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Sunfonda Group Holdings

SUNFONDA GROUP HOLDINGS LIMITED

新豐泰集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01771)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board of directors (the “Board”) of Sunfonda Group Holdings Limited (the “Company”) hereby announces the annual results of the Company and its subsidiaries for the year ended 31 December 2018. This announcement, containing the full text of the 2018 annual report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcement of annual results.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The Company’s 2019 Annual General Meeting (the “2019 AGM”) will be held on Wednesday, 5 June 2019. In order to determine shareholders’ entitlement to attend and vote at the 2019 AGM, the register of members of the Company will be closed from Friday, 31 May 2019 to Wednesday, 5 June 2019 (both days inclusive). In order to be entitled to attend and vote at the 2019 AGM, unregistered holders of shares of the Company should ensure that all the share transfer documents together with the relevant share certificates are lodged with the Company’s Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Thursday, 30 May 2019.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to propose the distribution to shareholders of the Company of a final dividend of HK\$0.07 per share for the year ended 31 December 2018 in an aggregate amount of RMB36.8 million. The proposed distribution of final dividend is subject to the consideration and approval of shareholders at the 2019 AGM of the Company to be held on Wednesday, 5 June 2019.

Where the proposed distribution of final dividend is approved at the 2019 AGM, the dividend will be paid on Tuesday, 2 July 2019 to shareholders whose names appear on the register of members of the Company at the close of business on Monday, 17 June 2019. Therefore, the register of members of the Company will be closed from Thursday, 13 June 2019 to Monday, 17 June 2019 (both days inclusive). In order to be entitled to the final dividend, unregistered holders of shares of the Company should ensure that the share transfer documents together with the relevant share certificates are lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Wednesday, 12 June 2019.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company's website (www.sunfonda.com.cn).

The Company's 2018 annual report will be dispatched to the shareholders of the Company and published on the websites of the Company and The Stock Exchange of Hong Kong Limited in due course.

By Order of the Board
Sunfonda Group Holdings Limited
Mr. Wu Tak Lam
Chairman

26 March 2019

As at the date of this announcement, the Board comprises four executive directors, namely, Mr. Wu Tak Lam, Ms. Chiu Man, Mr. Gou Xinfeng and Ms. Chen Wei; and three independent non-executive directors, namely, Mr. Liu Jie, Mr. Song Tao and Dr. Liu Xiaofeng.

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CORPORATE INFORMATION

CHINESE NAME OF THE COMPANY

新豐泰集團控股有限公司

ENGLISH NAME OF THE COMPANY

Sunfonda Group Holdings Limited

INVESTOR INQUIRIES

Investor hotline: (852) 3183 0230

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BOARD OF DIRECTORS

Executive Directors

Mr. Wu Tak Lam (*Chairman of the Board*)

Ms. Chiu Man (*Chief Executive Officer*)

Mr. Gou Xinfeng

Ms. Chen Wei

Independent Non-executive Directors

Mr. Liu Jie

Mr. Song Tao

Dr. Liu Xiaofeng

AUDIT COMMITTEE

Mr. Liu Jie (*Chairman*)

Mr. Song Tao

Dr. Liu Xiaofeng

NOMINATION COMMITTEE

Mr. Wu Tak Lam (*Chairman*)

Mr. Liu Jie

Mr. Song Tao

Dr. Liu Xiaofeng

REMUNERATION COMMITTEE

Mr. Song Tao (*Chairman*)

Mr. Liu Jie

Dr. Liu Xiaofeng

FINANCE AND INVESTMENT COMMITTEE

Mr. Wu Tak Lam (*Chairman*)

Ms. Chiu Man

Mr. Liu Jie

AUTHORISED REPRESENTATIVES

Mr. Wu Tak Lam

Ms. So Yee Kwan

COMPANY SECRETARY

Ms. So Yee Kwan

HEADQUARTERS

Sunfonda Automobile Center

Beichen Avenue

Chanba Ecological District

Xi'an City, Shaanxi Province

PRC

CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Causeway Bay, Hong Kong

REGISTERED OFFICE

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HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17/F, Hopewell Centre
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Wanchai, Hong Kong

LEGAL ADVISERS

PRC Law

King & Wood Mallesons
20th Floor, East Tower
World Financial Center
1 Dongsanhuan Zhonglu
Chaoyang District, Beijing
PRC

Hong Kong Law

Clifford Chance
27th Floor, Jardine House
One Connaught Place
Central, Hong Kong

AUDITORS

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

PRINCIPAL BANKERS

China CITIC Bank Corporation Limited, Xi'an Branch
No. 1, Zhuque Avenue
Xi'an City, Shaanxi Province
PRC

Nanyang Commercial Bank, Limited
151 Des Voeux Road Central
Central, Hong Kong

STOCK CODE

01771

WEBSITE

www.sunfonda.com.cn

FINANCIAL HIGHLIGHTS

The sales volume of passenger vehicles for the year ended 31 December 2018 increased by 17.7% to 26,679 units as compared with the corresponding period in 2017.

Revenue for the year ended 31 December 2018 increased by 16.4% to RMB8,948.4 million as compared with the corresponding period in 2017.

Gross profit for the year ended 31 December 2018 increased by 12.2% to RMB668.0 million as compared with the corresponding period in 2017.

Revenue from after-sales services for the year ended 31 December 2018 increased by 15.7% to RMB1,026.4 million as compared with the corresponding period in 2017.

Gross profit margin for after-sales services increased to 45.9% for the year ended 31 December 2018 from 44.1% for the year ended 31 December 2017.

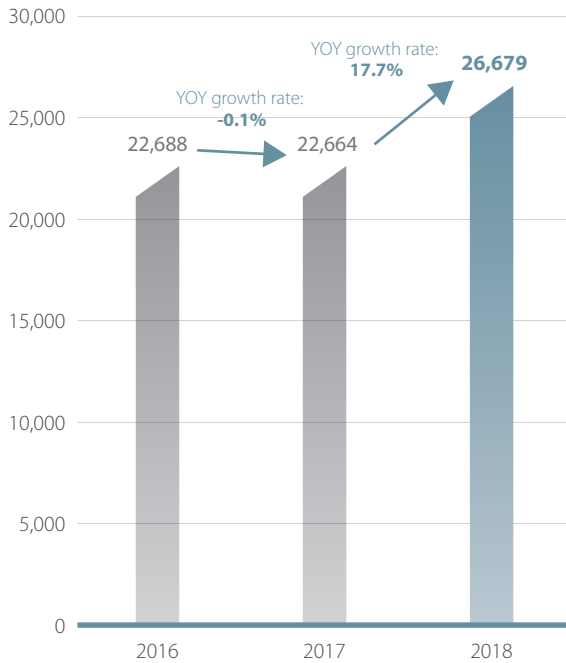
Profit for the year attributable to owners of the parent for the year ended 31 December 2018 increased by 44.7% to RMB213.2 million as compared with the corresponding period in 2017.

Basic and diluted earnings per share attributable to ordinary equity holders of the parent for the year ended 31 December 2018 was RMB0.36. The Board of the Company recommends a final dividend of HK\$0.07 (equivalent to RMB0.06) per ordinary share for the year ended 31 December 2018.

FINANCIAL HIGHLIGHTS

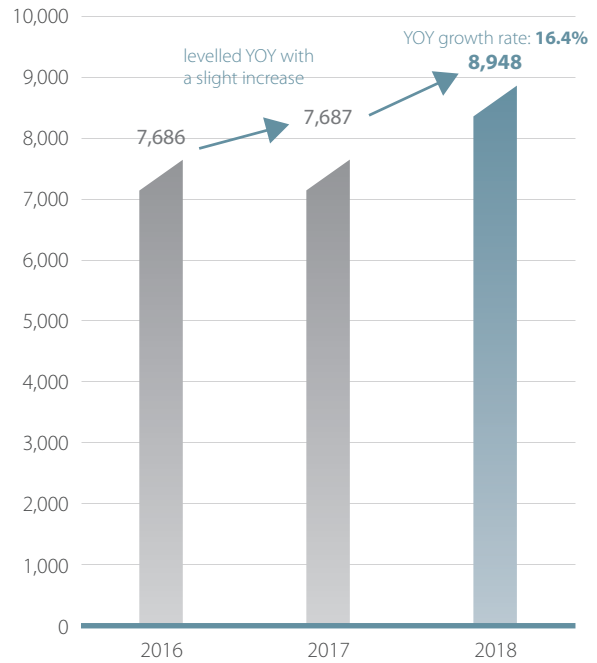
Sales volume of passenger vehicles

Sales volume of passenger vehicles (unit)



Revenue

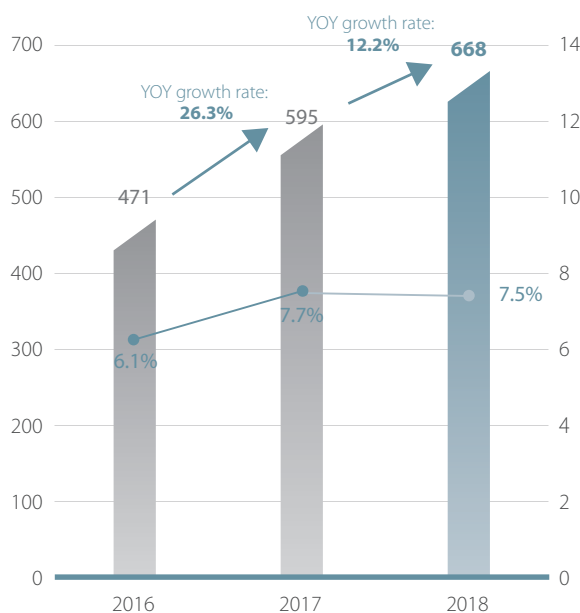
RMB in millions



Gross profit and gross profit margin

RMB in millions

%



Profit for the year attributable to owners of the parent

RMB in millions

250

200

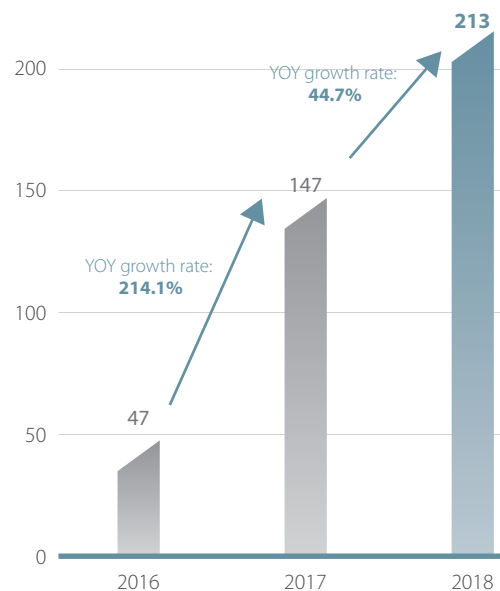
150

100

50

0

2016 2017 2018



Note: "YOY" refers to year-on-year.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the **"Board"**) of Sunfonda Group Holdings Limited (the **"Company"**), I am pleased to present the annual report of the Company and its subsidiaries (the **"Group"**) for the year ended 31 December 2018.

Despite the influence of various macro factors such as import tariff adjustment, economic downturn and the US-China trade war, the automobile consumption market of China ultimately managed to maintain a rising trend in 2018, providing relatively strong support for the industry performance for the whole year. Some consumers have postponed their plans to purchase vehicles in May and June 2018 with the hearsay of the overall downward adjustment of tariffs made in July. Nevertheless, the performance of the luxury and ultra-luxury automobile brands remained steady with the implementation of domestic tariff policies in subsequent periods. According to the data provided by the China Passenger Car Association, although the accumulated total sales volume of passenger vehicles amounted to 22,351,000 units in 2018, representing a year-on-year decrease of 5.8%, the retail volume of luxury automobiles recorded a significant year-on-year increase of 12.5%. The market share of luxury automobiles increased from 7.4% in 2017 to 8.8% in 2018, suggesting huge potential in China's automobile market under the trend of consumption upgrade.

Headquartered in Xi'an, China, the Group further leveraged its strength as a leading brand of dealership group in China to continuously optimize and expand brand diversity so as to further improve the profitability. Focusing on customer satisfaction and employee satisfaction at all times, we further pushed ahead with the enhancement of our internal operation management procedure and promoted the upgrade of the customer experience projects. The customer services management app, launched in the fourth quarter of 2018, has been proven satisfactory in terms of customer retention capability. On this basis, the Group will continue to invest in upgrading the app and roll out more high-frequency service projects and products that cater to customers' demand, striving to further enhance customer loyalty and the differentiated features of the brand of the Group.

Benefited from the optimized brand structure and refined management system, the Group's overall results performance was solid in 2018. During the year, the Group realised a sales volume of new automobiles of 26,679 units with a revenue from sales of new automobiles of RMB7,922.0 million, up by 16.5% year-on-year; revenue from after-sales services was RMB1,026.4 million, up by 15.7% year-on-year; gross profit amounted to RMB668.0 million, up by 12.2% year-on-year; and profit for the year attributable to owners of the parent amounted to RMB207.1 million, representing a year-on-year increase of 40.6%.

CHAIRMAN'S STATEMENT

2018 was a year of steady development of the Group, during which we successively secured licenses from various brands and new stores were put into operation, including Lanzhou BMW 4S Project, Suzhou FAW Toyota 4S Project and Xi'an Guangqi Honda 4S Project. As for plans for the future, the Group has actively applied for more licenses from renowned brands, which will, together with its existing land reserves, establish the "FUN TIME LANE" Trendy Automobile Street Zone Project (「豐泰里」汽車時尚街區項目) commercial complex that covers Xi'an city and has influence over Northwestern China in Chanba Ecological District, Xi'an, China, where the Group's headquarters is located. The complex will comprise boutique experience centers of different automobile brands and other businesses such as retail, used automobile trading, food and beverage, hotel office and cultural entertainment, which is set to become a much anticipated key regional landmark project in Xi'an City as well as Northwestern China.

Relying on 22 years of focused efforts and accumulated experience, in 2018, the Group received a large number of recognitions and awards from various authorities, including the China Automobile Dealers Association, Xi'an Evening News (西安晚報) and Huashang Daily (華商報). 2018 was also a period of fruitful rewards for brand management. For instance, Lanzhou Porsche Brand Store of the Group was awarded the "Best After-sales Service Champion Award" from Porsche, China, Xi'an Volkswagen Imported Automobile Brand Store was awarded the "Best Operation Award" and the "Five Star Dealer Award", etc.

The Group spared no efforts to promote the "Elite Management Trainee" project, which reserved a large number of excellent staff candidates with great development potential for the Group and provided strong talent support for the Group's sustainable development in the future.

In terms of principal business activities, through optimization of its operational system, the Group continued to improve the inventory level of new automobiles, speed up inventory flow, take full control over the pace of sales management, rationalize the structure of product inventory, emphasize and refine the management of insurance business, consumer credit penetration rate, used car replacement and retail business, thereby ensuring a steady increase in profitability of the Group.

CHAIRMAN'S STATEMENT

According to the data published by the National Bureau of Statistics of China, the annual GDP of China increased steadily in 2018, up by 6.6% year-on-year. The economic aggregate output for the year has exceeded RMB90 trillion for the first time. The consumer goods market maintained steady growth with the constant expansion of total sales volume and continuous structural improvement. The driving effect of consumption on economic growth further increased, remaining the greatest driver of economic development. In 2018, the total retail sales volume of consumer goods nationwide amounted to RMB38.1 trillion, up by 9.0% year-on-year, among which, the sales of consumption upgrade related goods grew relatively faster. Furthermore, the national resident consumption expenditure per capita amounted to RMB28,200, representing a nominal year-on-year increase of 8.7%. This reflected that the favourable economic growth of China has boosted demand for consumption upgrade, which is beneficial to the prospects of luxury and ultra-luxury automobile market. In terms of the principal sectors, the production sector saw growth momentum, the demand sector remained basically stable, the sectors related to people's livelihood continued to improve and the market condition is expected to improve steadily. Meanwhile, reductive and intensive development reached the milestone, which is conducive to the promotion of high-quality development.

2018 has seen dramatic changes in economic conditions, and thus the outstanding performance attained by the Group is valuable. The Group will continue to cultivate its business with prudence and diligence so as to respond to the diverse challenges arising from various market changes, thereby maintaining the Group's leading position in the automobile dealership industry of China. In 2019, the Group will devote greater efforts in research and development of the intelligent 4S store system which, combining with the existing distribution network and the implementation of the "FUN TIME LANE" Trendy Automobile Street Zone Project (「豐泰里」汽車時尚街區項目) in Shaanxi Xi'an, will bring forth a more promising outlook for the Group.

The Group will continue to adhere to a prudent yet optimistic development principle, and provide satisfactory services for customers and enhance their experience by incorporating intelligent innovation concepts and tools, so as to establish Sunfonda as a sustainable and innovative enterprise. I would like to extend my sincere gratitude to all parties again for their unreserved support. The staff of Sunfonda will keep on moving forward with determination and dynamism regardless of obstacles and live up to our commitments.

Thank you.

Wu Tak Lam

Chairman of the Board

26 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

I. MARKET REVIEW

In 2018, despite a complex and volatile external environment, China's macroeconomy still delivered outstanding results. According to the data published by the National Bureau of Statistics of China, in 2018, the total GDP of China exceeded RMB90.03 trillion (approximately US\$13.7 trillion), up by 6.6% year-on-year. The per capita GDP amounted to about US\$9,900. Jobs openings reached 13 million people throughout the year, and the urban unemployment rate was under 5%. Although the GDP growth rate was slightly lower than that in the past few years, it still surpassed the general expectation of 6.5% amid the competitive environment, which showed the strong support for the Chinese economy.

Economic Growth Rate of Shaanxi Province Surpassed National Growth Rate

As shown in the recent government work reports of major cities in China and the statistics published by the Bureau of Statistics, cities in Middle China and Western China were in the lead in terms of growth rate. Among which, the annual GDP growth rate of Shaanxi province, in which the Group's headquarters and principal business located, remained above 8%, which surpassed the national growth rate. In addition, Jiangsu Province, another province in which the Group's principal businesses were located, also recorded outstanding economic growth with revenue surpassing RMB9 trillion for the first time.

Continuous Growth of Per Capita Disposable Income

In 2018, the income of Chinese residents improved steadily and was basically in line with economic growth. As the growth of household consumption expenditure accelerated, the weighting of service consumption expenditure also increased and the living standard of residents continued to improve. In 2018, the national disposable income per capita, wage, salary and operational income increased steadily whilst property and transfer income grew at a faster pace.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of China's Automobile Market in 2018

Looking back into 2018, the Chinese economy faced many uncertainties and great downward pressure. These factors and pressure were reflected in the automobile consumption sector and led to decreases in various indicators. According to the data published by the relevant authorities such as the National Bureau of Statistics, in 2018, total automobile consumption in China amounted to RMB3.89 trillion, down by 2.4%; while the retail sales volume of passenger vehicles in China amounted to 23.05 million units in the same period, representing a 6% year-on-year decrease and was the first negative growth since 1995.

However, luxury automobiles remained unaffected among passenger vehicles in China. The annual total consumption reached RMB1.2 trillion and accounted for 30.5% of the total automobile consumption in China, up by 4.5% year-on-year in terms of market share. Driven by the introduction of various new models and increase in sales volume, the average transaction price of luxury automobiles in China increased by RMB3,400 year-on-year in 2018. According to the official reports of luxury automobile manufacturers, the total sales volume was 2.815 million units in 2018, up by 9.4% year-on-year.

According to the official reports published by Porsche, in 2018, the volume of new automobiles delivered reached 265,255 units, up by 4% year-on-year; hitting its record-high results in terms of global sales volume. China once again led the global sales volume of Porsche with the volume of new automobiles delivered amounting to 80,180 units, up by 12% year-on-year; whereas the United States came second with 57,202 units of new automobiles delivered, up by 3% year-on-year.

According to the official reports published by Lexus, in 2018, the global sales volume amounted to 698,330 units, up by 4.5% year-on-year. The China market sold 160,468 units of new automobiles in total during the year, up by 21% year-on-year, hitting a historic high level of overall sales volume in China.

Other luxury brands such as Benz, BMW and Audi still sustain relatively strong competitive advantages in the market. According to the official reports published by Daimler AG, in 2018, the global sales volume of Mercedes-Benz was 2.31 million units, up by 0.9% year-on-year, while the sales volume in the Chinese market (including Smart) increased by 10.3% year-on-year to 674,000 units and became the major contributor of global sales volume in 2018. As shown in the official reports of Audi, the global sales volume of Audi in 2018 amounted to 1.81 million units, decreased by 3.5% year-on-year. However, Audi broke its sales record in the Chinese market again with a sales volume of 661,000 units by the end of the year, up by 10.9% year-on-year. The global sales volume of BMW (including Mini) also achieved satisfactory results in 2018 with a sales volume of 674,000 units, up by 10.3%.

MANAGEMENT DISCUSSION AND ANALYSIS

It is generally predicted that there will be no significant economic rebound in the first half of 2019. However, with the launch of various domestic stimulating policies to maintain growth, the further implementation of the tax reduction policy, the conclusion of Sino-US trade negotiations, and the anticipated loosening of automobile tariffs, the sales volume of luxury automobiles will be likely to exceed 3 million units in 2019 and continue to maintain a growth rate of around 7%. At the same time, the successive launch of new models of various brands will further support the performance of the luxury automobile market.

