	1,998,749

As at 31 December 2019, certain suppliers and third parties have demanded payment for overdue balances through commencing legal proceedings, as further detailed in Note 14 to the announcement.

As disclosed in Note 2, the directors are continuing to negotiate with the creditors to identify and implement a consensual resolution of the terms of repayments, and provision have been made to accrue for any potential interest or other penalties that may arise.

(i) Details of contract liabilities are as follows:

	31 December 2019 *RMB'000*	31 December 2018 *RMB'000*	1 January 2018 *RMB'000*
Short-term advances received from customers			
Sales of motor vehicles	**691,436**	801,812	910,987
Total contract liabilities	**691,436**	801,812	910,987

Contract liabilities are short-term advances received for purchases of motor vehicles.

(ii) Other payables comprised the down payment received from an independent third party in relation to the Company's proposed disposal plan of certain subsidiaries as detailed in the announcement made during the financial year, and short-term advances received from independent third parties, which were unsecured with average interest rates of 6% per annum for a term of one-year period. The Company's proposed disposal plan is still subject to further negotiation between the Company and the independent third party, and the Company will release further announcement as and when appropriate.

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	2019 Effective interest rate (%)	2019 RMB'000	2018 Effective interest rate (%)	2018 RMB'000
Current					
Bank loans		**3.05-8.50**	**3,133,491**	3.05-8.70	4,368,895
Other borrowings		**4.68-17.64**	**714,649**	3.68-15.00	1,333,371
			3,848,140		5,702,266
Non-current					
Bank loans		**4.28-7.00**	**51,000**	4.28-7.00	215,280
Other borrowings		**4.28-7.00**	**248,215**	4.28-7.00	464,696
			299,215		679,976
			4,147,355		6,382,242
Bank loans and other borrowings representing:					
– secured	*(a)*		**705,766**		704,519
– guaranteed	*(b)*		**1,091,271**		1,735,755
– secured and guaranteed	*(a) (b)*		**1,643,888**		2,947,953
– unsecured	*(c)*		**706,430**		994,015
			4,147,355		6,382,242
Analysed into:					
Bank loans repayable:					
Within one year			**3,133,491**		4,368,895
In the second year			**51,000**		203,280
In the third to fifth years, inclusive			**–**		12,000
			3,184,491		4,584,175
Other borrowings repayable:					
Within one year			**714,649**		1,333,371
In the second year			**248,215**		464,696
			962,864		1,798,067
			4,147,355		6,382,242

As at 31 December 2019, certain borrowings of the Group of RMB2,315,067,000 were overdue and not paid in accordance with the repayment schedules pursuant to the borrowing agreements, and the non-current portion of these borrowings of RMB322,054,000 have been reclassified as current liabilities. As stipulated in the relevant loan and financing agreements in respect of certain borrowings of the Group other than those mentioned above, any default of the Group's borrowings may result in cross-default of these borrowings. As a result of such default events, the borrowings of RMB882,042,000 was considered as cross default and have been classified as current liabilities as at 31 December 2019.

As at 31 December 2019, several banks and institutions have demanded repayment for the overdue principal of borrowings through commencing legal proceedings, as further detailed in Note 14 to the announcement.

As disclosed in Note 2, the directors are continuing to negotiate with the financial institutions to seek for extension of due dates, and provision have been made to the consolidated financial statements to accrue for any potential interest or other penalties that may arise.

Notes:

(a) Certain of the Group's bank loans are secured by:

  (1) mortgages over the Group's buildings, which had aggregate net book values of approximately RMB380,254,000 and RMB654,877,000, respectively, as at 31 December 2019 and 2018;

  (2) mortgages over the Group's land use rights situated in Mainland China, which had aggregate net book values of approximately RMB190,232,000 and RMB235,916,000, respectively, as at 31 December 2019 and 2018;

  (3) mortgages over the Group's inventories, which had aggregate net book values of approximately RMB200,936,000 and RMB745,408,000, respectively, as at 31 December 2019 and 2018; and

  (4) mortgages over 2,438,960,000 shares and 2,428,960,000 shares of the Group's subsidiaries, respectively, as at 31 December 2019 and 2018.

(b) Details of the guaranteed bank loans are as follows:

  (1) certain of the Group's bank loans amounting to RMB1,270,140,000 and RMB1,573,355,000, respectively, were guaranteed by the subsidiaries of the Group as at 31 December 2019 and 2018; and

  (2) certain of the Group's bank loans amounting to RMB66,200,000 and RMB162,400,000 respectively, were guaranteed jointly by the subsidiaries of the Group, Mr. Yang Peng and the third parties with no additional expenditure as at 31 December 2019 and 2018.

(c) The Group entered into facility agreements with independent third parties. The facilities were unsecured and the facility periods were for terms from 12 months to 36 months and the interest rates were 4.28 to 15.00 per annum.

14. CONTINGENT LIABILITIES

In the ordinary course of business, the Group may from time to time be involved in legal litigations matters relating to borrowings, creditors and employee matters among others. As disclosed in Note 12 & Note 13, with respect to the Group's legal litigation matters, based on the Company's current knowledge and management estimation, the Group records a liability provision when the Company believes that it is both probable that a loss has been incurred and the amount can be reasonably estimated. However, the eventual outcome of such legal matters is inherently unpredictable and subject to significant uncertainties. For contingencies other than the legal matters, the Group evaluates the potential financial impact and believes that the amount or range of reasonably possible loss will not have a material effect on the Group's operations and financial position.

15. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the balance sheet date, the outbreaks of novel coronavirus ("**COVID-19**") has inevitably caused certain impact on both the overall industry markets and the business performance of the Group, mainly due to travel restrictions and other precautionary measures imposed by relevant local authorities to contain the spreading of COVID-19 outbreak that resulted in delays in commencement for work, temporary closure for business of suppliers, and the overall decline in the market demand from automotive sector.

The Group estimates that the degree of COVID-19 impact would be dependent on the outcome of various preventive measures and the duration of the epidemic. The Group is closely monitoring the market development and continuously evaluating the financial impact of the COVID-19 situation on the Group's operational and financial performance. Given the dynamic circumstances and uncertainties surrounding the epidemic, the Group's 2020 financial performance would inevitably be affected by the COVID-19 situation, and the overall financial impact, which will be reflected in the Group's 2020 interim and annual financial statements, could not be reasonably and accurately estimated at this stage.

Material Differences between the Unaudited and Audited Annual Results

Since the financial information contained in the Unaudited Results Announcement was neither audited nor agreed with the auditor of the Company (the "**Auditor**") as at the date of their publication and subsequent adjustments have been made to such information, Shareholders and potential investors of the Company are advised to pay attention to certain differences between the financial information of the unaudited and audited annual results of the Group.

The main details and reasons for the significant differences in the financial information are set out below.

	Year ended 31 December 2019		
	Disclosure in this announcement	**Disclosure in the Unaudited Results Announcement**	**Difference**
	RMB'000	*RMB'000*	*RMB'000*
CONSOLIDATED STATEMENT OF PROFIT OR LOSS			
Cost of sales	(8,677,565)	(8,632,237)	(45,328)
Gross loss	(1,041,624)	(996,296)	(45,328)
Administrative expenses	(759,341)	(677,513)	(81,828)
Other expenses	(3,550,601)	(3,175,895)	(374,706)
Finance costs	(353,920)	(350,225)	(3,695)
Loss before tax	(5,924,512)	(5,418,955)	(505,557)
Loss for the year	(5,845,080)	(5,339,523)	(505,557)
Loss for the year attributable to the Owners of the parent	(5,843,776)	(5,338,219)	(505,557)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
CURRENT ASSETS			
Trade receivables	109,961	214,059	(104,098)
Prepayments, other receivables and other assets	899,977	1,415,616	(515,639)
Pledged bank deposits	73,188	76,188	(3,000)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	299,215	621,269	(322,054)
CURRENT LIABILITIES			
Trade and bills payables	408,085	399,098	8,987
Other payables and accruals	3,279,177	3,402,344	(123,167)
Interest-bearing bank and other borrowings	3,848,140	3,529,086	319,054
EQUITY			
Reserves	(3,754,122)	(3,248,565)	(505,557)