II. BUSINESS REVIEW

In 2018, the domestic automobile retail market in China cooled down in which the performance of the vehicle market in China experienced a downturn of 6 consecutive months in the second half of 2018, resulting in high inventory pressure. In 2018, the sales volume in the domestic vehicle market declined by 2.8% year-on-year, which was the first annual decline for nearly 20 years. Gap between domestic vehicle enterprises' widened as luxury brands further squeezed the market capacity of joint venture brands and independent brands by reducing their selling prices. Market competition for passenger vehicles further aggravated.

Facing the uncertain performance of domestic vehicle market in 2018, the Group, on one hand, strengthened the management system to improve overall management; on the other hand, encouraged our team to improve and innovate the business model, and thereby fostered continued healthy development in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Based on the continuously innovating business model and intensively refined management, major brands operated by the Group posted improved but varied performances in 2018. For the year ended 31 December 2018, the Group realised a sales volume of new automobiles of 26,679 units with a revenue from sales of new automobiles of RMB7,922.0 million, up by 16.5% year-on-year; revenue arising from after-sales services was RMB1,026.4 million, up by 15.7% year-on-year; gross profit amounted to RMB668.0 million, up by 12.2% year-on-year; profit for the year increased by 40.8% to RMB207.3 million, as compared with RMB147.2 million for the corresponding period in 2017; profit attributable to owners of the parent amounted to RMB207.1 million, up by 40.6% year-on-year.

New Auto Sales Business

In 2018, the sales volume of new automobiles increased by 4,015 units year-on-year, representing a growth rate of 17.7%. Benefited from the overall planning of operation strategies, we made middle and long-term sales planning by maintaining good communication with manufacturers, enhanced the model structure of purchased cars and acquired more marketable and high yield models despite facing the sophisticated and competitive environment. Meanwhile, the Group effectively strengthened its internal sales management, further consolidated the standard practices of the sales process and adopted innovative sales assessment model to motivate our sales personnel. We conducted scientific research and predicted market changes to formulate corresponding sales strategies catering to the features of different automobile brands. As a result, the Group achieved positive results in respect of new automobile sales and the rapid growth of the sales volume of whole-vehicle in 2018.

Automobile Financing and Insurance Businesses

In 2018, in respect of automobile financing business, the Group actively explored new cooperation directions through channels such as banks and other financial institutions. Given the manufacturers' supportive policies towards financial products, the Group actively guided customers' demand for automobile purchases financing and sought new financial institutions to design more competitive financial products. We enhanced staff training to improve customer experience and boost service efficiency so as to meet the ever-changing and diverse demands of customers. In 2018, the penetration rate of the Group's financing business grew relatively steadily as compared to that of 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

In respect of automobile insurance business, in 2018, the Group entered into strategic cooperation agreements with several insurance institutions in response to the opportunities arising from the adjustment of national policies. Through the management of new automobile sales and after-sales services, we further specified customer demands in the businesses including new insurance and warranty renewal insurance. We continued to increase the penetration rate of new automobile insurance; meanwhile, we actively explored the after-sales warranty renewal. We formulated a series of customer-oriented solicitation measures to boost the customer confidence towards warranty renewal and develop their related consumption awareness and habit so as to expand the client base in respect of warranty renewal and lay a solid foundation for after-sales services.

Decoration Business

In respect of the decoration business, in 2018, the Group enhanced the decoration and marketing skills and the judgement in market demand of its own sales team, and fostered tighter supplier collaboration and management. Product quality and user experience were significantly improved. The Group also put greater efforts in the introduction of new products with a variety of packages to better satisfy practical needs of each brand store and various clients, and achieved positive results, realizing steady growth in the results of decoration business.

Used Car Business

In respect of the used car business, the Group continued its positive attitude towards the prospect of business. The Group strengthened its own advantages, continued to improve the trade-in ratio, and increased sources of quality cars in order to enhance profitability. Based on the strategic position of the Group, each store commenced used car business continuously, strengthened the comprehensive ability of used car appraisers through training and continuously explored the demands for used car replacement in each aspect of sales and after-sales services. Further, by integrating the manufacturers' certification of used cars from the original manufacturers and customer demand of trade-in from used car to new car, the Group further pushed forward the development of the used car business and realised a higher level of development. Meanwhile, we further improved the training and appraisal system for the personnel of the used cars business, placed emphasis on business planning and management so as to develop a well-equipped and professional team of the used car business. The Group achieved significant progress in respect of used automobile business in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

After-sales Services Business

Based on the solid foundation established in 2017, the Group formulated its overall after-sales services strategies in 2018. The Group pursued policies oriented to customer demand, started from details to provide comprehensive services for and maintained frequent interaction with its customers. It has also expanded business volume through repairs and maintenance business and enhanced the profit through accident maintenance business to ensure continuous and stable development of the after-sales business:

- By improving customer experience, carrying out differentiated marketing, developing products in a multi-dimensional manner to cater to customers' demand and reducing car maintenance costs of customers, the Group reduced customer churn rate, ensured stable growth of after-sales customer base and laid a foundation for business growth.
- The Group further strengthened the cooperation and maintained close communication with insurance companies, and actively planned and expanded accident maintenance business channels. The Group motivated the awareness of its staff and, at the same time, formulated corresponding management systems to improve accident repair rate and accident outreach capability so as to effectively enhance the income from after-sales services.
- In response to the downward trend of customer unit price for repairs and maintenance business, the Group actively introduced the new concept of "key components marketing" to enhance the marketing capability of each store through experience-based marketing, which effectively curbed the downward trend of customer unit price.

Through comprehensive efforts, the overall income from after-sales services of the Group continued its positive momentum and trend in 2018. In 2018, income from after-sales services amounted to RMB1,026.4 million, increased by 15.7% over 2017; client turnover improved significantly as the total client base remained stable and increased moderately and the number of valid clients increased by 14.5% year-on-year, laying a foundation for the steady improvement of the after-sales services business in 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Brand Development and Network Development

In 2018, additional dealership stores were opened in Lanzhou, Gansu Province and Suzhou, Jiangsu Province by the Group, including one newly established BMW 4S Store in Lanzhou and FAW Toyota 4S Store in Suzhou. The opening of additional dealership stores further enriched the brand operation network of the Group in Northwestern China and Jiangsu Region. Additionally, in 2018, the Group newly obtained two brand licenses for opening new stores in Jiangsu Province, where Suzhou and Nanjing obtained the brand licenses from FAW Volkswagen and GAC Toyota, respectively. As of 31 December 2018, the Group had 36 sale points in operation.

III. FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2018 was RMB8,948.4 million, representing an increase of RMB1,261.4 million or 16.4% as compared to that for the corresponding period in 2017. Of which, revenue arising from the sale of new automobiles was RMB7,922.0 million, representing an increase of RMB1,122.4 million or 16.5% as compared to that for the corresponding period in 2017. The increase in revenue from the sale of new automobiles was attributable to the increase in sales volume of new automobiles. Revenue arising from after-sales services business was RMB1,026.4 million, representing an increase of RMB139.0 million or 15.7% as compared to that for the corresponding period in 2017. The increase in revenue arising from after-sales services business was attributable to the growth in the number of units to be repaired.

A substantial portion of the revenue of the Group was generated from sales of new automobiles, accounting for 88.5% of our revenue for the year ended 31 December 2018 (2017: 88.5%). The remaining part of revenue was generated from after-sale services business, accounting for 11.5% of our revenue for the year ended 31 December 2018 (2017: 11.5%). Revenue of the Group was mainly derived from our operations in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth a breakdown of the revenue and relevant information for the reporting period:

	For the year ended 31 December					
	Amount (RMB'000)	2018 Sales volume (Unit)	Average selling price (RMB'000)	Amount (RMB'000)	2017 Sales volume (Unit)	Average selling price (RMB'000)
Sales of passenger automobiles						
Luxury and ultra-luxury brands	6,952,471	19,372	358.9	5,977,477	16,705	357.8
Mid-end market brands	969,507	7,307	132.7	822,148	5,959	138.0
Sub-total/Average	7,921,978	26,679	296.9	6,799,625	22,664	300.0
After-sales services	1,026,436			887,380		
Total	8,948,414			7,687,005		

Cost of Sales and Services Rendered

Cost of sales and services rendered for the year ended 31 December 2018 was RMB8,280.5 million, representing an increase of RMB1,188.9 million or 16.8% as compared to that for the corresponding period in 2017. Among which, cost of sales of new automobiles for the year ended 31 December 2018 was RMB7,725.2 million, representing an increase of RMB1,130.0 million or 17.1% as compared to that for the corresponding period in 2017. The increase in the cost of sales of new automobiles was attributable to the increase in the sales volume of new automobiles. Cost of after-sales services business for the year ended 31 December 2018 was RMB555.3 million, representing an increase of RMB59.0 million or 11.9% as compared to that for the corresponding period in 2017. The increase in the cost of after-sales services business was attributable to the growth in the number of units to be repaired.

Gross Profit

Gross profit for the year ended 31 December 2018 was RMB668.0 million, representing an increase of RMB72.5 million or 12.2% as compared to that for the corresponding period in 2017. Of which, the gross profit of sales of new automobiles was RMB196.8 million, representing a slight decrease of RMB7.6 million or 3.7% as compared to that for the corresponding period in 2017; gross profit of after-sales services business was RMB471.2 million, representing an increase of RMB80.1 million or 20.5% as compared to that for the corresponding period in 2017. For the year ended 31 December 2018, gross profit of after-sales services accounted for 70.5% of our total gross profit (2017: 65.7%).

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit margin for the year ended 31 December 2018 was 7.5% (2017: 7.7%). Of which, gross profit margin for sales of new automobiles was 2.5% (2017: 3.0%) and gross profit margin for after-sales services was 45.9% (2017: 44.1%).

Other Net Income and Gains

Other net income and gains mainly consist of commission income from automobile financing and insurance agency business, logistics and storage income, net gain on disposal of items of property, plant and equipment, net gain on disposal of a subsidiary, government grants and interest income.

For the year ended 31 December 2018, other net income and gains amounted to RMB342.0 million, representing an increase of 65.6% as compared with RMB206.5 million for the year ended 31 December 2017, which was mainly attributable to the net gain on disposal of a subsidiary, the growth of commission income from automobile financing and insurance agency business and the increase in logistics and storage income.

Selling and Distribution Expenses

Selling and distribution expenses for the year ended 31 December 2018 amounted to RMB385.9 million, representing an increase of RMB65.1 million or 20.3% as compared with RMB320.8 million for the year ended 31 December 2017, mainly due to the increase in both advertisement and promotion expenses and salary of sales staff arising from the increase in sales volume of new automobiles. As a percentage of revenue, the selling and distribution expenses remained stable as compared with the corresponding period last year, increased from 4.2% for the year ended 31 December 2017 to 4.3% for the year ended 31 December 2018, up by 0.1%.

Administrative Expenses

Administrative expenses for the year ended 31 December 2018 amounted to RMB246.0 million, representing an increase of RMB66.1 million or 36.7% as compared with RMB179.9 million for the year ended 31 December 2017. The increase in administrative expenses was mainly attributable to the rise in salary of the management personnel, depreciation and amortisation costs. As a percentage of revenue, the administrative expenses remained stable as compared with the corresponding period last year, increased from 2.3% for the year ended 31 December 2017 to 2.7% for the year ended 31 December 2018, representing an increase of 0.4%.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Costs

Finance costs for the year ended 31 December 2018 amounted to RMB102.7 million, representing an increase of 39.7% as compared with RMB73.5 million for the year ended 31 December 2017, mainly due to the increase in scale of financing. The scale of financing increased from RMB1,491.2 million as at 31 December 2017 to RMB1,943.5 million as at 31 December 2018, among which the balance of bank borrowings increased by RMB343.5 million, and other financings (including financing from automobile manufacturers and bank commercial bills) increased by RMB108.7 million, due to the increase in scale of financing for inventory arising from the increase in sales volume of new automobiles.

Profit Before Tax

As a result of the foregoing, profit before tax for the year ended 31 December 2018 amounted to RMB275.3 million, representing an increase of 20.9% as compared with RMB227.7 million for the year ended 31 December 2017.

Income Tax Expense

Income tax expense for the year ended 31 December 2018 amounted to RMB62.0 million, representing a decrease of RMB18.6 million or 23.1% as compared with RMB80.6 million for the year ended 31 December 2017. The effective income tax rate of the Group for the year ended 31 December 2018 was approximately 22.5%, which was mainly due to the tax-deductible losses from the previous years being offset by the investment gain on disposal of a subsidiary.

Profit for the Year

As a result of the foregoing, profit for the year ended 31 December 2018 was RMB213.4 million, representing an increase of 45.0% as compared with RMB147.2 million for the year ended 31 December 2017.

Profit for the Year Attributable to Owners of the Parent

For the year ended 31 December 2018, profit for the year attributable to owners of the parent was RMB213.2 million, representing an increase of 44.7% as compared with RMB147.3 million for the year ended 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

IV. LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

For the year ended 31 December 2018, our net cash flow generated from operating activities was RMB240.4 million, as compared with RMB13.2 million of net cash flow generated from operating activities for the year ended 31 December 2017. The growth in net cash inflow of operating activities was mainly attributable to the increase in cash received as a result of the increase in gross profit from operations.

For the year ended 31 December 2018, our net cash outflow of investing activities was RMB255.9 million, as compared with RMB341.9 million of net cash outflow of investing activities for the year ended 31 December 2017. The decrease in net cash outflow of investing activities was mainly due to the decrease in capital expenditure of new stores.

For the year ended 31 December 2018, our net cash inflow of financing activities was RMB281.2 million, as compared with RMB111.4 million of net cash inflow of financing activities for the year ended 31 December 2017. The increase in the net cash inflow of financing activities was mainly attributable to the increase in the scale of financing arising from the increase in sales volume of new automobiles.

Net Current Assets

As at 31 December 2018, our net current assets amounted to RMB345.1 million, as compared with RMB484.7 million of net current assets as at 31 December 2017. The decrease in net current assets was mainly attributable to the fact that the increase in current liabilities exceeded the increase in current assets, especially the relatively significant increase in bank loans and other borrowings.

Inventories

Our inventories primarily consist of new automobiles, spare parts and decoration accessories. As at 31 December 2018, our inventories amounted to RMB945.6 million, representing an increase of 21.1% as compared with RMB781.0 million as at 31 December 2017, mainly due to the stock for the increase in sales volume of new automobiles. The sale of new automobiles increased remarkably, with more notable growth of sales volume in new stores. Accordingly, the inventory level of new automobiles also increased.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2018, our average inventory turnover days (the average inventory turnover days = the average of opening and closing inventory balances divided by the cost of sales and services for that year and multiplied by 360 days) were 38.0 days, which were basically flat with 37.1 days in 2017. Along with the growth in stores, brands and sales volume, we still maintained a relatively high turnover rate of new automobiles in general despite the turnover rates of different brands vary.

Bank Loans and Other Borrowings

As at 31 December 2018, our bank loans and other borrowings were RMB1,943.5 million, representing an increase of 30.3% as compared with RMB1,491.2 million as at 31 December 2017, which was mainly attributable to the increase in scale of financing for inventory arising from the increase in sales volume of new automobiles.

The following table sets forth the bank loans and other borrowings as at the dates indicated:

	As at 31 December			
	2018		2017	
	Effective interest rate (%)	Amount RMB'000	Effective interest rate (%)	Amount RMB'000
CURRENT				
Bank loans	3.3-7.0	1,483,380	3.3-7.0	1,140,520
Other borrowings	5.6-8.5	246,504	5.6-7.8	137,769
Sub-total		1,729,884		1,278,289
NON-CURRENT				
Bank loans	3.3-5.5	213,616	3.3-5.5	212,941
Total		1,943,500		1,491,230
Among which:				
Secured loans		1,697,500		1,212,583
Unsecured loans		246,000		278,647
Total		1,943,500		1,491,230

As at 31 December 2018, our gearing ratio, which is total debt divided by the equity attributable to owners of the parent, was 99.5% (2017: 83.1%). Total debt mainly includes bank loans and other borrowings, trade and bills payables, other payables and accruals, etc.

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of Assets

As at 31 December 2018, certain of our bank loans were secured by charges or pledges over our assets. Our assets subject to these charges or pledges as at 31 December 2018 consisted of: (i) inventories amounting to RMB543.2 million; (ii) property, plant and equipment amounting to RMB436.2 million; (iii) land use rights amounting to RMB161.5 million; and (iv) pledged bank deposits of HK\$10.8 million (equivalent to RMB9.4 million) and US\$8.6 million (equivalent to RMB59.1 million).

As at 31 December 2018, certain of our inventories amounting to RMB135.3 million and pledged bank deposits amounting to RMB205.5 million were pledged as securities for bills payable.

Capital Expenditures and Investment

Our capital expenditures comprise primarily expenditures on property, plant and equipment, land use rights and intangible assets. For the year ended 31 December 2018, our total capital expenditures were RMB531.2 million, representing an increase of approximately RMB196.2 million as compared with the RMB335.0 million for the year ended 31 December 2017.

Contingent Liabilities

As at 31 December 2018, the Group did not have any material contingent liabilities or guarantees.

Staff Cost and Employee Remuneration Policy

As at 31 December 2018, the Group had 3,063 employees. Staff cost of the Group increased by 34.2% from RMB226.4 million for the year ended 31 December 2017 to RMB303.9 million for the year ended 31 December 2018. The increase was mainly attributable to the increase in headcount, the increase in the base number of social security contribution and the corresponding increase in performance bonus for staff. The Group offers attractive remuneration packages, including competitive fixed salaries and performance-based bonuses. The Group provides its automobile sales and after-sales staff with performance-based bonuses based on their contribution to revenue, technical skills, customer satisfaction and other results of their performance assessment according to their job nature. The performance bonuses are calculated on a monthly basis. Our employees are subject to regular job reviews which determine their promotion prospects and remuneration packages. In order to keep up with the rapid development of the Group's network, the Group also continues to build up its quality talent pool and prudently manages its human resources and makes corresponding adjustments to the arrangement of positions based on the changes in overall business volume. Meanwhile, the Group attaches great importance to the reserve of talent and teambuilding. Regular training in respect of business skills, expertise and professional qualifications have been provided to key personnel. The Group also pays close attention to the career development of its employees, so as to provide primary drivers for the future development of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Principal Risks

Business Risk

The Group's rights on operating points of sales, the supply of automobiles and spare parts as well as other important aspects in the Group's businesses and operations are all subject to our dealership authorization agreements with automobile suppliers. The Group's dealership authorization agreements are non-exclusive, and generally have terms of one to three years with the option of renewal. The automobile suppliers may terminate the dealership authorization agreements by giving three to twelve months' written notice in general for various reasons or without reasons. Of course, the Group may terminate the dealership authorization agreements with the automobile suppliers based on reasons such as adjustment of business strategies of the Group or others. In case of any of the foregoing, the Group's business, operating conditions and future development may be affected. Accordingly, the Group communicated and exchanged views with each automobile supplier regularly with a view to achieving a win-win cooperation relationship.

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt risks of bank loans and other borrowings at a floating interest rate. Save for the pledged bank deposits, short-term deposits as well as cash and cash in banks, the Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

Exchange Rate Risks

The Group's businesses are located in Mainland China and all transactions are conducted in RMB. Most of the Group's assets and liabilities were denominated in RMB, except for certain bank balances denominated in US\$, Euro and HK\$ and certain loans denominated in HK\$.

The Group's assets and liabilities denominated in US\$ and HK\$ were mainly held by certain subsidiaries incorporated outside Mainland China which had HK\$ as their functional currency, and the Group did not have material foreign currency transactions in Mainland China during the year. Therefore, the Group had immaterial foreign currency risk.

MANAGEMENT DISCUSSION AND ANALYSIS

V. FUTURE STRATEGY AND PROSPECTS

Positive and Optimistic Forecast on Economic Development Trend in China in 2019

According to the forecast on global retail and e-commerce issued by eMarketer, a market research agency, the total retail sales volume of China is expected to grow by 7.5% to US\$5.6 trillion in 2019; while that of the United States is expected to grow by 3.3% to US\$5.5 trillion. Although the growth rates of both countries are slowing down, the overall trend of China's growth rate surpassing that of the United States will continue until 2022.

As shown in an analysis conducted by Bank of America Merrill Lynch, recent comments made by the management of United States enterprises on China's economy are mostly positive. In addition, the China Activity Coincident Tracker of Bank of America Merrill Lynch recorded a growth of 4.1% year-on-year, which was higher than the growth of 3.0% in November last year. The Tracker measures China's economic activities by combining data such as power generation, export, retail and others.

The economy of China will grow steadily in 2019. It is expected that the annual GDP growth rate will be around 6.3%, which is approximately 0.3 percentage point lower than that in 2018. In 2019, China's economic growth is expected to stabilize after a decrease in the earlier period and enter into a steady improvement stage. The growth rate for the first, second, third and fourth quarter will be approximately 6.3%, approximately 6.2%, approximately 6.2% and approximately 6.4%, respectively. China has entered into the key stage where the consumption demand increases continuously, the upgrade of consumption structure accelerates and the driving effect of consumption on the economy grows remarkably stronger. With the successive introduction of favourable consumption policies, it is expected that China's final consumption will maintain a rising trend in 2019, with a nominal year-on-year growth rate of approximately 8.4%.

Despite the huge potential of China's automobile consumption market as a whole, under the influence of the relevant policies, the overall sales volume of passenger vehicles in China is still expected to maintain a slight downward trend in 2019.