These differences are mainly due to:

- the reclassification of current and non-current portions in the interest-bearing bank and other borrowings;
- the adjustments to the expected credit losses with respect to additional impairment for receivables and other current assets based on more prudent judgements and subsequent review from 31 March 2020 and up to the date of this announcement;
- the adjustments for provision and accrue with respect to the reconciliations of balances arising from confirmations of banks and creditors subsequent to 31 March 2020 and up to the date of this announcement.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The below sections set out an extract of the report by Ernst & Young, the Auditor of the Company, regarding the consolidated financial statements of the Group for the year ended 31 December 2019:

Disclaimer of Opinion

We do not express an opinion on the consolidated financial statements of the Group. Because of the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements as described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

Multiple Uncertainties Relating to Going Concern

As set out in note 2 to the consolidated financial statements, the Group incurred a net loss of RMB5,845,080,000 for the year ended 31 December 2019. As at 31 December 2019, the Group had a shareholders' deficit of RMB3,753,852,000 and the Group's current liabilities exceeded its current assets by RMB6,328,260,000. These conditions, together with other matters disclosed in note 2 to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

The directors of the Company have been undertaking measures to improve the Group's liquidity and financial position, which are set out in note 2 to the consolidated financial statements. The validity of the going concern assumptions on which the consolidated financial statements have been prepared depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) successfully negotiating with financial institutions and other lenders to seek for extension of due dates of bank and other loans; (ii) successfully implementing a consensual resolution of the terms of repayments with creditors; (iii) successfully carrying out the Group's business strategy plan and cost control measurements so as to improve working capital and cashflow position; and (iv) successfully obtaining additional new sources of financing or new strategic capital investments to be injected by independent third party into the Group within next twelve months.

Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

THE MANAGEMENT'S POSITION, VIEW AND ASSESSMENT ON THE DISCLAIMER OF OPINION

During the course of audit of the consolidated financial statements of the Group for the year ended 31 December 2019, the Auditor had raised concern on the Group's ability to continue as a going concern. In order to address this concern, the Company has, among other things, taken the following steps:

(i) negotiating with financial institutions and other lenders to seek for extension of due dates of bank and other loans; (ii) implementing a consensual resolution of the terms of repayments with creditors; (iii) carrying out the Group's business strategy plan and cost control measurements so as to improve working capital and cashflow position; and (iv) obtaining additional new sources of financing or new strategic capital investments to be injected by independent third party into the Group within next twelve months.

Accordingly, the Directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the year ended 31 December 2019 on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the Group is able to obtain the necessary funding and achieve the plans and measures above. The Group's ability to continue as a going concern would depend upon whether the Group is able to obtain financing when required, the attainability depends on the performance of the Group and whether the Group is able to generate sufficient cash flow from operations and plans to control costs, the attainability depends on the market performance.

The Company has considered the Auditor's rationale and understood their consideration in arriving the disclaimer of opinion. The Company will make effort to improve the liquidity and financial position of the Group.

AUDIT COMMITTEE'S VIEW ON THE DISCLAIMER OF OPINION

The members of the Audit Committee had critically reviewed the basis for disclaimer of opinion, the Management's position concerning the basis for disclaimer of opinion and measures taken by the Company for addressing the basis for disclaimer of opinion. The Audit Committee agreed with the Management's position based on the reasons above. Moreover, the Audit Committee requested the Management to take all necessary actions to address the effect on the basis for disclaimer of opinion to procure no such disclaimer of opinion to be made in the next financial year. The Audit Committee had also discussed with the Auditor regarding the financial position of the Group, measures taken and to be taken by the Company, and considered the Auditor's rationale and understood their consideration in arriving the disclaimer of opinion.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2019, the Group recorded an operating income of approximately RMB7,635.9 million, representing a year-on-year decrease of 39.9%, and realized gross loss of approximately RMB1,041.6 million, representing a year-on-year decrease of 352.7%. Loss attributable to owners of the parent company increased by 286.0% year-on-year to approximately RMB5,843.8 million.

Sales of New Automobiles

In 2019, due to the decline in the overall automobile market and the Group's reassessment of its business strategies, internal reorganization and adjustment were made to part automobile brands and regional businesses, part of automobile dealership stores were shut down, which led to the significant decrease in new automobile sales of the Group. During the Reporting Period, revenue from new automobile sales amounted to approximately RMB6,462.0 million, representing a year-on-year decrease of 41.0%, among which, revenue from sales of luxury and ultra-luxury automobiles reached approximately RMB4,708.7 million, representing a year-on-year decrease of 43.5% and accounting for 72.9% of the revenue from sales of new automobiles. In terms of sales volume, the Group sold a total of 31,337 vehicles during the Reporting Period, a decrease of 36.8%, of which, sales volume of luxury and ultra-luxury brand automobiles totaled 16,431 units, a decrease of 38.0%.

After-sales Service

In 2019, due to the decline in the overall automobile market and gradual marketization of vehicle parts and accessories distribution channel and other factors, both market attractiveness and profitability of maintenance business in 4S stores have declined accordingly. Meanwhile, the reduction of vehicle accident frequency due to the reform of commercial auto insurance policies, as well as the shutdown of part of automobile dealership stores, causing increasing pressures on the business of after-sales service.

During the Reporting Period, the after-sales service revenue amounted to approximately RMB1,174.0 million, representing a year-on-year decrease of 33.5% and accounted for 15.4% of the total revenue of the Group. The gross profit of our after-sales service amounted to approximately RMB279.3 million, representing a year-on-year decrease of 44.5%, and the gross profit margin of after-sales service was 23.8%.

Value-added Business

During the Reporting Period, income from financial agency service and income from insurance agency service of the Group also decreased in line with the decrease of sales of new automobiles. During the Reporting Period, income from financial agency service was approximately RMB68.4 million, representing a decrease of 44.0% in 2018, and income from insurance agency service was approximately RMB83.6 million, representing a decrease of 43.0% in 2018.

Brand and Network Layout

Considering the impacts of overall negative growth of the automobile market and the integration after acquisition of stores acquired didn't meet the expectation of the Group, and the tightening of funds in general and increasing pressure of liquidity, the Group has adjusted the business strategies and continuously optimized the business operation in 2019. We reassessed the economic development level, power of consumption of the area where the stores are located, as well as taking into consideration of the automobile brands, operation scale of stores and operation capability, comprehensively summarized the Group's stores and shut down part of stores with poor performance, and consolidated stores of same brand in the same city, and focused on those with better performance in developed areas.

As at 31 December 2019, the Group operated 38 stores in total, the Group's brand portfolio includes 12 brands, namely BMW, Audi, Lexus, Maserati, Ferrari, Buick, Shanghai-Volkswagen, Kia, Dongfeng Honda, FAW-Toyota, Nissan and FAW Volkswagen.

FINANCIAL REVIEW

Revenue and loss for the year

For the year ended 31 December 2019, the Group recorded a consolidated revenue amounted to approximately RMB7,635.9 million, representing a decrease of approximately RMB5,076.7 million or 39.9% as compared to that of 2018 of approximately RMB12,712.6 million. The loss attributable to for the year ended 31 December 2019 amounted to approximately RMB5,843.8 million (for the year ended 31 December 2018: approximately RMB1,513.8 million). The loss was mainly attributable to the following factors:

(a) a decline of approximately 39.9% in revenue. This is primarily resulted from the overall declining growth in the automobile industry and the close of certain dealership stores in the Group in relation to the Group's reassessment over its business strategies, implemented internal restructuring and realignment of certain automotive brands and geographical operations.

(b) provisions of impairment loss of approximately RMB3,484.8 million for the Group's goodwill, items of property, plant and equipment, intangible assets, right-of-use assets and prepayments, other receivables and other assets. Such impairment loss is primarily attributable to the close of dealership stores mentioned above and the uncertainty on the future performance of the business due to the general slow-down of automobile market.

Cost of sales and services

Cost of sales and services decreased by 29.5% from RMB12,300.5 million in 2018 to RMB8,677.6 million for the year ended 31 December 2019.