According to the forecast of the China Association of Automobile Manufacturers, new energy automobiles are likely to surpass the target of 1.6 million units in 2019 with a year-on-year increase of approximately 33%. Among which, major luxury brands such as Mercedes-Benz, BMW and Audi will launch a variety of electric vehicles under their respective brands, attracting the attention of numerous consumers.

MANAGEMENT DISCUSSION AND ANALYSIS

With sound brand attraction and the launch of various new models as well as appropriate pricing strategies, it is expected that the luxury brand vehicle market will continue to maintain steady growth in 2019 with a growth rate of 9% to 10%.

Xi'an, China Entering into Healthy Development Stage

Xi'an is officially positioned as one of the nine National Central Cities of China, and the government has expressly proposed to "develop Xi'an as a National Central City" in the Development Plan for Urban Cluster of Central Shaanxi Plain (《關中平原城市群發展規劃》) published by National Development and Reform Commission.

Under the national strategy of "One Belt One Road", the development of the northwestern region will be led by Xi'an. It is expected that the comprehensive economic strength and development vitality of Xi'an will enhance significantly in the future.

Further Improvement of Brand Structure

In 2018, the Group stepped forward to introduce the Guangqi Honda brand and Geely New Energy brand (replacing with "DENZA brand"), which are popular brands in China, and newly opened Suzhou FAW-Toyota Store and Lanzhou BMW 4S store in the fourth quarter of 2018. With the addition of such brands and the opening of new stores, the Group has enhanced the coverage in terms of customer demand and moved towards the offering of one-stop service. In 2019, the Group will continue to communicate and cooperate with automobile suppliers of popular brands in China, striving to obtain automobile dealership authorization from more brands and further optimize and improve the brand structure.

Adhered to the Principle of Customer-oriented and Upgraded Customer Experience

In recent years, the Company continued to pay close attention to customer experience and satisfaction. Looking back into 2018, the Group successively launched and organized more than 400 customer appreciation and retention campaigns, and achieved high customer satisfaction. As a result of these campaigns, it is expected that the promotion on WeChat Moments by relevant customers will bring more than 400,000 subscribers and viewers to the Company's WeChat official account. Through the cooperation between the Group's Customer Relationship Management (CRM) Department and all brand stores, the attention paid to and investment made on the Customer Experience Enhancement Project increased significantly year-on-year. In particular, for the customer dining ambience, various stores underwent optimization and upgrade with an aim to provide customers with a superior experience. We interviewed our customers on a regular basis, which also allowed the Company to fully satisfy the demand of customers in event planning.

MANAGEMENT DISCUSSION AND ANALYSIS

Precise Investment in Marketing Expenses

The Group has implemented more precise control on marketing expenses, which further reduced the expenses in relation to placement of traditional advertisement on online apps. Meanwhile, the store visit rate and successful conversion rate for inbound marketing online have been enhanced significantly through refined internal management. Random inspection on relevant phone recordings was also conducted regularly by the Customer Relations Management Department so as to timely identify deficiencies of the Sales Department and ensure customer retention. On the other hand, we continued to increase the investment in customer satisfaction and rewarding activities to further magnify the effects of circle marketing. With the concerted efforts of various parties, the overall marketing expenses of the Group in 2018 remained stable year-on-year, achieving a favourable position with increased number of stores in operation, unchanged marketing expenses and enhanced business operating results.

Steady Development of Derivative Businesses

The Company has further enhanced the management and supervision of insurance coverage ratio of new automobiles and warranty renewal. In particular for the warranty renewal business, we have further conducted a detailed analysis on customer sources and put more efforts in strengthening the customer base. By identifying the different sources of warranty renewal customers, we have rapidly increased the penetration rate of warranty renewal and provided strong support for improving the performance of after-sales services.

Continuous Expansion of Brand Influence of Sunfonda

The brand influence of “Sunfonda” has been expanding since it was officially recognized as a Shaanxi well-known trademark in 2015. Meanwhile, the Group has further built up the brand concept of “Sunfonda Volkswagen Family” through a wide range of activities such as various large marathon events, high-end entrepreneur forums and international film festival, thereby continuously expanding its local and even regional influence.

MANAGEMENT DISCUSSION AND ANALYSIS

Intelligence Experience Projects

In the fourth quarter of 2018, the Group invited walk-in customers to register with the Sunfonda membership system by scanning QR code. After registering as members, customers could experience the intelligent after-sale services one after another, including a series of processes such as transparent workshop, transparent work order and transparent maintenance time. The Group has continuously enriched the content of this application and is expected to launch more intelligent projects covering different business needs, including sales of new automobiles, quotation, test-drive booking and distribution of coupons. Other features such as membership points and event promotion will also be added by stages.

A less than three months after the system was put into use, the accumulated number of registered customers of the Group has exceeded 11,000. The Group will continue to put more focus on this system and steadily develop its intelligent 4S store with a view to further improving customer experience and saving their time, which is expected to reduce the human resources cost of the Group at the same time.

Unfolding New Chapter of Retail Businesses

Sunfonda will commence the construction of “FUN TIME LANE (豐泰里)” automobile street zone project at Chanba Ecological District in northern Xi’an, China in 2019. The overall planning and design of the project, which was carried out by an internationally-renowned design company, adopted and incorporated openness and innovation in the high-end automobile boutique store and used automobile trading center, fully covering businesses such as hotel, cinema, supermarket, food and beverage, and fast moving goods. Upon completion, the “FUN TIME LANE (豐泰里)” automobile street zone project will become a shopping destination in Xi’an and the adjacent cities. At the same time, it will provide the Group with a sustainable source of customers and hence successfully unfolding a new chapter for retail businesses.

BIOGRAPHIES OF DIRECTORS, SENIOR MANAGEMENT AND COMPANY SECRETARY

Directors

Executive Directors

Mr. Wu Tak Lam (胡德林), aged 57, was appointed as the Chairman and an executive director of the Company on 13 January 2011. He is also the Chairman of both the Nomination Committee and the Finance and Investment Committee of the Company. Mr. Wu founded the Group with Ms. Chiu Man in November 2000 and has been primarily responsible for the strategic management, planning and business development of the Group as well as development and maintenance of relationship with automobile suppliers of the Group. Mr. Wu serves as the chairman of the board and a director of each of the subsidiaries of the Company, and he has also been a director of Sunfonda (Hong Kong) Limited since April 1997. Prior to the establishment of the Group, Mr. Wu worked at China National Automotive Industry Sales Corp. (中國汽車工業銷售總公司) from July 1986 to December 1992. From August 1993 to March 1997, Mr. Wu was the managing director of Sunfonda Limited (新豐泰有限公司), which conducted import and export trade business and was dissolved in September 2002. He graduated from Wuhan Institute of Technology (武漢工學院, currently known as Wuhan University of Technology (武漢理工大學)) in Wuhan, China, majoring in automobile and tractor studies and obtained a bachelor's degree in engineering in July 1986. He is also the sole shareholder and director of Golden Speed Enterprises Limited ("**Golden Speed**", a controlling shareholder of the Company), a director of Top Wheel Limited ("**Top Wheel**", a controlled corporation of Golden Speed and a controlling shareholder of the Company), and the husband of Ms. Chiu Man (the chief executive officer of the Group, an executive director and a controlling shareholder of the Company).

Ms. Chiu Man (趙敏), aged 55, was appointed as the chief executive officer of the Group and an executive director of the Company on 13 January 2011. She is also a member of the Finance and Investment Committee of the Company. Ms. Chiu founded the Group with Mr. Wu Tak Lam in November 2000 and has been primarily responsible for the overall management and financial control of the Group. Ms. Chiu serves as a director in each of the subsidiaries of the Company and has also been a director of Sunfonda (Hong Kong) Limited since April 1997. Ms. Chiu graduated from Wuhan Institute of Technology (武漢工學院, currently known as Wuhan University of Technology (武漢理工大學)) in Wuhan, China, majoring in automobile and tractor studies and obtained a bachelor's degree in engineering in July 1986. She is also the sole shareholder and director of Win Force Enterprises Limited ("**Win Force**", a controlling shareholder of the Company), a director of Top Wheel (a controlled corporation of Win Force and a controlling shareholder of the Company), and the wife of Mr. Wu Tak Lam (the Chairman, an executive director and a controlling shareholder of the Company).

BIOGRAPHIES OF DIRECTORS, SENIOR MANAGEMENT AND COMPANY SECRETARY

Mr. Gou Xinfeng (苟新峰), aged 45, was appointed as an executive director of the Company on 9 November 2016. Mr. Gou was also appointed as the vice president of operations of the Group on 1 August 2017. Mr. Gou has over 18 years of experience in the operation and management of automobile brands. Mr. Gou joined the Group in July 2002, and successively served the following positions in the subsidiaries of the Company: the sales deputy manager of Shaanxi Sunfonda Automobile Co., Ltd. (陝西新豐泰汽車有限責任公司) from July 2002 to February 2006 and the sales director of Xi'an Xinmingyang Toyota Automobile Sales Services Co., Ltd. (西安新銘洋豐田汽車銷售服務有限公司) from March 2006 to March 2009. Mr. Gou was the general manager of Shaanxi Sunfonda Automobile Technology Development Co., Ltd. (陝西新豐泰汽車技術開發有限責任公司) from April 2009 to September 2014, during which the store and the team were awarded a number of honors from Volkswagen Group under his leadership, including World Diamond Dealers 2014 (2014年度全球鑽石經銷商), Five-starred Management Team Award 2014 (2014年度五星級管理團隊獎) and Sales Excellence Award 2014 (2014年度卓越銷售獎). From October 2014 to July 2017, he has been the general manager of Shaanxi Sunfonda Boao Automobile Co., Ltd. (陝西新豐泰博奧汽車有限責任公司) and is responsible for the sales operation and daily management of various brands under the Group. Mr. Gou has been a director of Grand Forever Enterprises Limited since 10 July 2018. Mr. Gou specializes in sales operation and overall store management. Mr. Gou graduated from Wuhan Automotive Industry University (武漢汽車工業大學) (now known as Wuhan University of Technology (武漢理工大學)) and obtained a bachelor's degree in Automotive Applied Engineering in July 1998.

Ms. Chen Wei (陳瑋), aged 44, was appointed as an executive director of the Company on 23 November 2018. Ms. Chen was appointed as the financial controller of the Group since May 2015. Ms. Chen has over 20 years of experience in accounting and financial management. She joined the Group in March 2007, and successively served the following positions in the subsidiaries of the Company: the finance manager of Shaanxi Sunfonda Automobile Technology Development Co., Ltd. (陝西新豐泰汽車技術開發有限責任公司) and Shaanxi Kaisheng Automobile Sales Services Co., Ltd. (陝西凱盛汽車銷售服務有限公司) from March 2007 to February 2009; and the finance manager of Shaanxi Sunfonda Automobile Co., Ltd. (陝西新豐泰汽車有限責任公司) from March 2009 to April 2015. Ms. Chen graduated from Shaanxi Institute of Finance and Economics (陝西財經學院, currently known as Xi'an Jiaotong University (西安交通大學)) in July 1997 with an associate degree in accounting.

BIOGRAPHIES OF DIRECTORS, SENIOR MANAGEMENT AND COMPANY SECRETARY

Independent non-executive Directors

Mr. Liu Jie (劉傑), aged 56, was appointed as an independent non-executive director of the Company on 19 June 2012. He is also the Chairman of the Audit Committee, a member of the Nomination Committee, the Remuneration Committee and the Finance and Investment Committee of the Company. Since April 2016, Mr. Liu has been an independent director of the following two companies listed on the Shenzhen Stock Exchange, namely Zhongshan Tatwah Smartech Co., Ltd. (中山達華智能科技股份有限公司) (which has been renamed as Tatwah Smartech Co., Ltd. (福州達華智能科技股份有限公司) since 30 November 2018; stock code: 002512) and Jiangsu Changbao Steeltube Co., Ltd. (江蘇常寶鋼管股份有限公司) (stock code: 002478). Mr. Liu has also been an independent director of Zhongchang Big Data Corp. Ltd. (中昌大數據股份有限公司) (a company listed on the Shanghai Stock Exchange; stock code: 600242) since June 2017 and independent director of Milkyway Chemical Supply Chain Service Co., Ltd. (密爾克衛化工供應鏈服務股份有限公司) (a company listed on the Shanghai Stock Exchange since 13 July 2018; stock code: 603713) since September 2015. Mr. Liu has been a professor and supervisor of Ph.D candidates at the School of Economics and Management of Tongji University (同濟大學) since July 2000, a professor and supervisor of Ph.D candidates at the School of Management of Fudan University (復旦大學) since April 2004, and a part-time professor and supervisor of Ph.D candidates at the School of Economics and Management of Tongji University (同濟大學) since September 2005. Mr. Liu was an honorary professor in the Faculty of Business and Economics of the University of Hong Kong (香港大學) from September 2011 to March 2018.

From October 1995 to January 1998, Mr. Liu was the deputy general manager of Shanghai Tongji Science & Technology Industrial Co., Ltd. (上海同濟科技實業股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600846). He was a director of Shanghai Tongji Science & Technology Industrial Co., Ltd. (上海同濟科技實業股份有限公司) from May 1997 to June 2005, an independent director of Shanghai Material Trading Co., Ltd. (上海物資貿易股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600822) from October 2001 to June 2007, an independent non-executive director of China Cyber Port (International) Company Limited (神州奧美網絡(國際)有限公司), a company whose shares are listed on the Hong Kong Stock Exchange (stock code: 08206) from February 2007 to October 2008, and a director and the general manager of Shanghai Fuli Management Consulting Co., Ltd. (上海復理管理諮詢有限公司) from January 2015 to May 2018. Mr. Liu was also a director of Shanghai Dian Software Tech Co., Ltd. (上海締安科技股份有限公司), a company whose shares are quoted on the National Equities Exchange and Quotations (stock code: 834047) from May 2015 to June 2018, and an independent director of Goldcard Smart Group Co., Ltd. (金卡智能集團股份有限公司) (a company listed on the Shenzhen Stock Exchange; stock code: 300349) from May 2017 to December 2018. Mr. Liu graduated from Tongji University (同濟大學) in Shanghai, China, majoring in industrial automation, and obtained a bachelor's degree and a master's degree in engineering in July 1987 and December 1990, respectively. He graduated from the same university majoring in management science and engineering and obtained a doctoral degree in engineering in July 1995.

BIOGRAPHIES OF DIRECTORS, SENIOR MANAGEMENT AND COMPANY SECRETARY

Mr. Song Tao (宋濤), aged 41, was appointed as an independent non-executive director of the Company on 26 May 2017. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Mr. Song has 17 years of experience in the automobile dealership industry, and is currently Deputy Secretary of China Automobile Dealers Association (中國汽車流通協會). Mr. Song served as deputy general manager for components and parts in Beijing branch of FAWMC from September 2001 to March 2004. From March 2004 to October 2006, he served as the Operation Director of Automotive Channel of CCTV International Network (央視國際網絡汽車頻道). He acted as the Deputy Director of the Import and Export Working Committee of Automobile and Parts of China Automobile Dealers Association (中國汽車流通協會汽車及零部件進出口工作委員會) from October 2006 to January 2008, the Executive Deputy Director of the Working Committee of Imported Automobile of China Automobile Dealers Association (中國汽車流通協會進口汽車工作委員會) and the Deputy Director of the Expert Committee of China Automobile Dealers Association (中國汽車流通協會專家委員會) since 2008. Mr. Song was a director of the Membership Affairs Department from October 2008 to January 2018. Mr. Song established Top 100 Office of China's Automobile Dealership Groups (中國汽車經銷商集團百強工作辦公室) in 2009 and served as the director; and he has successively established Dealers Association for various brands such as Benz, Faw-Volkswagen, Porsche, BMW, Audi and Jaguar Land Rover, and acted as secretary-general since 2010. In 2014, Mr. Song established Branch Auto Finance of China Automobile Dealers Association (中國汽車流通協會汽車金融分會) and served as secretary-general. Mr. Song is also a member of Chinese Advisory Committee of American Society of Association Executives (ASAE). Mr. Song graduated from Beihua University (北華大學) with accounting computerization as his major.

Dr. Liu Xiaofeng (劉曉峰), aged 57, was appointed as an independent non-executive director of the Company on 26 May 2017. He is also a member of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. Dr. Liu has over 25 years of experience in corporate finance and has worked with various international financial institutions since 1993, including NM Rothschild & Sons, NM Rothschild & Sons (Hong Kong) Limited, JP Morgan Chase, DBS Asia Capital Limited and China Resources Capital Holdings Company Limited (華潤金融控股有限公司). Dr. Liu was an independent non-executive director of Haier Electronics Group Co., Ltd. (海爾電器集團有限公司) (stock code: 1169) from June 2007 to June 2014, and an independent non-executive director of Hisense Kelon Electrical Holdings Company Limited (海信科龍電器股份有限公司) (currently known as Hisense Home Appliances Group Co., Ltd. (海信家電集團股份有限公司); stock code: 921) from September 2017 to August 2018; and is currently an independent non-executive director of Kunlun Energy Company Limited (崑崙能源有限公司) (stock code: 135) since April 2004, an independent non-executive director of Honghua Group Limited (宏華集團有限公司) (stock code: 196) since January 2008, an independent non-executive director of Cinda International Holdings Limited (信達國際控股有限公司) (stock code: 111) since July 2016 and an independent non-executive director of AAG Energy Holdings Limited (亞美能源控股有限公司) (stock code: 2686) since August 2018. The issued shares of the above six companies are listed on the Hong Kong Stock Exchange. Dr. Liu is also currently an independent director of UBS Securities Co., Ltd. Dr. Liu obtained a Master's degree and a Ph.D. from the Faculty of Economics, University of Cambridge in England in 1988 and 1994 respectively, a Master's degree in Development Studies from the University of Bath, England, in 1987, and a Bachelor of Economics degree from Southwest University of Finance and Economics, China (西南財經大學) (previously known as Sichuan Institute of Finance and Economics, China (中國四川財經學院)) in 1983.

BIOGRAPHIES OF DIRECTORS, SENIOR MANAGEMENT AND COMPANY SECRETARY

SENIOR MANAGEMENT

Mr. Gou Xinfeng (苟新峰), aged 45, was appointed as the vice president of operations of the Group on 1 August 2017, responsible for daily operational management of the Group. Mr. Gou was appointed as an executive director of the Company on 9 November 2016. For other information regarding Mr. Gou, please refer to the biographies of executive directors above.

Mr. Jia Ruobing (賈若冰), aged 45, has been the vice president of the Group since July 2015, responsible for the strategic development, e-commerce, customer relationship management (CRM), marketing and public relations of the Group. Mr. Jia was appointed as an executive director of the Company on 11 June 2012, and retired on 21 May 2018. Mr. Jia joined the Group in October 2011 and served as the chief operating officer of the Group from October 2011 to June 2015, primarily responsible for the overall operation of the Group. Prior to joining the Group, he served as the luxury brand general manager of China ZhengTong Auto Services Holdings Limited (中國正通汽車服務控股有限公司), a company whose shares are listed on the Hong Kong Stock Exchange (stock code: 01728), from September 2010 to September 2011, and as the Beijing regional sales director of Beijing Yan De Bao Automobile Sales Co., Ltd. (北京燕德寶汽車銷售有限公司) from June 2005 to August 2010, during which he was awarded the title of General Manager of Outstanding Mini Team 2009 and granted a Top Sales Performance Award from BMW China on 20 January 2010. Mr. Jia graduated from South China University of Technology (華南理工大學) in July 1996 in Guangzhou, China, majoring in international trade. He obtained an executive diploma in management from the School of Business and Management of the Hong Kong University of Science and Technology (香港科技大學) in February 2008.

COMPANY SECRETARY

Ms. So Yee Kwan (蘇漪筠), aged 37, was appointed as the company secretary of the Company on 18 January 2014. Ms. So is a senior manager of the corporate services division of Tricor Services Limited, which is a global professional services supplier specializing in integrated business, corporate and investor services. She has extensive experience in a diversified range of corporate services and has been providing professional secretarial services to many companies listed on the Hong Kong Stock Exchange for the past 14 years. Ms. So is a Chartered Secretary and a Fellow of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. So received a bachelor's degree in international business management from Oxford Brookes University (牛津布魯克斯大學) in the United Kingdom and a Master of Arts in Professional Accounting and Information Systems from City University of Hong Kong (香港城市大學).

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE OF THE COMPANY

The Board believes that effective and reasonable corporate governance practices are essential to the development of the Group and can safeguard and enhance the interests of the shareholders. The Company has adopted the principles as set out in the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) contained in Appendix 14 to the Listing Rules. The Company regularly reviews its corporate governance practice to ensure the compliance with the CG Code.

The Board is of the view that the Company has complied with the code provisions set out in the CG Code during the year ended 31 December 2018 (the “**Reporting Period**”). The major corporate governance principles and practices of the Company are summarised as below.

BOARD

The Board of the Company is jointly responsible to all shareholders for leading and overseeing the operations of the Group so as to ensure the achievement of the objective of value adding to shareholders. The Board is responsible for the overall development of the Group, approving and monitoring the overall development strategies of the Group, assessing, monitoring and controlling the operation and financial performance, ensuring the directors of the Company perform their duties properly and act in the best interests of the Group and hold discussions on various important and proper businesses of the Company in a timely manner. All directors are entitled to include any matter that needs to be submitted to the Board for discussion in the agenda of the Board meeting. The management shall provide members of the Board and specialised committees under the Board with appropriate and sufficient information in a timely manner so as to update them with the latest developments of the Company to facilitate the discharge of their duties and make informed assessment and decision.