The cost of sales and services of the automobile sales business amounted to RMB7,782.9 million for the Reporting Period, representing a decrease of RMB3,256.1 million, or 29.5%, from 2018. The cost of sales and services of the after-sales business amounted to RMB894.7 million for the year ended 31 December 2019, representing a decrease of RMB366.8 million, or 29.1%, from 2018.

Gross loss and gross profit margin

Gross loss for the year ended 31 December 2019 was RMB1,041.6 million, representing a decrease of RMB1,453.8 million, or 352.7%, from 2018. Comprehensive gross profit margin for the year ended 31 December 2019 was -13.6%.

Other Income and net gains

Other income and net gains decreased by 63.4% from RMB559.1 million for the year ended 31 December 2018 to RMB204.7 million for same period of 2019.

Selling and distribution expenses

Selling and distribution expenses of the Group amounted to RMB423.7 million for the year ended 31 December 2019, representing a decrease of 12.2% from RMB482.7 million in 2018, which was mainly due to the decrease in lease expenses and advertising fees the Company.

Administrative expenses

Administrative expenses of the Group amounted to RMB759.3 million for the year ended 31 December 2019, representing an increase of 29.2% over the administrative expenses of RMB587.8 million in 2018.

Finance costs

Finance costs of the Group amounted to RMB353.9 million for the year ended 31 December 2019, representing a decrease of 33.4% from the finance costs of RMB531.1 million in 2018, which was primarily attributable to the significant decrease in short-term interest-bearing liabilities in 2019.

Income tax credits

Income tax credits of the Group amounted to RMB79.4 million for the year ended 31 December 2019.

CAPITAL STRUCTURE, CASH FLOWS AND FINANCIAL RESOURCES

As at 31 December 2019, the total asset of the Group amounted to approximately RMB4,895.1 million, representing a decrease of 63.6% compared to RMB13,432.9 million as at 31 December 2018, of which, the non-current assets amounted to approximately RMB3,257.5 million (31 December 2018: RMB5,469.1 million), and the net current liabilities amounted to approximately RMB6,328.3 million (31 December 2018: RMB2,495.6 million).

Cash Flows

The Group financed its liquidity requirements through operation capital and borrowings. As at 31 December 2019, cash and cash equivalents of the Group amounted to approximately RMB55.2 million (31 December 2018: RMB866.0 million), representing a decrease of RMB810.8 million.

Our primary uses of cash were to pay for the purchases of new automobiles, spare parts and automobile accessories, and to fund our working capital and daily operating costs.

As at 31 December 2019, the bank loans and other borrowings of the Group amounted to approximately RMB4,147.4 million (31 December 2018: RMB6,382.2 million).

Inventory

Our inventory primarily consisted of new automobiles, spare parts and automobile accessories. Each of our dealership stores has dedicated staff to manage their orders for new automobiles and after-sales products.

Our inventory decreased by 66.8% from RMB1,480.8 million as at 31 December 2018 to RMB491.8 million as at 31 December 2019, primarily due to the reduction in purchase volume caused by the decrease in number of stores.

Our average inventory turnover days for the year ended 31 December 2019 decreased to 41 days from 60 days in 2018.

Trade receivables

Trade and bills receivables decreased from RMB311.0 million for the year ended 31 December 2018 to RMB110.0 million for the year ended 31 December 2019.

Interest rate risk

We are exposed to interest rate risk resulting from fluctuations in the interest rate of our debts. Part of our borrowings were floating rate borrowings that are linked to the benchmark rates of the People's Bank of China. Increase in interest rate could result in an increase in our cost of borrowing. In such case, not only our finance costs, but also our profit and financial position would be adversely affected.

Gearing ratio

Our gearing ratio (defined as the sum of interest-bearing bank loans and other borrowings divided by shareholders' equity as at the end of the Reporting Period and then multiplied by 100%) for the year ended 31 December 2019 was -110.5% (31 December 2018: 303.5%).

Human resources

As at 31 December 2019, the Group had approximately 5,351 employees (31 December 2018: 5,409). Total staff costs for the year ended 31 December 2019, excluding directors' remuneration, were RMB347.6 million (2018: RMB368.0 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

Please refer to Note 14 to the announcement.