The executive directors and the senior management are delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Group. The delegated functions and work tasks are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers. The Board fully supports the senior management to discharge their responsibilities.

The Board as a whole is responsible for performing the corporate governance functions set out in the Code Provision D.3.1 of the CG Code. The Board has reviewed and monitored the Company's corporate governance policies and practices, the training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance with the Model Code and the Employees Written Guidelines, and the Company's compliance with the CG Code and disclosures in this Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION

The current Board composition of the Company are as follows:

Executive Directors:

Mr. Wu Tak Lam (*Chairman of the Board, Chairman of the Nomination Committee and Chairman of the Finance and Investment Committee*)

Ms. Chiu Man (*Chief Executive Officer and member of the Finance and Investment Committee*)

Mr. Gou Xinfeng

Ms. Chen Wei

Independent Non-executive Directors:

Mr. Liu Jie (*Chairman of the Audit Committee, member of each of the Nomination Committee, the Remuneration Committee and the Finance and Investment Committee*)

Mr. Song Tao (*Chairman of the Remuneration Committee, member of each of the Audit Committee and the Nomination Committee*)

Dr. Liu Xiaofeng (*Member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee*)

The biographical details of the current directors and the relationship among them, if any, are set out on pages 27 to 30 of this annual report.

The appointment of independent non-executive directors strictly adheres to the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. The Company has received an annual confirmation letter of independence from each of the independent non-executive directors and considers them to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgment. The Board considers that each of the independent non-executive directors brings his own relevant expertise to the Board and brings a wide range of business and financial expertise, experiences and independent judgement to the Board, and is also invited to join the Board committees of the Company. Through active participation in Board meetings and taking the lead in managing issues involving potential conflict of interests, all independent non-executive directors have made various contributions to the effective direction of the Company and provided adequate checks and balances to safeguard the interests of both the Group and the shareholders.

CORPORATE GOVERNANCE REPORT

BOARD MEETING

During the Reporting Period, the Board has convened 4 meetings. The Board has, by means of meetings and written resolutions, discussed and approved the overall strategies and policies of the Company, reviewed and approved the audited annual results of the Group for the year ended 31 December 2017, reviewed and approved the unaudited interim results of the Group for the six months ended 30 June 2018, discussed/approved the reporting and proposals of all Board committees, considered whether the continuing connected transactions for the year 2018 exceeded the annual caps set, reviewed the risk management and internal control systems of the Group, reviewed and approved the publication of the Company's Environmental, Social and Governance Report for the year ended 31 December 2017, discussed the latest amendments to the Listing Rules and the CG Code, considered and approved the appointment of Mr. Liu Zhanli and Ms. Chen Wei as the Company's executive directors, and considered and approved the Group's disposals of equity interests in subsidiaries and the connected transaction in respect of the entering into of the equity subscription agreement with Yangzhou Sunfonda Automobile Co., Ltd., etc. during the Reporting Period.

The attendance records of each director at the Board meetings during the Reporting Period are set out below:

Name of Directors	Attendance/ No. of meetings held	Attendance rate (%)
Executive Directors:		
Mr. Wu Tak Lam	4/4	100
Ms. Chiu Man	4/4	100
Mr. Gou Xinfeng	4/4	100
Mr. Jia Ruobing (note 1)	1/1	100
Mr. Liu Zhanli (note 2)	2/2	100
Ms. Chen Wei (note 3)	–	–
Independent Non-executive Directors:		
Mr. Liu Jie	4/4	100
Mr. Song Tao	4/4	100
Dr. Liu Xiaofeng	4/4	100

Notes:

1. Mr. Jia Ruobing retired as an executive director with effect from the conclusion of the annual general meeting held on 21 May 2018. Prior to his retirement, the Company held 1 Board meeting during the Reporting Period.
2. Mr. Liu Zhanli was appointed as an executive director with effect from 27 June 2018. On 23 November 2018, Mr. Liu Zhanli resigned as an executive director. During his term of directorship, the Company held 2 Board meetings during the Reporting Period.
3. Ms. Chen Wei was appointed as an executive director with effect from 23 November 2018. After her appointment, the Company did not hold any Board meeting during the Reporting Period.

CORPORATE GOVERNANCE REPORT

The Company has adopted the code provisions of the CG Code to issue meeting notice of at least 14 days before convening a regular Board meeting and a reasonable notice for other Board meetings so that all directors can have sufficient time and plan to attend the meetings. All meeting papers will be sent to all directors no less than three days before a meeting is convened. Matters discussed and resolved at Board meetings will be recorded in detail and a summary of minutes will be made, and resolutions will also be filed.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company's Articles of Association contain provisions on the procedures and process of appointment and removal of directors.

According to the Company's Articles of Association, one-third of the directors for the time being (if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting provided that every director shall be subject to retirement at an annual general meeting at least once every three years. In addition, any new director appointed by the Board to fill a casual vacancy in the Board shall hold office only until the first general meeting after appointment, and any new director appointed by the Board as an addition to the Board shall hold office until the next following annual general meeting of the Company. The retiring directors are eligible for re-election by the shareholders at the respective general meetings.

Each director of the Company, including each of the independent non-executive directors, is engaged for a term of three years, subject to renewal upon expiry of the term. They are also subject to re-election in accordance with the Company's Articles of Association provisions as mentioned above.

Pursuant to the provisions of the Articles of Association, Mr. Gou Xinfeng, Ms. Chen Wei and Mr. Liu Jie shall retire at the 2019 annual general meeting of the Company (the **"2019 AGM"**). All of the above three directors are eligible for re-election at the 2019 AGM, and have indicated that they will offer themselves for re-election at the 2019 AGM. The Board and the Nomination Committee recommended the re-appointment of the said three retiring directors standing for re-election at the 2019 AGM. The Company's circular, sent together with this annual report, contains detailed information of these three directors pursuant to the requirements of the Listing Rules.

CORPORATE GOVERNANCE REPORT

TRAINING FOR DIRECTORS

Each newly appointed director shall receive induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Group, and that he/she is adequately aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The existing directors are continually updated with legal and regulatory developments, and the business and market changes to refresh their knowledge and to facilitate the discharge of their responsibilities. Continuing briefings and professional development to directors are arranged by the Company whenever necessary. To ensure all directors' continuous contributions to the Board are made with comprehensive and relevant information as well as the development and the update of knowledge and skills of all directors, the Company would arrange trainings and provide relevant funds. Training records for the directors of the Company during the Reporting Period are as follows:

- All directors (being Mr. Wu Tak Lam, Ms. Chiu Man, Mr. Gou Xinfeng, Ms. Chen Wei, Mr. Liu Jie, Mr. Song Tao, Dr. Liu Xiaofeng, Mr. Jia Ruobing and Mr. Liu Zhanli) received regular briefings and updates from the senior management on the Group's business, operating position and corporate governance matters.
- All directors (being Mr. Wu Tak Lam, Ms. Chiu Man, Mr. Gou Xinfeng, Ms. Chen Wei, Mr. Liu Jie, Mr. Song Tao, Dr. Liu Xiaofeng, Mr. Jia Ruobing and Mr. Liu Zhanli) read technical bulletins, periodicals and other publications in relation to the Group and those in relation to directors' responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2018. The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other financial disclosures required by the Listing Rules and other regulatory requirements. The senior management has provided such explanation and information to the Board as necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company in order to put forward such information to the Board for approval.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

CORPORATE GOVERNANCE REPORT

DIRECTORS' LIABILITY INSURANCE

The Company has purchased directors' liability insurance for all directors.

POLICY ON DIVERSIFICATION OF THE BOARD

The Company believes that the diversification of the Board is beneficial for enhancing the performance of the Company. Therefore, the Company established the "Board Diversity Policy", and approved its amendments in March 2019, ensuring that, in reviewing and evaluating the composition of the Board and nominating directors, the Company will consider the diversification of members of the Board from various aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge, and industry and regional experience. All appointments to the Board shall follow the principle of meritocracy, taking into account objectively the benefits of diversification of members of the Board when considering the candidates.

The Nomination Committee will review the policy when appropriate and set measurable targets and the achievement progress for implementing the policy when necessary, so as to ensure the effectiveness of the policy. The Nomination Committee will discuss any amendment to the policy that may need to be made and make recommendations to the Board for approval.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Wu Tak Lam is the Chairman of the Board, who provides leadership for the Board and is responsible for chairing the meetings, managing the operations of the Board and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner. He is also responsible for setting the strategic vision, direction and goals of the Group and participates in the Group's strategic and key operational decision-making processes. He is the primary responsible person for ensuring that sound corporate governance practices and procedures are established, and that appropriate steps are taken to provide effective communication with shareholders so that their views are communicated to the Board as a whole. During the Reporting Period, Mr. Wu held one meeting with independent non-executive directors without the presence of other directors.

Ms. Chiu Man is the Chief Executive Officer, who performs the functions of the Chief Executive Officer and is responsible for overseeing our operations and investment, managing our relationship with automobile manufacturers and exploring new business opportunities for the Group.

CORPORATE GOVERNANCE REPORT

To facilitate discussion of all key and appropriate issues by the Board in a timely manner, the Chairman of the Board coordinates with the senior management to provide adequate, complete and reliable information to all directors for consideration and review.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors (representing at least one-third of the Board), with at least one of whom possessing appropriate professional qualifications or accounting or related financial management expertise. Currently, the Company has appointed three independent non-executive directors, namely Mr. Liu Jie, Mr. Song Tao and Dr. Liu Xiaofeng.

BOARD COMMITTEES

The Board has established four committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Finance and Investment Committee, for overseeing particular aspects of the Company's affairs. All of these four committees are established with defined written terms of reference which are available at the websites of the Stock Exchange and the Company. All Board committees must report to the Board on their decisions or proposals.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in accordance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee currently consists of the three independent non-executive directors, namely Mr. Liu Jie (Chairman of the Committee), Mr. Song Tao and Dr. Liu Xiaofeng. The primary duties of the Audit Committee are to review and supervise the financial reporting process, risk management and internal control systems of the Group.

The attendance records of each member of the Audit Committee at the Audit Committee meetings held during the Reporting Period are set out below:

Members of the Audit Committee	Attendance/ No. of meetings held	Attendance rate (%)
Mr. Liu Jie	2/2	100
Mr. Song Tao	2/2	100
Dr. Liu Xiaofeng	2/2	100

CORPORATE GOVERNANCE REPORT

The external auditors have attended all the above-mentioned meetings to discuss with the Audit Committee on issues arising from the audit and financial reporting matters. There is no disagreement between the Board and the Audit Committee regarding the engagement of external auditors.

During the Reporting Period, the Audit Committee had performed the following major duties by means of meetings and written resolutions:

- Reviewed and discussed the annual financial statements, results announcement and report for the year ended 31 December 2017, relevant accounting principles and practices adopted by the Group and internal controls related matters, and the proposed re-appointment of the external auditors;
- Reviewed and discussed the interim financial statements, results announcement and interim report for the six months ended 30 June 2018, and relevant accounting principles and practices adopted by the Group;
- Reviewed the Group's continuing connected transactions;
- Reviewed and inspected the performance and effectiveness of risk management and internal control systems;
- Listened to and discussed the internal audit situation and proposed remedial measures of the Company reported by the internal audit department; and
- Reviewed the annual audit plan, which included the nature and scope of audit, fees payable to the auditors, their reporting obligations and working plans.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee with written terms of reference in accordance with Rule 3.25 of the Listing Rules and the CG Code set forth in Appendix 14 to the Listing Rules. The Remuneration Committee currently consists of the three independent non-executive directors, namely Mr. Song Tao (Chairman of the Committee), Mr. Liu Jie and Dr. Liu Xiaofeng. Major duties of the Remuneration Committee are to evaluate the remuneration policies for the directors and senior management of the Group as well as to make recommendations to the Board.

CORPORATE GOVERNANCE REPORT

The attendance records of each member of the Remuneration Committee at the Remuneration Committee meeting held during the Reporting Period are set out below:

Members of the Remuneration Committee	Attendance/ No. of meeting held	Attendance rate (%)
Mr. Liu Jie	1/1	100
Mr. Song Tao	1/1	100
Dr. Liu Xiaofeng	1/1	100

During the Reporting Period, the Remuneration Committee had performed the following major duties by means of meetings and written resolutions:

- Generally reviewed and discussed the remuneration packages and benefits policies for the directors and senior management of the Group; and
- Discussed and proposed the remuneration of Mr. Liu Zhanli and Ms. Chen Wei after their appointments as the Company's executive directors.

Pursuant to Code Provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2018 is set out below:

Remuneration bands (RMB)	Number of individuals
500,001-750,000	0
750,001-1,000,000	2

Details of the remuneration of all directors of the Company for the year ended 31 December 2018 are set out in Note 8 to the consolidated financial statements in this annual report.

NOMINATION COMMITTEE

The Company has established the Nomination Committee with written terms of reference in accordance with the CG Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee currently consists of the Chairman of the Board (who is an executive director) and the three independent non-executive directors of the Company, namely Mr. Wu Tak Lam (Chairman of the Committee), Mr. Liu Jie, Mr. Song Tao and Dr. Liu Xiaofeng. The primary duties of the Nomination Committee are to identify, screen and recommend to the Board appropriate candidates to serve as directors of the Company, to oversee the process for evaluating the performance of the Board, to develop recommendations to the Board, and to monitor director nomination guidelines for the Company.

CORPORATE GOVERNANCE REPORT

In selecting candidates for directorship of the Company, the Nomination Committee may make reference to certain criteria such as the Company's needs, the character, integrity, qualifications (including professional qualifications, skills, knowledges and experience that is relevant to the Company's business and corporate strategy) of the candidate, the amount of time and efforts that the candidate will devote to discharging his/her duties and responsibilities, and diversity of the Board (for summary of the Company's board diversity policy in force, please see the section headed "Policy on Diversification of the Board" above). External professionals might be engaged to carry out selection process when necessary.

The attendance records of each member of the Nomination Committee at the Nomination Committee meeting held during the Reporting Period are set out below:

Members of the Nomination Committee	Attendance/ No. of meeting held	Attendance rate (%)
Mr. Wu Tak Lam	1/1	100
Mr. Liu Jie	1/1	100
Mr. Song Tao	1/1	100
Dr. Liu Xiaofeng	1/1	100

During the Reporting Period, the Nomination Committee had performed the following major duties by means of meetings and written resolutions:

- Reviewed the structure, size, composition and diversity of the Board;
- Considered and made recommendation to the Board on the re-election of the retiring directors at the 2018 annual general meeting;
- Assessed the independence of the independent non-executive directors; and
- Considered and proposed the appointment of Mr. Liu Zhanli and Ms. Chen Wei as executive directors.

CORPORATE GOVERNANCE REPORT

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 the directors’ dealings in the Company’s securities. Specific enquiry has been made to all the directors of the Company and each director has confirmed that they have complied with the Model Code throughout the year ended 31 December 2018.

The Company has established written guidelines for the relevant employees of the Company (the “**Relevant Employees**”) in respect of their dealings in the securities of the Company (the “**Written Guidelines**”) on terms no less exacting than the required standard set out in the Model Code. For this purpose, “Relevant Employee” includes any employee of the Company or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to possess inside information in relation to the Company or its securities. No incident of non-compliance of the Written Guidelines was noted by the Company for the Reporting Period.

In case when the Company is aware of any restricted period for dealings in the Company’s securities, the Company will notify its directors and Relevant Employees in advance.

TRAINING FOR COMPANY SECRETARY

The company secretary of the Company is Ms. So Yee Kwan from Tricor Services Limited, who has met the qualifications as required by the Listing Rules. The biography of Ms. So is set out in the section headed “Biographies of Directors, Senior Management and Secretary” of this annual report. The main contact person of Ms. So Yee Kwan in the Company is Ms. Chiu Man (the Company’s executive director).

During the year ended 31 December 2018, Ms. So Yee Kwan has received relevant professional trainings of no less than 15 hours.

EXTERNAL AUDITORS AND AUDITORS’ REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the “Independent Auditors’ Report” on pages 80 to 84. The external auditors of the Company will be invited to attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors’ report, and auditors’ independence.

CORPORATE GOVERNANCE REPORT

The fees paid/payable to Ernst & Young, the Company's auditors, in respect of audit services and non-audit services provided for the year ended 31 December 2018 are analysed below:

Types of service provided by the external auditors	Fees paid/payable RMB
Audit services – audit fee for the year ended 31 December 2018	2,200,000
Non-audit services	2,000,000
Total:	4,200,000

Non-audit services represent the preliminary market research, data collection and analysis conducted for the “FUN TIME LANE” Trendy Automobile Street Zone Project (「豐泰里」汽車時尚街區項目).

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility towards risk management and internal control systems and that it is responsible for reviewing their effectiveness, to safeguard shareholders' investments and the Company's assets. The 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 reviews the effectiveness of the risk management and internal control systems as well as internal audit department on an annual basis through the Audit Committee of the Company. The internal audit department of the Group is under the leadership of the Board with independent monitoring authority. During the Reporting Period, the internal audit department has maintained internal control systems in compliance with the principles of comprehensiveness, importance and applicability as well as cost-effective. Thereby, it is able to carry out effective risk management and internal control through internal control measures including routine supervision, special supervision, prior approval, in-process control and post verification. Generally, the measures are as follows:

1. Introducing the “Measures for Bidding and Tendering of the Group and companies” 《集團公司招投標辦法》 to process tender management on the projects with qualified capital;
2. Developing appraisal rules of suppliers and carrying out management and control to admittance qualification of suppliers to maintain a strict standard of quality and price;
3. Optimizing assets management practices by thoroughly monitoring assets safety from approval of their purchases until their disposals;

CORPORATE GOVERNANCE REPORT

4. Enhancing the management and auditing of operation system. During the year, the Group redeveloped and improved report extraction of the OA and EAS operation systems operated by the Group's subsidiaries to ensure the accuracy, completeness and timeliness of corporate operation data; and
5. Controlling risks within a tolerable level by adopting a series of risk management measures, including property protection control, authorization and approval control, operation analysis control, performance appraisal control and budget control.

During the Reporting Period, the Board had reviewed the effectiveness of the risk management and internal control systems of the Group. The review covered the financial, operational, compliance and risk management aspects of the Group.

According to the findings of the internal audit department, the conclusions made by the Board and the Audit Committee on risk management and internal control of the Group for the year ended 31 December 2018 are as follows: (i) the Group's risk management and internal control systems have been highly efficient and adequate; (ii) the Group has necessary control system in place for monitoring and rectifying any non-compliance incidents; and (iii) the Group has complied with the requirements as set out in the CG Code in respect of risk management and internal control.

There were no major breaches in the risk management and internal control systems of the Group that may have had an impact on shareholders' interests for the year ended 31 December 2018.

The Group conducts its affairs with close regard to the disclosure requirements under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Future Commission in June 2012, and established specialised agency and appointed personnel being responsible for registration and management of insiders. It also sets up internal management files for insiders management which is subject to regular updating. Meanwhile, regular trainings have been conducted and engaged by the insiders and management staff to enhance awareness of consciously observing relevant laws of insiders.

The Group has established the "System for Information Insiders Management" in respect of the Group's senior management and employees who are more likely to be familiar with inside information or other information unpublished by the Group in accordance with the "Guidelines on Disclosure of Inside Information", which stipulates that confidential and inside information shall not be used without authorization, and only executive directors and the Board secretary are authorized to communicate with external persons for inquiry and responding procedure of the Group's affairs.

CORPORATE GOVERNANCE REPORT

The Company has adopted the disclosure policy intended to provide a general guidance for the Company's directors, officers, senior management and relevant employees with the aim to deal with the matters such as handling confidential information or monitoring information disclosure in accordance with applicable laws and rules.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company attaches great importance to the communication with shareholders and promotes understanding and communication with shareholders through various channels, such as general meetings, results announcement conferences, road show activities, receiving guests and telephone counseling.

The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions. The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as the Chairmen of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company, or in their absence, other members of the respective committees will attend the annual general meeting and, where applicable, the Chairman of the Independent Board Committee will attend the general meetings to answer questions.

To promote effective communication, the Company maintains a website at www.sunfonda.com.cn, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

During routine operations, the Company also strives to receive visits from shareholders and investors, and arrange onsite visits for them. The management of the Company will also communicate in person with investors and analysts. Shareholders are welcome to make enquiries in writing directly to the Company at its principal place of business in Hong Kong. The Company will respond to all enquiries on a timely and proper basis.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2018, the Company held one shareholders' meeting, being the 2018 annual general meeting held on 21 May 2018. Details of individual attendance of each director at the aforesaid shareholders' meeting are set out below:

Name of Directors	Attendance/ No. of annual general meeting held	Attendance rate (%)
Executive Directors		
Mr. Wu Tak Lam	1/1	100
Ms. Chiu Man	1/1	100
Mr. Jia Ruobing (note 1)	1/1	100
Mr. Gou Xinfeng	1/1	100
Mr. Liu Zhanli (note 2)	–	–
Ms. Chen Wei (note 3)	–	–
Independent Non-executive Directors		
Mr. Liu Jie	1/1	100
Mr. Song Tao	1/1	100
Dr. Liu Xiaofeng	1/1	100

Notes:

1. Mr. Jia Ruobing has retired as an executive director of the Company at the conclusion of the 2018 annual general meeting.
2. As at the date of the 2018 annual general meeting of the Company, Mr. Liu Zhanli has not yet been appointed as an executive director of the Company. Moreover, he has resigned as an executive director of the Company on 23 November 2018.
3. As at the date of the 2018 annual general meeting of the Company, Ms. Chen Wei has not yet been appointed as an executive director of the Company.

Any shareholders' enquiries regarding their shareholding, including transfer of shares, change of address, report of lost share certificates and dividend warrants, can be directed to Computershare Hong Kong Investor Services Limited, the Company's Hong Kong share registrar:

Address: Shops 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
 Contact: (852) 2862-8628
 Fax: (852) 2865-0990, (852) 2529-6087
 Website: www.computershare.com.hk

CORPORATE GOVERNANCE REPORT

RIGHTS OF SHAREHOLDERS

The Board is committed to maintaining an on-going dialogue with shareholders and providing timely disclosure of information concerning the Company's material developments to shareholders and investors. The annual general meetings of the Company provide a good opportunity for communication between shareholders and the Board.

To safeguard shareholders' interests and rights, separate resolutions on each substantial issue, including the election of individual directors, are proposed at general meetings for shareholders' consideration and voting. Shareholders of the Company could convene extraordinary general meetings or propose resolutions at general meetings as follows:

1. Pursuant to Article 12.3 of the Articles of Association of the Company, shareholders holding no less than one-tenth of the paid up capital of the Company as at the date of lodgement of the requisition may lodge a written requisition to the Board or Company Secretary at the head office/principal place of business in Hong Kong of the Company to request the Board to convene an extraordinary general meeting. The written requisition must state the purposes of the meeting.
2. If a shareholder wishes to propose a person other than a retiring director for election as a director at the general meeting, pursuant to Article 16.4 of the Articles of Association of the Company, the shareholder (other than the person to be proposed) eligible for attending and voting at the general meeting shall send a written notice, duly signed by the shareholder, of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected. These notices should be lodged at the Company's principal place of business in Hong Kong to the Company Secretary. The period for lodgement of such proposal notices shall be 7 days from the day after the despatch of the notice of such general meeting (or such other period being a period commencing on the day after the despatch of the notice of such general meeting as determined by the Board from time to time) and end no later than 7 days prior to the date of such general meeting.

For the avoidance of doubt, the shareholder must provide his/her full name, contact details and identification in the duly signed written requisition, notice or statement (as the case may be), in order to give effect thereto. Information of the shareholder may be disclosed as required by law.

During the Reporting Period, there has been no material change in the constitutional documents of the Company. Please refer to the websites of the Company and the Stock Exchange for the latest version of the Company's Articles of Association. For more details of rights of shareholders, shareholders may refer to the Articles of Association of the Company.

All resolutions put forward at shareholders' meetings shall be voted by poll pursuant to the Listing Rules. The poll voting results will be posted on the websites of the Stock Exchange and the Company after each general meeting.

REPORT OF THE DIRECTORS

The Board is pleased to present this annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018 (the “**Financial Statements**”).

PRINCIPAL ACTIVITIES

The Group is the second largest luxury and ultra-luxury automobile dealership group in Northwestern China. The comprehensive automobile sales and services offered by the Group include:

- (i) sale of automobiles, both imported and domestically manufactured;
- (ii) after-sales services, including:
 - a. maintenance and repair services;
 - b. sales of spare parts; and
 - c. automobile detailing services; and
- (iii) other value-added services, including:
 - a. automobile insurance agency services;
 - b. automobile financing agency services;
 - c. automobile licensing services; and
 - d. automobile survey services.

There was no significant change in the nature of the principal businesses of the Group during the year.

ANALYSIS ON RESULTS AND FINANCIAL KEY PERFORMANCE INDICATORS

The Group’s profits for the year ended 31 December 2018 and the financial position of the Company and the Group as at that date are set out in Financial Statements on pages 85 to 86 and pages 87 to 88 of this annual report.

A review of the Group’s business during the year, which includes a discussion on the principal risks and uncertainties faced by the Group, an analysis on the Group’s performance using financial key performance indicators, particulars of important events affecting the Group during the year, and an indication of likely future developments in the Group’s business, can be found in this Report of the Directors and the Management Discussion and Analysis as set out on pages 9 to 26 of this annual report. The business review forms part of this Report of the Directors.

REPORT OF THE DIRECTORS

ENVIRONMENTAL POLICIES AND PERFORMANCE

During the year, the Group continued to focus on improving its performance in environmental protection, enhancing the awareness of environmental protection and proactively addressing the environmental issues. The Group endeavoured to adopt various energy saving and emission reduction measures in its business operation, so as to reduce the consumption of natural resources by using environmentally-friendly products and verified materials. Meanwhile, the Group engaged qualified and professional hazardous waste treatment organizations by way of public tender to carry out centralized collection and treatment of hazardous waste, with an aim to minimizing the environmental pollution. The department of general affairs of the Group regularly inspects and monitors the treatment results.

Please refer to the Environmental, Social and Governance Report as set out on pages 66 to 79 of this annual report for the details of environmental policies and performance of the Company.

COMPLIANCE WITH LAWS AND REGULATIONS

The Board has attached great importance to the Group's compliance with domestic and foreign laws, regulations and regulatory requirements. The industry that the Group engages in is highly regulated. The Group is required to hold all specific approvals, licenses and permits necessary for automobile dealers and the operation of automobile maintenance and repair business, and carry out a number of filing procedures for its business, including but not limited to the followings:

- Approval and license for highway transportation;
- License for automobile insurance agency; and
- Filing procedures for distributing brand automobiles.

Any loss of or failure to obtain or renew of the approvals, licenses or permits could lead to interruption of its operation, and any fine or punishment imposed by the PRC Government could materially and adversely affect the Group's results of operations, financial position and reputation.

For the year ended 31 December 2018, as far as the Board is aware, there was no material breach of the laws or regulations that have a significant impact on the Group's business and operation by the Group.

REPORT OF THE DIRECTORS

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The Company's 2019 AGM will be held on Wednesday, 5 June 2019. In order to determine shareholders' entitlement to attend and vote at the 2019 AGM, the register of members of the Company will be closed from Friday, 31 May 2019 to Wednesday, 5 June 2019 (both days inclusive). In order to be entitled to attend and vote at the 2019 AGM, unregistered holders of shares of the Company should ensure that all the share transfer documents together with the relevant share certificates are lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Thursday, 30 May 2019.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to propose the distribution of a final dividend of HK\$0.07 per share for the year ended 31 December 2018 in an aggregate amount of RMB36.8 million. The proposed distribution of final dividend is subject to the consideration and approval of shareholders at the 2019 AGM of the Company.

Where the proposed distribution of final dividend is approved at the 2019 AGM, the dividend will be paid on Tuesday, 2 July 2019 to shareholders whose names appear on the register of members of the Company at the close of business on Monday, 17 June 2019. Therefore, the register of members of the Company will be closed from Thursday, 13 June 2019 to Monday, 17 June 2019 (both days inclusive). In order to be entitled to the final dividend, unregistered holders of shares of the Company should ensure that the share transfer documents together with the relevant share certificates are lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Wednesday, 12 June 2019.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of changes in the property, plant and equipment of the Group during the year are set out in Note 13 to the Financial Statements.

SHARE CAPITAL

As at the date of this report, the authorised share capital of the Company was US\$100,000.00, divided into 1,000,000,000 shares of a par value of US\$0.0001 each. There were no movements in the issued shares of the Company during the year. Details of the Company's share capital are set out in Note 29 to the Financial Statements.

RESERVES

Details of changes in the reserves of the Company and the Group during the year are set out in Notes 42 and 31 to the Financial Statements and in the consolidated statement of changes in equity, respectively. Of which, details of reserves available for distribution to shareholders are set out in Notes 42 and 31 to the Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the distributable reserves of the Company available for distribution, calculated based on the Companies Law of the Cayman Islands, amounted to approximately RMB287.9 million in aggregate, of which RMB36.8 million has been proposed as final dividend for the year.

PRE-EMPTIVE RIGHTS

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

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

MAJOR CUSTOMERS AND SUPPLIERS

Transaction amounts with five largest customers of the Company for 2018 accounted for less than 30% of the operating income of the Company for 2018. None of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the year. The Group's business is of retail nature with customers being relatively dispersed.

The purchase attributable to the Group's five largest suppliers and the largest supplier accounted for approximately 74.8% and 28.0% respectively of the Group's total purchase for the year ended 31 December 2018. The Group has established long-term cooperation relationships with automobile suppliers. The Group believes that its strong performance demonstrates its excellent capability and in-depth market knowledge of the automobile distribution business in Northwestern China. The Group is confident that its operating capability and professional knowledge is conducive for the automobile suppliers to gain market shares in China and win customer loyalty. Therefore, the automobile suppliers have maintained close communication with the Group and sought out recommendations in respect of their development strategies in Northwestern China and Jiangsu region.

During the year under review, so far as the directors are aware, none of the directors, their close associates or the shareholders of the Company (which to the knowledge of the directors owned more than 5% of total number of issued shares of the Company) had any interest in the five largest suppliers or customers of the Company during the year.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company and its subsidiaries as at 31 December 2018 are set out in Note 24 to the Financial Statements.

REPORT OF THE DIRECTORS

CHARITABLE DONATIONS

For the year ended 31 December 2018, the Group donated funds and supplies of approximately RMB1.255 million in aggregate for charitable purposes.

DIRECTORS

The directors of the Company during the year and as at the date of this report were:

Executive Directors

Mr. Wu Tak Lam

Ms. Chiu Man

Mr. Gou Xinfeng

Ms. Chen Wei (appointed on 23 November 2018)

Mr. Liu Zhanli (appointed on 27 June 2018, and resigned on 23 November 2018)

Mr. Jia Ruobing (retired on 21 May 2018)

Independent Non-executive Directors

Mr. Liu Jie

Mr. Song Tao

Dr. Liu Xiaofeng

Pursuant to Article 16.2 of the Articles of Association of the Company, Ms. Chen Wei, who was appointed as a director of the Company on 23 November 2018, shall hold office from the date she was appointed until the first general meeting after the appointment. In addition, pursuant to Article 16.18 of the Articles of Association of the Company, Mr. Gou Xinfeng and Mr. Liu Jie shall retire as directors of the Company by rotation at the 2019 AGM. All the three retiring directors mentioned above, being eligible, will offer themselves for re-election at the 2019 AGM.

REPORT OF THE DIRECTORS

BIOGRAPHIES OF THE DIRECTORS AND THE SENIOR MANAGEMENT

Biographical details of the directors and the senior management are set out on pages 27 to 31 of this annual report.

DIRECTORS' SERVICE CONTRACTS

The Company has entered into a service contract with each of the directors, the major particulars of which are as follows: (1) the service contract entered into between Mr. Gou Xinfeng and the Company is for a term of three years starting from 9 November 2016; (2) the service contract entered into between Ms. Chen Wei and the Company is for a term of three years starting from 23 November 2018; (3) the service contracts entered into between Mr. Song Tao, Dr. Liu Xiaofeng and the Company are for a term of three years starting from 26 May 2017; (4) the current term of the service contracts entered into between other directors and the Company are for a term of three years starting from 15 May 2017; and (5) being terminable in accordance with the respective terms of the contracts.

None of the directors who are proposed for re-election at the 2019 AGM has entered into a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

REMUNERATION OF THE DIRECTORS

Details of remuneration of the directors the Company are set out in Note 8 to the Financial Statements.

REMUNERATION OF THE FIVE HIGHEST PAID INDIVIDUALS

Details of remuneration of the five highest paid individuals of the Company are set out in Note 9 to the Financial Statements.

PERMITTED INDEMNITY PROVISION

The Company's Articles of Association provides that every director, auditor or other officer of the Company is entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a director, auditor or other officer of the Company in defending any proceedings, in which judgment is given in his/her favour, or in which he/she is acquitted.

The Company has arranged appropriate directors' and officers' liabilities insurance coverage for directors and officers of the Company.

REPORT OF THE DIRECTORS

PENSION SCHEME

Details of pension scheme of the Company are set out in Note 27 to the Financial Statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, or any of its subsidiaries or parent companies, or any subsidiaries of the parent companies of the Company was a party and in which any director of the Company or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2018.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2018, none of the directors nor their associates has competing interests in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Company.

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

As at 31 December 2018, the interests of the Company's directors in the shares of the Company or associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) which were required to be entered in the register referred to therein pursuant to Section 352 of the SFO, or as were required to be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, were as follows:

REPORT OF THE DIRECTORS

(A) Long position in ordinary shares of the Company

Name of Director	Capacity/nature of interest	Notes	Number of shares	Approximate percentage* of shareholding in the Company
Mr. Wu Tak Lam	Interest held by controlled corporations	1	357,526,000	59.59%
Ms. Chiu Man	Interest held by controlled corporations	1	357,526,000	59.59%
Mr. Gou Xinfeng	Beneficiary of a trust Beneficial owner	2	140,000	0.02%
			60,000	0.01%
			200,000	0.03%
Ms. Chen Wei	Beneficiary of a trust Beneficial owner	3	110,000	0.02%
			54,000	0.01%
			164,000	0.03%

Notes:

- (1) These shares are held as to 351,000,000 shares by Top Wheel and 6,526,000 shares by Westernrobust Company Limited ("**Westernrobust**").

The issued share capital of Top Wheel is owned as to 70% by Golden Speed, a corporation wholly-owned and controlled by Mr. Wu Tak Lam, and 30% by Win Force, a corporation wholly-owned and controlled by Ms. Chiu Man. As Top Wheel is a controlled corporation of Mr. Wu Tak Lam, Ms. Chiu Man, Golden Speed and Win Force, they are deemed to be interested in the 351,000,000 shares held by Top Wheel pursuant to Part XV of the SFO.

The entire issued share capital of Westernrobust is owned by a revocable discretionary trust (the "**Management Trust**") established for the purposes of recognizing and rewarding the contribution and performance of certain directors and senior management of the Group pursuant to the Pre-IPO Share Award Scheme adopted by the Company on 8 January 2014 (the "**Pre-IPO Share Award Scheme**"). Top Wheel is the settlor of the Management Trust and possesses all voting rights attached to the unawarded shares and awarded shares which have not been vested under the Management Trust. Thus, the Management Trust and Top Wheel are deemed to be interested in the 6,526,000 shares held by Westernrobust. As Top Wheel is a controlled corporation of Mr. Wu Tak Lam, Ms. Chiu Man, Golden Speed and Win Force, they are also deemed to be interested in the 6,526,000 shares of the Company held by Westernrobust pursuant to Part XV of the SFO.

- (2) Mr. Gou Xinfeng is deemed to be interested in these 140,000 awarded shares, which have been granted to him (but not yet vested) pursuant to the Pre-IPO Share Award Scheme.
- (3) Ms. Chen Wei is deemed to be interested in these 110,000 awarded shares, which have been granted to her (but not yet vested) pursuant to the Pre-IPO Share Award Scheme.

* The percentage represents the number of ordinary shares involved divided by the number of the Company's issued shares as at 31 December 2018.

REPORT OF THE DIRECTORS

(B) Long position in the shares of associated corporations of the Company

Name of associated corporation	Name of Director	Capacity/ Nature of interest	Number of shares	Approximate percentage* of shareholding in the associated corporation
Golden Speed Enterprises Limited	Mr. Wu Tak Lam	Beneficial owner	1	100%
	Ms. Chiu Man	Interest of spouse	1	100%
Top Wheel Limited	Mr. Wu Tak Lam	Interest held by a controlled corporation	14,000	70%
			6,000	30%
		Interest of spouse	20,000	100%
	Ms. Chiu Man	Interest held by a controlled corporation	6,000	30%
			14,000	70%
		Interest of spouse	20,000	100%

Note: Mr. Wu Tak Lam holds the entire issued share capital of Golden Speed which holds 70% of the issued share capital of Top Wheel. The remaining 30% of the issued share capital of Top Wheel is indirectly held by his wife, Ms. Chiu Man (an executive director of the Company), through her wholly-owned investment company, Win Force. As Top Wheel holds more than 50% of the issued share capital of the Company and Golden Speed holds more than 50% of the issued share capital of Top Wheel, Top Wheel and Golden Speed are the associated corporations of the Company within the meaning of Part XV of the SFO.

* The percentage represents the number of ordinary shares interested divided by the number of issued shares of the associated corporation as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, none of the directors or chief executive of the Company had an interest or a short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the below sections headed "Share Option Scheme" and "Pre-IPO Share Award Scheme", neither at the end of nor at any time during the year there subsisted any arrangement to which the Company or any of its subsidiaries or its parent companies or its fellow subsidiaries was a party and the objectives of or one of the objectives of such arrangement are/is to enable the Company's directors, their respective spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the following corporations had interests of 5% or more of the issued share capital of the Company which were required to be recorded in the register of interests required to be kept by the Company under Section 336 of the SFO:

Long position in ordinary shares of the Company

Name of shareholder	Capacity/Nature of Interest	Number of shares	Approximate percentage* of shareholding in the Company
Top Wheel Limited	Beneficial owner	351,000,000	58.50%
	Founder of a discretionary trust	6,526,000	1.09%
		357,526,000	59.59%
Win Force Enterprises Limited	Interest held by a controlled corporation	357,526,000	59.59%
Golden Speed Enterprises Limited	Interest held by a controlled corporation	357,526,000	59.59%

Note: The above interests of Top Wheel, Win Force and Golden Speed were also disclosed as the interests of each of Mr. Wu Tak Lam and Ms. Chiu Man in the above section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures".

* The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 December 2018.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2018, no person, other than the directors whose interests are set out in the section headed “Directors’ and Chief Executive’s Interests and Short Positions in Shares, Underlying Shares and Debentures” above, had a registered interest or short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

MANAGEMENT CONTRACTS

During the year ended 31 December 2018, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed.

SHARE OPTION SCHEME

The Share Option Scheme (as defined in the Company’s prospectus) was conditionally adopted pursuant to a resolution of the shareholders of the Company on 18 January 2014 (the “**Adoption Date**”) and became effective from 15 May 2014 when dealings in the shares of the Company on the Stock Exchange commenced and, unless otherwise cancelled or amended, will remain in force for 10 years from the Adoption Date.

The purpose of the Share Option Scheme is to recognize and acknowledge the contributions made by the qualified participants, to attract skilled and experienced personnel, to incentivize them to remain with the Company and to motivate them to strive for the future development and expansion of the Company and its subsidiaries, by providing them with the opportunity to acquire equity interest in the Company.

Qualified participants of the Share Option Scheme include the Company’s directors (including non-executive directors and independent non-executive directors), employees (whether full-time or part-time) of the Group or any entity in which the Company or its subsidiary holds any equity interest (the “**Invested Entity**”), any such other persons (including but not limited to suppliers, customers, consultants, contractors, advisers, business partners or service providers of the Group or the Invested Entity) who in the absolute discretion of the Board has contributed or will contribute to the Group.

REPORT OF THE DIRECTORS

The maximum number of shares issuable under share options granted to each qualified participant under the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval at a general meeting.

A grant of share options under the Share Option Scheme to a connected person, a director, chief executive or substantial shareholder of the Company, or to any of their associates, is 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, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted, to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK\$5 million, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options under the Share Option Scheme may be accepted within five business days from the date of offer upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such a period shall not be more than 10 years from the date of offer of the share options subject to the provisions for early termination as set out in the Share Option Scheme. Unless otherwise determined by the directors at their sole discretion, there is no requirement of a minimum period for which an option must be held or a performance target which must be achieved before an option can be exercised.

The exercise price of the share options shall be the highest of: (i) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of offer of the share options; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company on the date of offer of the share options.

Details of the Share Option Scheme were disclosed in the Company's prospectus and Note 30 to the Financial Statements. The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme is 60,000,000, representing 10% of the shares of the Company in issue as at the date of approval of this report. No options have been granted under the Share Option Scheme since its adoption.

REPORT OF THE DIRECTORS

PRE-IPO SHARE AWARD SCHEME

The Pre-IPO Share Award Scheme was adopted by the Company on 8 January 2014. For the implementation of the Pre-IPO Share Award Scheme, the Management Trust was established on the same date for the benefit of certain employees with Cantrust (Far East) Limited acting as the trustee. 9,000,000 shares of the Company were transferred to the Management Trust for nil consideration on the same date pursuant to the Pre-IPO Share Award Scheme. As of 31 December 2018, the Company has granted an aggregate of 6,048,000 shares to grantees in accordance with the Pre-IPO Share Award Scheme. Details of the Pre-IPO Share Award Scheme were disclosed in the Company's prospectus and Note 30 to the Financial Statements.

ISSUED DEBENTURES

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries issued any debentures.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the above sections headed "Share Option Scheme" and "Pre-IPO Share Award Scheme", no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

CONTRACT OF SIGNIFICANCE

No contract of significance has been entered into between the Company, or any of its subsidiaries and the controlling shareholder or any of its subsidiaries during the year ended 31 December 2018.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in Note 27 to the Financial Statements.

CORPORATE GOVERNANCE

Please refer to the Corporate Governance Report on pages 32 to 47 of this annual report for details.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the directors, not less than 25% of the Company's total issued shares were in the hands of the public as at the date of this report, which complied with the public float requirements under the Listing Rules.

REPORT OF THE DIRECTORS

MATERIAL LITIGATION

During the year ended 31 December 2018, the Group was neither involved in any material litigation or arbitration, nor may be brought up or accused of any pending material litigation or claims.