Pledge of the Group's assets

The Group pledged its assets as securities for bank loans, other borrowings and banking facilities, which were used to finance daily business operation. As at 31 December 2019, the pledged assets of the Group amounted up to RMB865.5 million.

OUTLOOK AND STRATEGY

In February 2020, Moody's Investor Service, the international renowned credit rating agency, adjusted downward the expectation for the global automobile sales prospect in 2020, and is of the opinion that the sales volume of automobiles in the world will reduce by 2.5%. As the largest automobile market in the world, China will be relatively affected by the COVID-19 epidemic, and it is expected that the automobile market in China will remain in downturn in the short run.

In response to the negative impact of any uncertainty on the pace of industry recovery, the Group will consider and size up the situation and actively promote the implementation of business strategies and plans, including continuous optimization of the automobile brand structure, reassessment of the operation scale of regional business, analysis of operations performance of stores and other applicable measures, so as to optimize the overall operating structure and management of the Group. Meanwhile, in order to coordinate with the streamlined network layout, the Group will carry out significant organizational restructuring, further streamline the organization, flatten the management of the Company, to improve management efficiency, reduce costs and improve operations. The Group intends to lease unused exhibition halls or parking lots to other third-parties for a short period to further revitalize assets, optimize asset utilization, and increase other operation income. Besides, the management will actively seek out external potential investors, discuss and seek possible cooperation opportunities, including various possible strategic investment cooperation and operation cooperation, so as to further promote the operation and management of the Company.

Looking ahead, the Group will continue to promote its business strategies, and review its effectiveness and make timely adjustments from time to time. Meanwhile, the Group will adhere to the concept of customer-centric, maintain close communication with consumers, and continuously enhance and improve operational capabilities. It is believed that these efforts can help the Group's business development return to the right track, achieve stable sales growth in the medium and long term, and regain profitability.

CORPORATE GOVERNANCE

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited. During the Reporting Period, the Company has fully complied with the code provisions set out in the CG Code, except for the deviation from code provision A.2.1. This code provision provides that the roles of chairman and chief executive officer shall be separate and shall not be performed by the same individual. The Company has appointed Mr. Yang Peng as both the Chairman and the Chief Executive Officer of the Company. The Board believes that vesting the roles of the Chairman and Chief Executive Officer in the same individual would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. The Board believes that the balance of power and authority is sufficiently maintained by the operation of the board, comprising the executive Directors and independent non- executive Directors. The Board shall review the structure and composition of the Board from time to time in light of prevailing circumstances, to maintain a high standard of corporate governance practices of the Company.

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**") 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 during the year ended 31 December 2019.

The Board has also adopted the Model Code as guidelines for its relevant 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.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend to the shareholders of the Company for the year ended 31 December 2019 (2018: Nil).

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

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries purchased or redeemed any of the Company's listed securities.

ANNUAL GENERAL MEETING

The Company will hold an annual general meeting ("**AGM**") on Friday, 31 July 2020. Notice of the forthcoming AGM and all other relevant documents will be published and despatched to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement of the shareholders of the Company to attend and vote at the 2020 AGM, the register of members of the Company will be closed from Tuesday, 28 July 2020 to Friday, 31 July 2020, both days inclusive, during which period no transfer of shares of the Company will be registered.

In order to qualify for attending and voting at the AGM, unregistered shareholders of the Company shall lodge share transfer documents with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 27 July 2020.

PUBLICATION OF ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The audited annual results announcement has been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.rundongauto.cn). The annual report for the year ended 31 December 2019 of the Company will be dispatched to shareholders of the Company on or before 19 June 2020, and made available on the same websites as mentioned above.

By Order of the Board
China Rundong Auto Group Limited
Yang Peng
Chairman

Shanghai, the PRC, 29 May 2020

As at the date of this announcement, the executive director of the Company is Mr. Yang Peng; and the independent non-executive directors are Mr. Lee Conway Kong Wai, Mr. Mei Jianping, Mr. Xiao Zhengsan and Mr. Li Xin.