AUDIT COMMITTEE

The Audit Committee (consisting of the three independent non-executive directors of the Company) has reviewed the consolidated financial statements for the year ended 31 December 2018, and is of the view that the Group's consolidated financial statements for the year ended 31 December 2018 are prepared in accordance with the applicable accounting standards, laws and regulations, and appropriate disclosures have already been made.

CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

For the year ended 31 December 2018 and up to the date of this annual report, the controlling shareholders of the Company, namely Mr. Wu Tak Lam, Ms. Chiu Man, Golden Speed Enterprises Limited, Win Force Enterprises Limited and Top Wheel Limited (collectively referred to as the **"Controlling Shareholders"**), have no interests in any business which competes with or is likely to compete with the businesses of the Group.

The Company has obtained the annual written confirmations from the Controlling Shareholders in respect of their compliance with the Deed of Non-competition (the **"Deed of Non-Competition"**) entered into between the Controlling Shareholders and the Company.

Based on the information and confirmations provided by or obtained from the Controlling Shareholders, the independent non-executive directors of the Company reviewed the compliance conditions in respect of the Deed of Non-Competition for the year ended 31 December 2018 and up to the date of this annual report, and believed that the Controlling Shareholders had fully complied with the Deed of Non-Competition.

CONNECTED TRANSACTIONS

Among the related party transactions disclosed in Note 39 to the Financial Statements, the following transactions constitute connected transactions/continuing connected transactions of the Company under Chapter 14A of the Listing Rules and are required to be disclosed in this annual report in accordance with the requirements set out in Chapter 14A of the Listing Rules. Please see the below information disclosed in compliance with Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

On 1 December 2016, the Company entered into a new automobile sales and purchase agreement (“**Automobile Sales and Purchase Agreement**”) with Yangzhou Sunfonda Automobile Co., Ltd. (“**Yangzhou Sunfonda**”), pursuant to which Yangzhou Sunfonda agreed to continue to purchase Volkswagen Imported automobiles from the Group. Pursuant to the Automobile Sales and Purchase Agreement, the Group sells Volkswagen Imported automobiles to Yangzhou Sunfonda on a wholesale basis at a unit price equivalent to the Group’s purchase price obtained from Volkswagen Group Import (China) Co., Ltd. (大眾汽車(中國)銷售有限公司). Such purchase prices are in line with the pricing policy of the wholesale business conducted by the Company with other independent automobile dealers. By entering into the Automobile Sales and Purchase Agreement, the Group would be able to broaden its automobile sales channel, raise the sales volume and alleviate the inventory pressure. The renewed term of the Automobile Sales and Purchase Agreement is three years commencing on 1 January 2017 and expiring on 31 December 2019. For details, please refer to the Company’s announcement dated 1 December 2016.

On 30 June 2017, the Company entered into a merchandise sale and purchase framework agreement (the “**MSP Framework Agreement**”) with Yangzhou Sunfonda, pursuant to which the Group may purchase merchandise, primarily including Volkswagen Imported automobiles and related spare parts from Yangzhou Sunfonda from time to time. Pursuant to the MSP Framework Agreement, the prices at which the Group purchases imported Volkswagen Imported automobiles and related spare parts from Yangzhou Sunfonda on a wholesale basis are not higher than those offered to the Group by Volkswagen Group Import (China) Co., Ltd.. Such purchase prices are in line with the pricing policy of the purchase business conducted by the Company with other independent automobile dealers. With the MSP Framework Agreement, the Group may purchase models of imported Volkswagen automobiles not in its inventory from the nearby Yangzhou Sunfonda to meet the immediate needs of its customers in a timely manner, thus capturing more business opportunities and may also purchase spare parts, which are required to meet urgent repair and maintenance needs or temporarily unavailable from Volkswagen Group Import (China) Co., Ltd., from Yangzhou Sunfonda to improve its spares fill rate, satisfy the supply requirements of spare parts and do repair and maintenance business quickly. The term of the MSP Framework Agreement is three years, commencing on 1 January 2017 and expiring on 31 December 2019. For details, please refer to the Company’s announcement dated 30 June 2017.

Shaanxi Sunfonda Automobile Co., Ltd. (陝西新豐泰汽車有限責任公司) (“**Shaanxi Sunfonda**”), an indirect wholly-owned subsidiary of the Company, entered into an equity acquisition agreement with Yangzhou Sunfonda in relation to Yangzhou Sunfonda Boao Automobile Sales Services Co., Ltd. (揚州新豐泰博奧汽車銷售服務有限公司)(the “**Target Company**”) on 17 December 2018 (the “**Equity Acquisition Agreement**”), pursuant to which Yangzhou Sunfonda agreed to dispose of an aggregate of its 10% equity interests in the Target Company to Shaanxi Sunfonda at a total consideration of RMB9.53 million (the “**Acquisition**”). Upon the completion of the Acquisition, the Target Company became a wholly-owned subsidiary of the Company and its quality assets and resources have been consolidated into the Company’s system, which helped clarifying the connected relationships and reducing connected transactions. Before the completion of the Acquisition, the Company has indirectly held 90% equity interests in the Target Company. Upon the completion of the Acquisition, the Company has indirectly held 100% equity interests in the Target Company.

REPORT OF THE DIRECTORS

Yangzhou Sunfonda is held as to 96.69% equity interest by Mr. Zhao Yijian (“**Mr. Zhao**”), who is the brother-in-law and the brother of Mr. Wu Tak Lam and Ms. Chiu Man (both being Directors of the Company) respectively, and 0.31% equity interest by Ms. Zhao Bailu (“**Ms. Zhao**”), who is the daughter of another brother-in-law and the daughter of another brother of Mr. Wu Tak Lam and Ms. Chiu Man (both being Directors of the Company) respectively, hence Mr. Zhao, Ms. Zhao and Yangzhou Sunfonda are connected persons of the Company. As a result, both the Automobile Sales and Purchase Agreement and the MSP Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions, and the Equity Acquisition Agreement and the transaction contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

For the year ended 31 December 2018, the annual cap of sales amount and sales volume under the Automobile Sales and Purchase Agreement were RMB27,720,000 and 84 units; the annual cap of sales volume and sales amount under the MSP Framework Agreement were 23 units and RMB10,350,000 of Volkswagen Imported automobiles, and RMB960,000 of automobile spare parts. For the year ended 31 December 2018, within the aforementioned annual caps, the number of vehicle the Group supplied to Yangzhou Sunfonda was 3 units and the sales amount was RMB518,500; the number of vehicles Yangzhou Sunfonda sold to the Group was 23 units and the sales amount was RMB8,700,100; the sales amount of spare parts was RMB28,900, totaling RMB8,729,000. For more information, please also see Note 39 to the Financial Statements.

Independent non-executive directors of the Company have confirmed that the above continuing connected transactions were entered into: (i) in the ordinary course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with relevant governance agreements (including the pricing principle and guidelines set out therein) and on terms that were fair and reasonable and in the interest of the Company and the shareholders as a whole.

Ernst & Young, the Company’s independent auditors, were engaged to report on the Group’s continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued a letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with relevant clauses of Rule 14A.56 of the Listing Rules. A copy of the auditors’ letter has been provided by the Company to the Stock Exchange.

REPORT OF THE DIRECTORS

AUDITORS

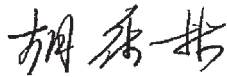
The consolidated financial statements have been audited by Ernst & Young who will retire and, being eligible, offer themselves for re-appointment at the 2019 AGM. A resolution for the re-appointment of Ernst & Young as the auditors of the Company is to be proposed at the 2019 AGM.

SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR END DATE

There were no significant subsequent events that had occurred from 1 January 2019 to the date of this annual report.

By order of the Board

Sunfonda Group Holdings Limited



Mr. Wu Tak Lam

Chairman

Hong Kong, 26 March 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

Overview

Sunfonda Group Holdings Limited (the “Company”, together with its subsidiaries, the “Group” or “we”) is pleased to publish its third Environmental, Social and Governance Report (“the Report”), which presents our continuous commitment to corporate social responsibility, with a focus on our performance, data and the effectiveness of existing measures in respect of environmental, social and governance issues.

Reporting Period

Unless otherwise indicated, this Report is the Annual Report for the period covering from 1 January 2018 to 31 December 2018 (the “reporting period”).

Reporting Scope

This Report focuses on the Group’s environmental, social and governance performance of the principal operations in the PRC, including the sales and after-sales services, financial services and supply chain of luxury and ultra-luxury brand automobiles during the reporting period. Our headquarters in Xi’an is the main data collection point for the Report’s.

BASIS OF PREPARATION

This Report has been prepared in accordance with Appendix 27 “Environmental, Social and Governance Reporting Guide” of the Rules Governing the Listing of Securities (“Listing Rules”) issued by The Stock Exchange of Hong Kong Limited (“HKEX” or “Hong Kong Stock Exchange”). Reporting principles are as follow:

1. **Materiality:** This Report relates to environmental, social and governance matters that have a significant impact on investors and other stakeholders.
2. **Quantitative:** If there are key performance indicators (“KPI”), the indicators should be quantitative and be compared effectively where appropriate. Purposes and impact must also be stated for the indicators.
3. **Balance:** This Report impartially presents the Company’s environmental, social and governance performance and avoids the inappropriate misleading of readers and omission of important data.
4. **Consistency:** This Report adopts a consistent method of statistics disclosure so that meaningful comparisons of information regarding environment, society and governance may be made in the future. Any future changes in methodology will be indicated in the Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDERS COMMUNICATION

Understanding the needs and expectations of stakeholders drives the Group's flourishing development. Therefore, the Group continues to maintain good communication and interaction with stakeholders. Regular Annual General Meetings held by the Group and issuance of annual reports are subject to the requirements of the Hong Kong Stock Exchange to provide shareholders with the updated development status of the Group so as to enhance their confidence. Meanwhile, we are happy to communicate with investors and will organise timely meetings with investors and media before and after the Group's results announcements, in order to present the business development direction and highlights of the Group. During the course of day-to-day operations, in terms of communication with customers, we regularly hold customer care activities and conduct satisfaction surveys and follow-up visit to maintain customer communication and interaction so as to understand their responses and satisfaction. In relation to communications with suppliers, we conduct frequent telephone, in-person and e-mail communications concerning specific business operation, in order to maintain smooth co-operation.

1. ENVIRONMENT

1.1 Green Operation – Reducing Emissions

The Group has always adhered to environmental protection and emission reduction, which are the major focuses of the current and future global crucial developments. The Group attaches great importance to fulfilling corporate environmental responsibility and realising the sustainable development concept. Regarding operations, we have promoted a number of environmental protection initiatives to reduce greenhouse gas emissions, including but not limited to Energy Conservation Policy, Business Travel Conservation Policy, procurement policy that support local suppliers, Indoor Air Quality Policy, Water Conservation Policy, Waste Reduction Policy, Reducing Office Waste Policy and Solid Waste Recycling Policy. Specific activities promoted by the Group can be broadly divided into those in the workplace and day-to-day operations, including:

Workplace:

- 1) Ban on smoking to reduce air pollution and improve indoor air quality;
- 2) Promotion of "Green Travel" to encourage the use of staff transport to replace the individual use of private cars;
- 3) Avoiding long distance face-to-face meetings and replacing such with telephone or video conferencing to reduce carbon emissions stemming from transport usage;

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- 4) Giving priority to energy-efficient products, recycling reusable resources and reducing the use of disposable products. For example, the employees' canteen used reusable tableware to reduce waste;
- 5) Planting green plants in the workplace, and at the same time, growing a variety of green plants in the office to enhance air quality;
- 6) Preferential use of environmentally friendly equipment such as LED lights for the lighting system and requiring employees to turn off the lights when there is sufficient sunlight in daily operation;
- 7) Affixing a reminder on air conditioners at the switch so that employees are reminded that the temperature should be set at 25 degrees and turned off in spring and autumn and the operating time is from 10:00 to 17:00;
- 8) Reducing office waste during daily work, avoiding paper waste, re-using ink cartridges and collecting discarded or remaining metal parts and accessories for other production use;

Day-to-day Operations:

- 1) Preferential use of energy efficient products;
- 2) Preferential use of local suppliers is a priority in our operations to reduce carbon emissions due to long-distance transport;
- 3) The car repair business operations will consider prioritising the use of environmentally friendly paint and related environmentally friendly materials;
- 4) We utilise water-efficient equipment and remind all employees and visitors to conserve water;
- 5) Addition of air filters to the exhaust parts of the spray booths with the aim of reducing the impact on air quality;
- 6) For construction activities, reducing the use of plastic products;
- 7) Requiring suppliers that we cooperate with to adhere to relevant environmental protection standards and regulations, some of the suppliers have already obtained environmental protection certifications;
- 8) Actively cooperating with environmental authorities in organising various activities to educate staff on environmental protection practices in their daily life and at work.

In addition, due to the increasing global demand for environmentally friendly vehicles, the Group has further increased the efforts in sales of Battery Electric Vehicles (BEV) during the year. The implementation of the above measures has helped the Group achieve good results in fulfilling its social responsibility regarding environmental protection and emission reduction.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In order to strengthen the management of company cars and avoid long distance face-to-face meetings, during the reporting period, the Group's total number of kilometres travelled was 3,238,099km, down more than 44% year-on-year. In addition, the employees' flight mileage totalled 2,969,452km, which represent slight of less than 5% compared with the corresponding period last year.

During the reporting period, waste discharged in the operation process is as follows:

Types of waste	Waste	Waste
Non-hazardous waste		1,633 (tonnes)
Non-hazardous waste intensity (based on the number of employees)		0.53 tonnes/person
Hazardous waste		381 (tonnes)
Hazardous waste intensity (based on the number of employees)		0.12 tonnes/person

We treat the wastes in strict compliance with the requirements of laws and regulations. We classify waste into two categories, i.e., hazardous and non-hazardous waste, which are collected at a designated place. For non-hazardous waste, we can recycle and reuse them or sell them for reuse. Hazardous waste will be dealt with by qualified suppliers that are authorized by the Environment Bureau with which we maintain long-term and stable co-operation.

During the reporting period, the greenhouse gases (GHGs) emissions in the operation process are as follows:

Greenhouse Gases (GHGs) Emissions	Air Pollutant Emissions (tonnes)
Greenhouse Gases (GHGs) Emissions (t CO ₂ -e)*	
Total GHG emissions	11,619
Direct GHG emissions	1,886
Indirect GHG emissions	9,320
Other indirect GHG emissions	413
Intensity (tonnes/employee)	3.79

Note: Direct emissions refer to the emissions from the Group's use of unleaded gasoline and diesel as well as natural gas and water

Indirect emissions only refer to the emissions from purchased electricity

Other indirect emissions only include emissions from the employees' air travels for business purposes

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group strictly complies with various environmental regulations of the PRC and conducts annual environmental impact assessment and reporting to keep in line with the standards and there are no relevant non-compliance that may have a significant impact on the Group during the reporting period.

1.2 Use of Resources

In order to effectively utilise resources, reduce wastage and protect the ecological environment, the Group encourages all employees to raise their awareness of environmental protection and the concept of green office to implement resources conservation and green documentation management in practice. We have promoted the concept of “think before you use” at our offices to encourage our employees to save water, electricity and paper as well as recycling office supplies for reuse and to establish a computerised filing system to replace saving the original print copy.

Our vehicle repair business also uses eco-friendly paint and eco-friendly materials. When repairing a car, employees will adopt the principle of “saving electricity and water” to reduce environmental pollution and the use of resources.

During the reporting period, the Group’s energy consumption is as follows:

Type of energy	Energy consumption		Unit	Amount
Unleaded gasoline			litres	508,281
Diesel			litres	130,210
Gas			kJ	6,022
Natural gas			m ³	247,366
Electricity			kWh	11,872,460

In order to save energy consumption and use more eco-friendly resources, during the reporting period, despite a substantial increase in the business of the Group, the consumption of unleaded gasoline, diesel, gas, natural gas and electricity remained stable as compared with the corresponding period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the reporting period, the Group's water consumption is as follows:

Water consumption		Unit/Intensity	Amount
Water consumption		m ³	126,980
Water consumption per person		m ³ /employee/year	41

During the reporting period, the average monthly water consumption of the Group amounted to approximately 2,700 tonnes, remaining at the same level as compared with the corresponding period last year.

1.3 Environment and Natural Resources

In the after-sales repair and maintenance of vehicles, a substantial amount of wastes is inevitably generated. The Group is committed to reducing the adverse impact of operating activities on the environment and has been constantly improving environment management measures to reduce consumption of energy and other resources, minimize generation of wastes and increase recycle and reuse. Meanwhile, we have been constantly promoting and advocating environmental protection concepts by actively raising the awareness all employees on environmental protection and the concept of green office as well as encouraging them to cherish each unit of electricity, each drop of water, each sheet of paper and each litre of gasoline so as to care for the environment and make full use of natural resources.

2. PEOPLE ORIENTED – CHERISHING TALENT

Talent is the key to corporate development. The Group attracts elite staff of the industry and provides them with a platform of fair competition so as to create a harmonious working environment and cooperative atmosphere, open a path for staff career development to realize their own values, and provide strong support for the Group's development.

2.1 Employment

The Group actively protects employees' basic rights and interests, understand their needs and enhances their physical and mental health so as to create a professional and efficient workforce.

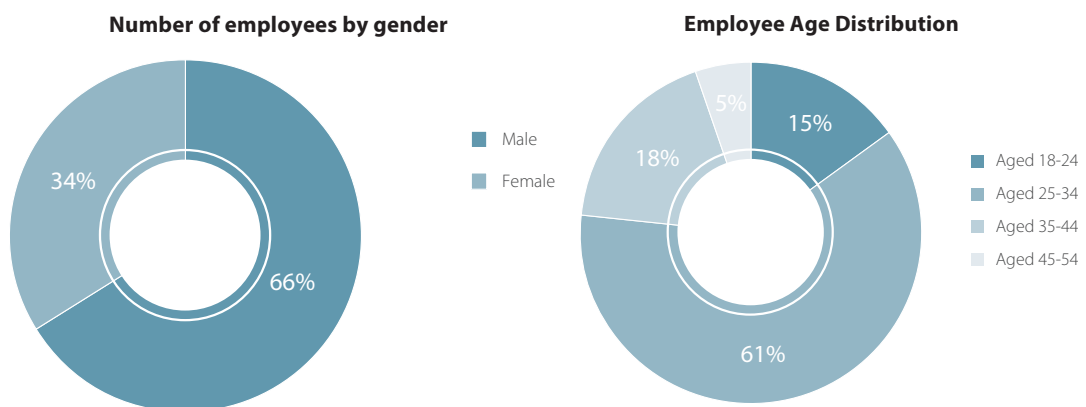
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In order to ensure that employees have legitimate and reasonable rights and interests, the Group has set up a scientific employment management system which covers "Recruitment and Hiring Administrative Measures", "Employee Movement Management Regulations", "Remuneration and Benefits Management System", "Employee Attendance, Leave and Overtime Management Regulations", "Employee Accidental Injury Insurance Management System", "Compensation and Benefits Management System", "Employee Resignation Management Regulations" and "Labour Contracts". The system regulates and supervises the employment and promotion of employees, labour relations, employee diversity, treatment and equal opportunities, welfare and anti-discrimination and strives to safeguard the legitimate rights and interests of employees.

The Group has established a culture of equal opportunities, work-life balance, anti-discrimination and employee diversity to create a "Zero Discrimination and Happy Workplace" for its employees.

The Group also aims to be a good corporate citizen and will not tolerate any violations of employment regulations. During the reporting period, there were no non-compliance.

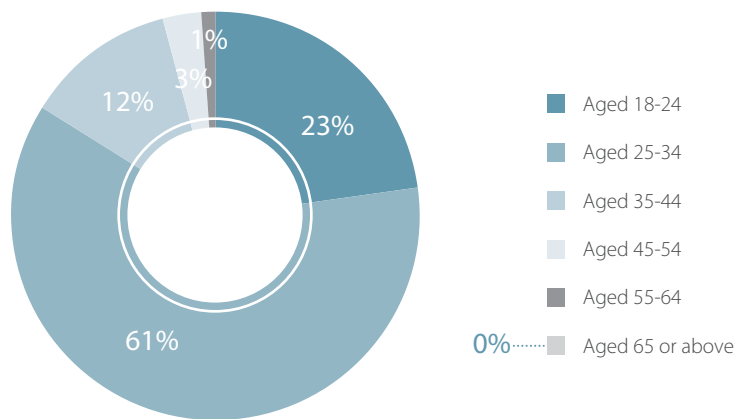
As of 31 December 2018, the Group had a total of 3,063 employees of which 2 were from Hong Kong and the others were from Mainland China. The Group strives to maximize the benefits offered to employees. Save for the 7 temporary workers and the 107 apprentices or interns, all other employees of the Group are full-time staff. The following chart shows the number of employees by gender and age:



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Certain employees leave the Group for own reasons. During the reporting period, the employee turnover rate was 30.47%. As we had more male employees, they accounted for 17.62% of the turnover while female employees accounted for 12.85%. All of the employees that departed were from Mainland China.

Employee Turnover Age Distribution



2.2 Health and Safety

Talents are one of the most valuable assets of a corporation. As such, the Group always places the health and safety of the employees as its top priority and strives to provide a safe working environment for employees to ensure their safety at work and avoid occupational hazards. We strictly complies with the Production Safety Law of the People's Republic of China, Prevention and Control of Occupational Diseases Law of the People's Republic of China and other relevant laws and regulations, and formulates a number of policies covering areas such as occupational health and safety, the provision of safety and protective tools, employee job safety monitoring and training, and job safety monitoring of contractors. On one hand, the Group strictly requires factory workers to give priority to "safety first", regularly reminds them to wear protective equipment and arranges dedicated personnel to monitor work arrangement and performance. On the other hand, the Group attaches great importance to both physical and mental health of employees. It advocates an effective working manner and a healthy life concept, cares for employees and helps them overcome difficulties in life, so that employees can feel the warmth of home at work. We also arrange body-check for employees on a regular basis to identify potential health risks in advance, and educate employees about health knowledge. During the reporting period, there was no incident that had an adverse impact on the health and safety of employees of the Group due to work, nor was there any major safety accident.

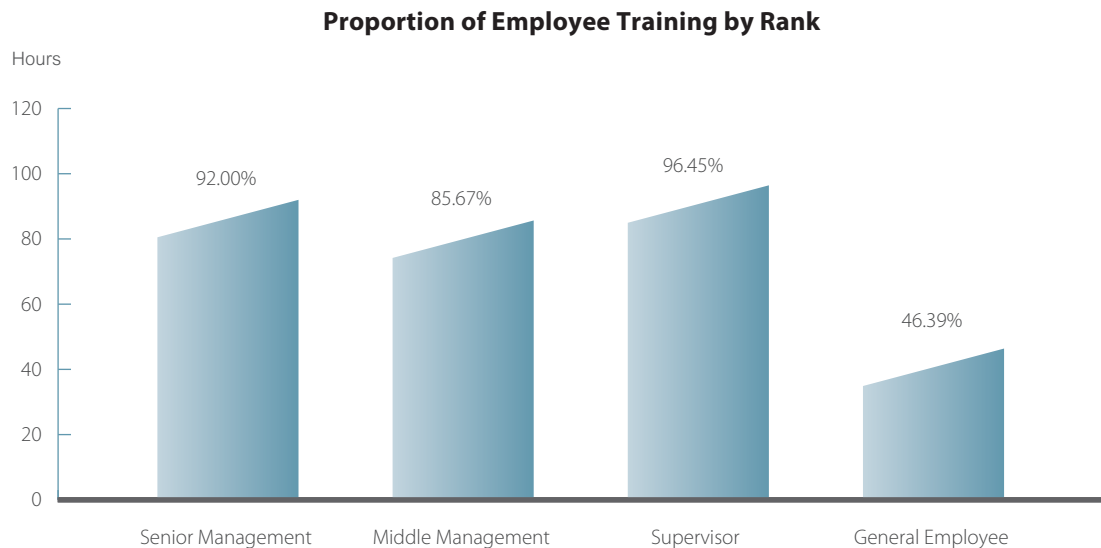
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.3 Development and Training

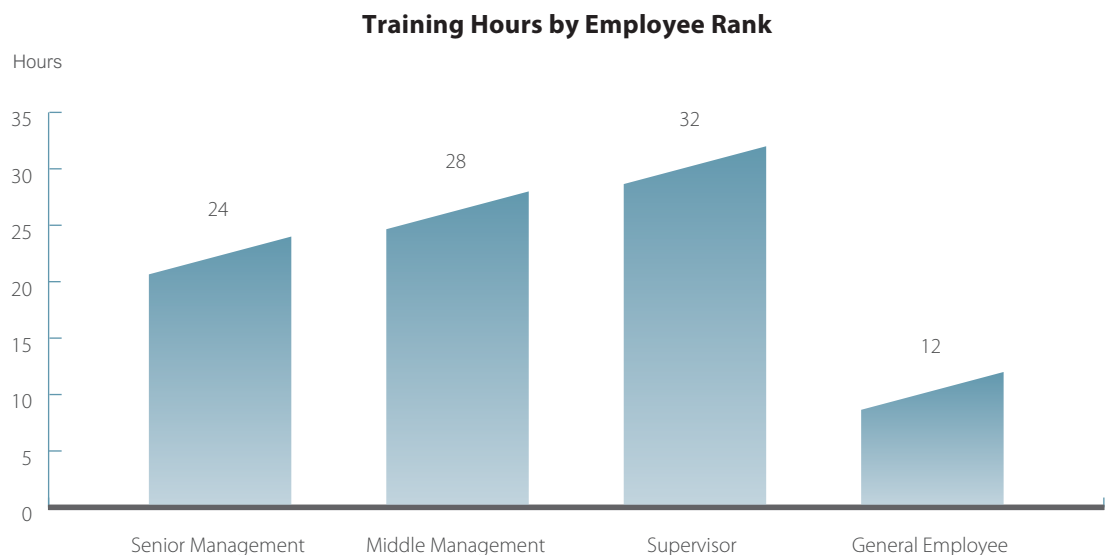
With a view to improving the overall quality, business skills and professional capability of the employees, the Group formulates various career development policies and staff development policies to enhance employees' knowledge and skills in performing their job duties and to provide them with more learning opportunities. In terms of career development, we engage experienced employees to lead new employees in their development to enhance mutual communication among employees and to enable them to improve their working abilities and skills through practice and exchange of ideas. In terms of staff development, we give priority to internal promotions in case of vacancy to provide employees with better career development platform in the Group. Based on the business of the Group and in light of the requirements of different positions, the human resources department of the Group introduces various systematic and comprehensive programs. Vertically, the programs can be categorised into induction training for new recruits as well as training for supervisors, middle management and senior management. Horizontally, the training can be categorised into training for sales consultants, after-sales technicians and financial personnel, which focuses on soft skills and practical techniques. Meanwhile, the Group delegates personnel to participate in various professional training organized by external institutions such as external manufactures, professional organizations and government departments from time to time, so as to get a better understanding of the changes in the market and external environment, thereby improving the quality of employees in all aspects.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the reporting period, the percentage of employees of the Group who have received training remained stable at around 53%, of which approximately 60% were male and over 40% were female. The total hours of training received was 18 hours for men and 12 hours for women. Proportion of employee training by rank is as follows:



As can be seen from the above graph, the proportion of employees who rank from supervisor and above and receive training was 85.1% to 96.45%. Additionally, the training hours by employee rank are as follows:



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.4 Labour Standards

We strictly abide by the Employment Ordinance of Hong Kong and the Labour Contract Laws of the PRC, together with relevant regulations. Our labour policy forbids the employment of child labour or forced labour. In order to implement such policy more effectively, the Group requires all job applicants to have at least completed high school education, so that no children will be employed in labour recruitment. We also adopt open offices to prevent forced labour. As a result of our concerted efforts, the Group has not identified any non-compliance with the labour standards during the reporting period.

3. SUPPLIER MANAGEMENT

The Group strives to build a win-win relationship with suppliers and cooperate with them in a fair, open, efficient and mutual-trusting manner. We continuously optimize and improve the supplier management system and actively promote green procurement, which allow us to ensure smooth business operation and guarantee the quality and safety of all products and services through effective supplier management. In accordance with the relevant national and local regulations, the Group has formulated corresponding management procedures for suppliers of various products and services, including the supplier code and the supplier bidding and evaluation mechanisms. Social responsibility is taken as one of the supplier selection criteria to ensure legal compliance of the procurement process and to maintain high efficiency of selected suppliers in quality, environmental protection, social responsibility and safety management. At the same time, the Group requires all suppliers to possess the legal intellectual property rights for their product supply and relevant confidentiality clauses are included in the agreements with suppliers.

The Group carries out the tender process for the actual selection of suppliers. After confirming the bidding with a supplier, we will send the official “Notice of Successful Bidding” and the “Supplier Qualification Certificate” to the successful bidder. We will only commence cooperation with the supplier after it receives the above “Notice of Successful Bidding” and the “Supplier Qualification Certificate”. In order to establish an open and orderly platform for healthy competition between suppliers, the Group also has the supplier termination mechanism in place, which helps maintain the high quality of suppliers’ product and service offerings. Under the mechanism, we review suppliers’ annual performance at the end of each year and assess the actual cooperation with them to determine whether to proceed with the collaboration.

During the reporting period, all suppliers of the Group were from Mainland China.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4. PRODUCT RESPONSIBILITY

Product responsibility is the foundation of our corporate development. The Group attaches great importance to product responsibility and formulates relevant management policies and measures that exceed the requirements of laws and regulations to ensure product quality and safety, the accuracy of product descriptions in promotional messages and the quality of after-sales services.

In respect of product quality control, the Group conducts sales and service business operations in strict accordance with the corresponding manufacturers' quality assurance policy of various brands. Prior to the sale of products, we will carry out safety inspections and will only sell products that have passed testing. The Group resolutely refuses to produce or supply hazardous substances. The Group requires all sales staff to provide accurate and truthful information to customers at the time of sale. When providing after-sales services, we will provide customers with an interactive and open platform to make enquiries about product details and give feedback. For product return procedures, in order to protect the interests of customers, the Group will cooperate with car brand manufacturers in respect of return procedures with its best endeavours.

The Group adhered to the service principle of "customer first", striving to fully respect the needs of the customers whilst providing sincere and quality services to them. The Group takes customer complaints seriously and regards each of them as an opportunity for us to make correction and improvement. When we receive complaints from customers, we will respond immediately to placate discontented customers and provide them with a satisfactory solution as soon as possible. In this regard, the Group has established comprehensive customer complaints procedures, pursuant to which customers can raise complaints and give us opinions through email, telephone, mail or in person. Complaints received via any of these channels will be handled by the responsible person of the respective department, who will then communicate with and propose solutions to the satisfaction of the customers. Subsequently, we will make conclusion and conduct analysis internally and organise special training and discussion. By drawing conclusion and learning from the experience, we will improve our service quality and enhance our service standard on a continuous basis.

The Group strictly complies with the Law of the People's Republic of China on Protection of Consumer Rights and Interests and other relevant regulations and implements stringent confidentiality policies to protect customers' privacy. We have strengthened the management over customer information and formulated the corresponding system for the filing and access to customer information. During the reporting period, there was no significant event that constitutes a non-compliance with product responsibility regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5. CLEAN OPERATIONS

The Group has established sound corporate governance and clean operation systems with zero tolerance to corruption of any form. In this regard, we have formulated various anti-corruption policies, including anti-bribery policies, conflict of interest reporting policies, anti-fraud policies, open bidding policies, confidential policies and independent auditing policies. Meanwhile, the Legal Department and Audit Department of the Group have been assigned to supervise and put an end to any form of corruption, including extortion and money laundering. During the reporting period, the Group did not have any cases of corruption or any other cases related to breaches of clean operations.

6. COMMUNITY CARE

Being part of the community, we see the support of local members as the driver of our success. Whilst pursuing business growth, we are devoted to giving back, so that the love and care in the community can benefit more people in need. To this end, the Group actively integrates into the community and maintains good communication and interaction therewith. For example, it has specially appointed the general administration department to be responsible for active response and involvement in community events, such as public welfare campaigns, study assistance, charitable donation, environmental protection events and fitness team building activities. During the reporting period, the Group increased its donation to Xi'an Children's Welfare Institution to RMB200,000 for the caring of children and their development. We also cooperated with the Party branch in the fundraising event for low-income households, where we dispatched over 10 volunteers and donated goods valued RMB5,000. In addition, during the reporting period, we donated RMB1,000,000 to the Wuhan University of Technology for student scholarships and RMB50,000 for public security martyrs in Xi'an to care for their families.

Apart from caring for the community, we encourage our staff to spread the spirit of mutual help and give a hand to people around them as well. Besides, we organise donation for underprivileged employees within the Group. During the reporting period, we have raised charitable donations of more than RMB500,000 through the efforts of all staff.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PROSPECT

On top of actively expanding our business, the Group will remain devoted to the strict implementation of the existing management systems and conduct effective supervision and inspection. We aim to pay more attention to environmental protection, energy saving and emission reduction, while minimising the use of natural resources. Our staff is one of our key resources, hence the Group will continue to strengthen the health and safety management of employees and conduct regular training on professionalism and business skills. We will also attach great importance to the long-term development of employees and offer them sustainable career paths. In terms of operations, the Group will have to enhance supplier management and monitoring on an ongoing basis, exercise reasonable control over operating costs and improve operational efficiency. More importantly, it will have to keep focusing on customer satisfaction, further identity demands from customers and spare no efforts to serve them well. The Group will foster better communication and interaction with stakeholders and reward them with better returns. In the course of development, it will stay true to its mission and keep on participating in community and public welfare activities, thereby further enhancing the sense of corporate social responsibility. The Group is confident that the above series of measures will improve our environmental, social and governance performance in 2019.

INDEPENDENT AUDITORS' REPORT



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To the shareholders of Sunfonda Group Holdings Limited

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

OPINION

We have audited the consolidated financial statements of Sunfonda Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 85 to 173, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

INDEPENDENT AUDITORS' REPORT

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 matter

How our audit addressed the key audit matter

Vendor rebate receivables

The Group recognises volume-related vendor rebates on an accrual basis according to the terms of the supplier contracts. As at 31 December 2018, the rebate receivables recognised were RMB183,957,000. The balance of rebate receivables is significant and the process of accruing the rebates is complex.

Our audit procedures included, among others, checking the rebate policies adopted against the terms of the relevant supplier contracts and checking the calculation of the rebate receivables based on the rebate policies. We have also checked subsequent receipts of the rebates.

Information of the rebate receivables is disclosed in note 20 to the financial statements.

Deferred tax assets

As at 31 December 2018, deferred tax assets recognised were RMB12,317,000. The deferred tax assets were recognised based on management's estimation of future taxable profits that would be available for utilising the deferred tax assets. As at 31 December 2018, deferred tax assets had not been recognised on accumulated tax losses of RMB174,562,000. The process of estimating the amount of the future taxable profits is complex, and involves estimates and judgements that would be affected by future actual operations, tax regulations, market or economic conditions.

Our procedures included, among others, evaluating the assumptions and methodologies used by the Group in estimating future taxable profits. We evaluated and tested management assessment on available taxable profits by comparing to the Group's business plans approved by those charged with governance, expected future profit forecasts, associated growth rates, historical financial and tax information. We checked the adequacy of the relevant disclosures of deferred tax assets and unrecognised temporary differences.

Information of the deferred tax assets and the unrecognised tax losses is disclosed in note 28 to the financial statements.

Impairment of non-financial assets (other than goodwill)

As at 31 December 2018, the management performed an impairment test on non-financial assets with a carrying amount of RMB1,733,215,000 using the value in use calculation based on discounted cash flow method.

Our audit procedures, among others, included an evaluation of the determination of cash-generating units, the key assumptions used in the cash flow forecast and other data used by the Group. We also evaluated the associated growth rates and the discount rates applied.

The balance of non-financial assets (other than goodwill) was material to the consolidated financial statements. Furthermore, the impairment test was complex and involved estimates and judgement.

We checked the adequacy of the relevant disclosures of non-financial assets (other than goodwill).

The Group's disclosure about are included in note 3 to the financial statements, which explains the major judgements and estimations the management exercised in the assessment.

INDEPENDENT AUDITORS' REPORT

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 the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors 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.

INDEPENDENT AUDITORS' REPORT

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.

As part of an audit in accordance with HKSAAs, 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.

INDEPENDENT AUDITORS' REPORT

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young

Certified Public Accountants

Hong Kong

26 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5(a)	8,948,414	7,687,005
Cost of sales and services	6(b)	(8,280,456)	(7,091,568)
Gross profit		667,958	595,437
Other income and gains, net	5(b)	342,043	206,459
Selling and distribution expenses		(385,947)	(320,777)
Administrative expenses		(245,987)	(179,861)
Profit from operations		378,067	301,258
Finance costs	7	(102,723)	(73,517)
Profit before tax	6	275,344	227,741
Income tax expense	10	(61,982)	(80,565)
Profit for the year		213,362	147,176
Attributable to:			
Owners of the parent		213,162	147,315
Non-controlling interests		200	(139)
		213,362	147,176
Earnings per share attributable to ordinary equity holders of the parent	12		
Basic and diluted (RMB)		0.36	0.25

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2018

	2018 RMB'000	2017 RMB'000
Profit for the year	213,362	147,176
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	(1,919)	(2,326)
Other comprehensive income for the year, net of tax	(1,919)	(2,326)
Total comprehensive income for the year	211,443	144,850
Attributable to:		
Owners of the parent	211,243	144,989
Non-controlling interests	200	(139)
	211,443	144,850

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,121,870	1,067,985
Land use rights	14	599,340	316,187
Intangible assets	15	12,005	13,128
Prepayments	16	73,447	112,404
Goodwill	17	10,284	10,794
Deferred tax assets	28	12,317	7,455
Total non-current assets		1,829,263	1,527,953
CURRENT ASSETS			
Inventories	18	945,585	781,025
Trade receivables	19	35,229	52,974
Prepayments, deposits and other receivables	20	652,395	691,998
Amount due from a related party	39(b)	12,300	12,020
Pledged bank deposits	21	277,073	274,365
Cash in transit	22	20,797	19,517
Short-term deposits	23	96,234	55,209
Cash and cash at banks	23	794,390	615,571
Total current assets		2,834,003	2,502,679
CURRENT LIABILITIES			
Bank loans and other borrowings	24	1,729,884	1,278,289
Trade and bills payables	25	423,587	389,758
Other payables and accruals	26	323,303	325,891
Income tax payable		12,146	24,074
Total current liabilities		2,488,920	2,018,012
NET CURRENT ASSETS		345,083	484,667
TOTAL ASSETS LESS CURRENT LIABILITIES		2,174,346	2,012,620

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	24	213,616	212,941
Deferred tax liabilities	28	7,627	2,658
Total non-current liabilities		221,243	215,599
NET ASSETS		1,953,103	1,797,021
EQUITY			
Equity attributable to owners of the parent			
Share capital	29	377	377
Reserves	31	1,952,726	1,793,496
Non-controlling interests		1,953,103 –	1,793,873 3,148
Total equity		1,953,103	1,797,021

Director
Wu Tak Lam

Director
Chiu Man

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2018

	Attributable to owners of the parent									Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Merger reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000		
At 1 January 2018	377	335,442	124,227	77,826	157,947	8,240	37,515	1,052,299	1,793,873	3,148	1,797,021
Profit for the year	-	-	-	-	-	-	-	213,162	213,162	200	213,362
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(1,919)	-	(1,919)	-	(1,919)
Total comprehensive income for the year	-	-	-	-	-	-	(1,919)	213,162	211,243	200	211,443
Acquisition of non-controlling interests	-	-	(6,182)	-	-	-	-	-	(6,182)	(3,348)	(9,530)
Transfer from retained profits	-	-	-	12,845	-	-	-	(12,845)	-	-	-
Final 2017 dividend declared	-	(47,520)	-	-	-	-	-	-	(47,520)	-	(47,520)
Equity-settled share award expense (note 30)	-	-	-	-	-	1,689	-	-	1,689	-	1,689
At 31 December 2018	377	287,922*	118,045*	90,671*	157,947*	9,929*	35,596*	1,252,616*	1,953,103	-	1,953,103

* These reserve accounts comprise the consolidated reserves of RMB1,952,726,000 (2017: RMB1,793,496,000) in the consolidated statement of financial position.

	Attributable to owners of the parent									Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Merger reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000		
At 1 January 2017	377	347,058	125,420	65,212	157,947	5,490	39,841	917,598	1,658,943	4,094	1,663,037
Profit for the year	-	-	-	-	-	-	-	147,315	147,315	(139)	147,176
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(2,326)	-	(2,326)	-	(2,326)
Total comprehensive income for the year	-	-	-	-	-	-	(2,326)	147,315	144,989	(139)	144,850
Acquisition of non-controlling interests	-	-	(1,193)	-	-	-	-	-	(1,193)	(807)	(2,000)
Transfer from retained profits	-	-	-	12,614	-	-	-	(12,614)	-	-	-
Final 2016 dividend declared	-	(11,616)	-	-	-	-	-	-	(11,616)	-	(11,616)
Equity-settled share award expense (note 30)	-	-	-	-	-	2,750	-	-	2,750	-	2,750
At 31 December 2017	377	335,442*	124,227*	77,826*	157,947*	8,240*	37,515*	1,052,299*	1,793,873	3,148	1,797,021

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
Operating activities			
Profit before tax		275,344	227,741
Adjustments for:			
Depreciation and impairment of items of property, plant and equipment	13	141,283	101,373
Amortisation of land use rights	14	12,845	7,561
Amortisation of intangible assets	15	1,010	753
Interest income	5(b)	(7,546)	(6,518)
Net gain on disposal of items of property, plant and equipment	5(b)	(2,595)	(7,127)
Equity-settled share award expense	6(a)	1,689	2,750
Finance costs	7	102,723	73,517
Impairment of prepayments, deposits and other receivables	5(b)	5,000	–
Impairment of inventories	6(c)	22,863	–
Impairment of goodwill	17	510	–
Gain on disposal of a subsidiary	32	(129,864)	–
Net loss on disposal of intangible assets		113	–
		423,375	400,050
Increase in pledged bank deposits		(2,708)	(84,105)
(Increase)/Decrease in cash in transit		(1,280)	2,009
Decrease in trade receivables		17,745	11,081
Decrease/(Increase) in prepayments, deposits and other receivables		49,089	(133,647)
(Increase)/Decrease in an amount due from a related party		(280)	9,642
Increase in inventories		(187,423)	(80,774)
Increase/(Decrease) in trade and bills payables		33,829	(37,234)
Decrease in other payables and accruals		(18,142)	(7,102)
Cash generated from operations		314,205	79,920
Tax paid		(73,803)	(66,706)
Net cash generated from operating activities		240,402	13,214

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
Investing activities			
Purchase of items of property, plant and equipment		(244,230)	(308,359)
Proceeds from disposal of items of property, plant and equipment		82,149	86,018
Purchase of land use rights		286,979	(24,504)
Purchase of intangible assets		–	(2,087)
Decrease/(Increase) in time deposits of maturity over three months		55,209	(55,209)
Interest received		7,546	6,518
Acquisition of a subsidiary		–	(44,324)
Disposal of a subsidiary net of cash	32	130,378	–
Net cash used in investing activities		(255,927)	(341,947)
Financing activities			
Proceeds from bank loans and other borrowings		7,289,193	5,473,542
Repayment of bank loans and other borrowings		(6,848,174)	(5,275,034)
Interest paid		(102,723)	(73,517)
Dividends paid	11	(47,520)	(11,616)
Acquisition of non-controlling interests		(9,530)	(2,000)
Net cash generated from financing activities		281,246	111,375
Net increase/(decrease) in cash and cash equivalents		265,721	(217,358)
Cash and cash equivalents at the beginning of year		615,571	846,206
Effect of foreign exchange rate changes, net		9,332	(13,277)
Cash and cash equivalents at the end of year	23	890,624	615,571
Analysis of balances of cash and cash equivalents			
Cash and bank balances		794,390	615,571
Short-term deposits with maturity less than 3 months		96,234	–
		890,624	615,571

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

1. CORPORATE AND GROUP INFORMATION

Sunfonda Group Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 13 January 2011 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The registered office address of the Company is Grand Pavilion, Hibiscus Way, 802 West Bay Road, P.O. Box 31119, KY1-1205, Cayman Islands. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 15 May 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.

In the opinion of the directors of the Company (the “Directors”), the ultimate holding company of the Company is Golden Speed Enterprises Limited, which is incorporated in the British Virgin Islands (“BVI”).

Information about subsidiaries

Particulars of the Company’s principal subsidiaries as at 31 December 2018 are as follows:

Company name	Place and date of registration/ incorporation and place of business	Registered/ paid-in/issued capital	Proportion of ownership interest		
			Held by the Company	Held by a subsidiary	Principal activities
新豐泰(香港)有限公司 (Sunfonda (Hong Kong) Limited)	Hong Kong, the PRC 1997	Issued capital of HK\$1,501,000	–	100%	Investment holding
Grand Forever Enterprises Limited	Tortola, the BVI 2011	Registered capital of US\$50,000 and paid-in capital of US\$2,001	100%	–	Investment holding
陝西新豐泰汽車有限責任公司* (Shaanxi Sunfonda Automobile Co., Ltd.)	Xi’an, the PRC 2000	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
陝西新豐泰汽車技術開發有限責任公司* (Shaanxi Sunfonda Automobile Technology Development Co., Ltd.)	Xi’an, the PRC 2001	Registered and paid-in capital of RMB531,284,500	–	100%	Sale and service of motor vehicles
西安新銘洋豐田汽車銷售服務有限公司* (Xi’an Xinmingyang Toyota Automobile Sales Services Co., Ltd.)	Xi’an, the PRC 2003	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries as at 31 December 2018 are as follows (continued):

Company name	Place and date of registration/ incorporation and place of business	Registered/ paid-in/issued capital	Proportion of ownership interest		
			Held by the Company	Held by a subsidiary	Principal activities
陝西凱盛汽車銷售服務有限公司* (Shaanxi Kaisheng Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2006	Registered and paid-in capital of RMB15,000,000	–	100%	Sale and service of motor vehicles
陝西信捷汽車有限責任公司* (Shaanxi Xinjie Automobile Co., Ltd.)	Xi'an, the PRC 2006	Registered and paid-in capital of RMB13,000,000	–	100%	Sale and service of motor vehicles
西安鈞盛雷克薩斯汽車銷售服務有限公司* (Xi'an Junsheng Lexus Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2006	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
山西盈捷汽車銷售服務有限公司* (Shanxi Yingjie Automobile Sales Services Co., Ltd.)	Taiyuan, the PRC 2009	Registered and paid-in capital of RMB13,204,500	–	100%	Sale and service of motor vehicles
鄂爾多斯市新豐泰信捷汽車 有限責任公司* (Ordos Sunfonda Xinjie Automobile Co., Ltd.)	Ordos, the PRC 2010	Registered and paid-in capital of RMB26,846,750	–	100%	Sale and service of motor vehicles
陝西新豐泰博奧汽車有限責任公司* (Shaanxi Sunfonda Boao Automobile Co., Ltd.)	Xi'an, the PRC 2010	Registered and paid-in capital of RMB55,199,805	–	100%	Sale and service of motor vehicles
鄂爾多斯市新豐泰凱盛汽車有限責任公司* (Ordos Sunfonda Kaisheng Automobile Co., Ltd.)	Ordos, the PRC 2010	Registered and paid-in capital of RMB29,733,148	–	100%	Sale and service of motor vehicles
西安新豐泰之星汽車銷售服務有限公司*** (Xi'an Sunfonda Zhixing Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2009	Registered and paid-in capital of HK\$84,000,000	–	100%	Sale and service of motor vehicles
蘇州新豐泰汽車銷售服務有限公司** (Suzhou Sunfonda Automobile Sales Services Co., Ltd.)	Suzhou, the PRC 2011	Registered capital of HK\$52,000,000 and paid-in capital of HK\$45,000,000	–	100%	Sale and service of motor vehicles

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries as at 31 December 2018 are as follows (continued):

Company name	Place and date of registration/ incorporation and place of business	Registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
蘭州新豐泰汽車銷售有限責任公司* (Lanzhou Sunfonda Automobile Sales Co., Ltd.)	Lanzhou, the PRC 2011	Registered and paid-in capital of RMB38,104,012	–	100%	Sale and service of motor vehicles
陝西新豐泰迎賓汽車銷售服務有限公司* (Shaanxi Sunfonda Yingbin Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2011	Registered and paid-in capital of RMB27,187,450	–	100%	Sale and service of motor vehicles
延安新豐泰博奧汽車有限責任公司* (Yan'an Sunfonda Boao Automobile Co., Ltd.)	Yan'an, the PRC 2011	Registered and paid-in capital of RMB36,408,200	–	100%	Sale and service of motor vehicles
陝西新豐泰駿美汽車銷售服務有限公司* (Shaanxi Sunfonda Junmei Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2012	Registered capital of RMB50,000,000 and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
無錫新豐泰汽車有限責任公司* (Wuxi Sunfonda Automobile Co., Ltd.)	Wuxi, the PRC 2013	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
山西新豐泰駿美汽車銷售服務有限公司* (Shanxi Sunfonda Junmei Automobile Sales Services Co., Ltd.)	Taiyuan, the PRC 2012	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
揚州新豐泰博奧汽車銷售服務有限公 司** (Yangzhou Sunfonda Boao Automobile Sales Services Co., Ltd.)	Yangzhou, the PRC 2013	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
西安新豐泰紅旗汽車銷售服務有限公司* (Xi'an Sunfonda Hongqi Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2013	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
寧夏新豐泰信捷汽車銷售服務有限公司** (Ningxia Sunfonda Xinjie Automobile Sales Services Co., Ltd.)	Yinchuan, the PRC 2013	Registered and paid-in capital of HK\$49,000,000	–	100%	Sale and service of motor vehicles

NOTES TO FINANCIAL STATEMENTS

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1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries as at 31 December 2018 are as follows (continued):

Company name	Place and date of registration/ incorporation and place of business	Registered/ paid-in/issued capital	Proportion of ownership interest		
			Held by the Company	Held by a subsidiary	Principal activities
寧夏新豐泰駿美汽車銷售服務有限公司* (Ningxia Sunfonda Junmei Automobile Sales Services Co., Ltd.)	Yinchuan, the PRC 2013	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
陝西新豐泰尚眾汽車銷售服務有限公司* (Shaanxi Sunfonda Shangzhong Automobile Sales Service Co., Ltd.)	Xi'an, the PRC 2013	Registered and paid-in capital of RMB26,000,000	–	100%	Sale and service of motor vehicles
北京新豐泰博奧汽車銷售服務有限公司* (Beijing Sunfonda Boao Automobile Sales Services Co., Ltd.)	Beijing, the PRC 2014	Registered and paid-in capital of RMB70,000,000	–	100%	Sale and service of motor vehicles
渭南新豐泰博奧汽車銷售服務有限公司* (Weinan Sunfonda Boao Automobile Sales Services Co., Ltd.)	Weinan, the PRC 2014	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
陝西新豐泰福生汽車銷售服務有限公司* (Shaanxi Sunfonda Fusheng Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2014	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
新豐泰(中國)投資有限公司** (Sunfonda (China) Investment Co., Ltd.)	Shanghai, the PRC 2015	Registered and paid-in capital of US\$89,232,599	–	100%	Investment holding
陝西新豐泰銘威汽車銷售服務有限公司* (Shaanxi Sunfonda Mingwei Automobile Sales Service Co., Ltd.)	Xi'an, the PRC 2014	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
銀川順馳路捷汽車銷售服務有限公司* (Yinchuan Shunchi Lujie Automobile Sales Service Co., Ltd.)	Yinchuan, the PRC 2014	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
延安新豐泰鈞盛雷克薩斯汽車銷售服務有限公司* (Yan'an Sunfonda Junsheng Lexus Automobile Sales Service Co., Ltd.)	Yan'an, the PRC 2015	Registered and paid-in capital of RMB15,000,000	–	100%	Sale and service of motor vehicles

NOTES TO FINANCIAL STATEMENTS

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1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries as at 31 December 2018 are as follows (continued):

Company name	Place and date of registration/ incorporation and place of business	Registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
揚州新豐泰鈞盛雷克薩斯汽車銷售服務有限公司* (Yangzhou Sunfonda Junsheng Lexus Automobile Sales Service Co., Ltd.)	Yangzhou, the PRC 2016	Registered and paid-in capital of RMB25,000,000	–	100%	Sale and service of motor vehicles
西安新豐泰涇河物流開發有限公司* (Xi'an Sunfonda Jinghe Logistics Development Co. Ltd.)	Xi'an, the PRC 2013	Registered and paid-in capital of RMB19,171,896	–	100%	Logistics service
陝西新豐泰金達實業開發有限公司* (Shaanxi Sunfonda Jinda Industrial Development Co. Ltd.)	Xi'an, the PRC 2014	Registered capital of RMB5,000,000 and paid-in capital of nil	–	100%	Storage service
西安新豐泰智威汽車銷售服務有限責任公司* (Xi'an Sunfonda Zhiwei Automobile Sales Service Co., Ltd.)	Xi'an, the PRC 2017	Registered and paid-in capital of RMB1,000,000	–	100%	Sale and service of motor vehicles
渭南市宗申寶泰汽車銷售服務有限公司* (Weinan Zongshen Baotai Automobile Sales & Service Co., Ltd.)	Weinan, the PRC 2012	Registered and paid-in capital of RMB63,000,000	–	100%	Sale and service of motor vehicles
蘇州新豐泰豐田汽車銷售服務有限公司* (Suzhou Sunfonda Fengtian Automobile Sales Services Co., Ltd.)	Suzhou, the PRC 2012	Registered capital of RMB53,500,000 and paid-in capital of RMB46,000,000	–	100%	Sale and service of motor vehicles
西安泰愛車網路技術開發銷售服務有限公司* (Shanxi Sunfonda Automobile Technology Development Co., Ltd.)	Xi'an, the PRC 2015	Registered and paid-in capital of RMB8,000,000	–	100%	Internet service and technology development

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1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries as at 31 December 2018 are as follows (continued):

Company name	Place and date of registration/ incorporation and place of business	Registered/ paid-in/issued capital	Proportion of ownership interest		
			Held by the Company	Held by a subsidiary	Principal activities
陝西新豐泰二手車交易市場有限公司* (Shanxi Sunfonda Second-hand car Transaction Market Co., Ltd.)	Xi'an, the PRC 2015	Registered capital of RMB1,000,000 and paid-in capital of Nil	–	100%	Sale and service of second-hand cars
陝西新豐泰新能源汽車銷售服務有限公司* (Shanxi Sunfonda New Energy Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2016	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
甘肅新豐泰汽車銷售服務有限公司* (Gansu Sunfonda Automobile Sales Services Co., Ltd.)	Qingyang, the PRC 2017	Registered and paid-in capital of RMB5,500,000	–	100%	Sale and service of motor vehicles
蘭州新豐泰華寶汽車銷售服務有限公司* (Lanzhou Sunfonda Huabao Automobile Sales Services Co., Ltd.)	Lanzhou, the PRC 2017	Registered and paid-in capital of RMB15,000,000	–	100%	Sale and service of motor vehicles

* These companies are registered as limited liability companies under PRC law.

** These companies are registered as wholly-foreign-owned enterprises under PRC law.

*** This company is registered as a Sino-foreign equity joint venture under PRC law.

* On 17 December 2018, the Group acquired 10% of the equity interest of Yangzhou Sunfonda Bo'ao Automobile Sales Services Co., Ltd. ("Yangzhou Bo'ao") from the non-controlling shareholder at a total consideration of RMB9,530,000. After the acquisition, Yangzhou Bo'ao has become a wholly owned subsidiary of the Group.

None of these above companies are audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

During the year, the Group disposed of Shaanxi Zewang Industrial Development Co., Ltd. to a third party. Further details of this disposal are included in note 32 to the financial statements.

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

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"), 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. 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 Group for the year ended 31 December 2018. 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. 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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

2.1 BASIS OF PREPARATION (*continued*)

Basis of consolidation (*continued*)

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 in the accounting policy for subsidiaries below. 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 following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements 2014-2016 Cycle</i>	<i>Amendments to HKFRS 1 and HKAS 28</i>

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31 DECEMBER 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (*continued*)

Further information about those HKFRSs that are expected to be applicable to the Group is described below. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards.

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 5 to the financial statements. As a result of the application of of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group recognizes revenue from the following major sources:

- (i) sales of motor vehicles
- (ii) provision of after-sales services, including primarily repair and maintenance services

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (*continued*)

The business model for the sale of motor vehicles is straight forward and its contracts with customers for the sale of motor vehicles include only single performance obligation. The Group has concluded that revenue from the sale of motor vehicles should be recognised at the point of time when a customer obtains control of goods.

For the provision of after-sales services, the Group has concluded that revenue from provision of after-sales services should be recognised at the point of time when the performance obligation is satisfied.

Therefore, the Group has concluded that the initial application of HKFRS 15 does not have a significant impact on the Group's revenue recognition.

HKFRS 15 requires separate presentation of contract liabilities. Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15 and, accordingly, advances received from customers of RMB135,818,000 were reclassified from advances from customers under other payables and accruals to contract liabilities.

Taking into account the impact disclosed above, the Group considers that the adoption of HKFRS 15 did not have significant impact on our financial position and performance during the year.

NOTES TO FINANCIAL STATEMENTS

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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>Definition of a Business</i> ²
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
HKFRS 16	<i>Leases</i> ¹
HKFRS 17	<i>Insurance Contracts</i> ³
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ²
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i> ¹
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> ¹
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i> ¹
<i>Annual Improvements 2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

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

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

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

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 recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be 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 the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of RMB74,877,000 and lease liabilities of RMB74,877,000 will be recognised at 1 January 2019.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

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

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

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 Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

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 is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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.

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.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Business combinations and goodwill (*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 investment property, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Fair value measurement (*continued*)

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.

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, financial assets and non-current assets/a disposal group classified as 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.

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31 DECEMBER 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Impairment of non-financial assets (*continued*)

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Related parties (*continued*)

- (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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

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 principal estimated useful lives and residual values used for this purpose are as follows:

Category	Estimated useful life	Estimated residual value
Buildings	20 years	5%
Leasehold improvements	Over the shorter of the lease terms and 5 years	–
Plant and machinery	5-10 years	5%
Furniture and fixtures	3-5 years	5%
Motor vehicles	4-5 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 and plant and machinery under construction or pending installation, which are stated at cost less any impairment losses, and are 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.

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

Software	5 years
Dealership agreements	40 years

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Land use rights

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the right to use certain land and the consideration paid for such a right is recorded as land use rights, which are amortised over the lease terms of 23 to 62 years using the straight-line method.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

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 (applicable from 1 January 2018)" below.

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.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (*continued*)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (*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 include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (*continued*)

Subsequent measurement (*continued*)

Financial assets at fair value through profit or loss (continued)

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 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.

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, and loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (*continued*)

Initial recognition and measurement (*continued*)

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 fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (*continued*)

Subsequent measurement (*continued*)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in administrative expenses for receivables.

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) (*continued*)

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 (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for 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.

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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (*continued*)

General approach (*continued*)

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 and contract assets 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

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31 DECEMBER 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (*continued*)

Simplified approach

For trade receivables and contract assets 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.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (*continued*)

Financial assets carried at amortised cost (*continued*)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to administrative expenses in the statement of profit or loss.

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, or payables.

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 mainly include trade and bills payables, other payables and bank loans and other borrowings.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (*continued*)

Subsequent measurement

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

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.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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 (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the specific identification basis as appropriate and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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, and assets similar in nature to cash, 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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Income tax (*continued*)

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, 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.

Deferred tax assets are recognised for all deductible temporary differences, 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, 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, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Income tax (*continued*)

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, which it is intended to compensate, are expensed.

Revenue recognition (applicable from 1 January 2018)

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Revenue recognition (applicable from 1 January 2018) (*continued*)

Revenue from contracts with customers (*continued*)

When the contract contains a financing component which provides the customer 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 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.

- Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

Revenue from other sources

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) from the rendering of services, when the services are fully rendered and accepted by customers; and
- (c) interest income, 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; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Vendor rebates

Volume-related vendor rebates are recognised as a deduction from cost of sales on an accrual basis based on 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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Share-based payments

The Company operates a share award scheme and 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 for grants is measured by reference to the fair value at the date at which they are granted. Further details of the fair value are given in note 30 to the financial statements.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Share-based payments (*continued*)

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.

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 note 11 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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).

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 currency of the Company and certain overseas subsidiaries is HK\$. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Foreign currencies (*continued*)

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 overseas subsidiaries 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.

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.

Deferred tax assets

Deferred tax assets are recognised for 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 was RMB12,317,000 as at 31 December 2018 (2017: RMB7,455,000). The amount of unrecognised tax losses at 31 December 2018 was RMB174,562,000 (2017: RMB233,832,000). Further details are contained in note 28 to the financial statements.

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 at 31 December 2018 was RMB10,284,000 (2017: RMB10,794,000). Further details are given in note 17.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (*continued*)

Estimation uncertainty (*continued*)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets other than indefinite life and goodwill 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.

Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its 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. It could change significantly as a result of technical innovations, or competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Net realisable value of inventories

Net realisable value of an inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

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4. OPERATING SEGMENT INFORMATION

The Group is engaged in the principal business of 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 and operating profit were generated from the sale and service of motor vehicles in Mainland China and over 90% of the Group's non-current assets and liabilities were located in Mainland China, no geographical segment information is presented in accordance with HKFRS 8 *Operating Segments*.

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, no major customer information is presented in accordance with HKFRS 8 *Operating Segments*.

5. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue:

Revenue represents the net invoiced value of goods sold and the value of services rendered after allowances for returns and trade discounts, where applicable.

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers		
Disaggregated revenue information		
Type of goods or service		
Revenue from sales of motor vehicles	7,921,978	6,799,625
Revenue from after-sales service	1,026,436	887,380
Total revenue from contracts with customers	8,948,414	7,687,005
Timing of revenue recognition		
At a point in time	8,948,414	7,687,005

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

5. REVENUE, OTHER INCOME AND GAINS, NET (*continued*)

(b) Other income and gains, net:

	2018 RMB'000	2017 RMB'000
Commission income	174,608	152,469
Logistics and storage income	38,827	33,539
Interest income	7,546	6,518
Advertisement support received from motor vehicle manufacturers	435	609
Net gain on disposal of items of property, plant and equipment	2,595	7,127
Government grants	3,368	2,305
Impairment of items of property, plant and equipment	(14,162)	–
Impairment of goodwill	(510)	–
Impairment of prepayments, deposits and other receivables	(5,000)	–
Gain on disposal of a subsidiary	129,864	–
Others	4,472	3,892
	342,043	206,459

6. PROFIT BEFORE TAX

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

(a) Employee benefit expense (including directors' and chief executive's remuneration (note 8))

	2018 RMB'000	2017 RMB'000
Wages and salaries	208,659	148,014
Equity-settled share award expense	1,689	2,750
Other welfare	37,787	28,430
	248,135	179,194

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

6. PROFIT BEFORE TAX (continued)

(b) Cost of sales and services

	2018 RMB'000	2017 RMB'000
Cost of sales of motor vehicles	7,725,161	6,595,237
Others*	555,295	496,331
	8,280,456	7,091,568

* Employee benefit expenses of RMB55,749,000 (2017: RMB47,207,000) were included in the cost of sales and services.

(c) Other items

	2018 RMB'000	2017 RMB'000
Depreciation of items of property, plant and equipment	127,121	101,373
Amortisation of land use rights	12,845	7,561
Amortisation of intangible assets	1,010	753
Auditors' remuneration		
– statutory audit service	2,200	2,180
– non-audit service	2,000	–
Advertising and business promotion expenses	69,947	69,016
Lease expense	8,110	10,866
Bank charges	5,457	5,326
Impairment of items of property, plant and equipment	14,162	–
Impairment of goodwill	510	–
Impairment of prepayments, deposits and other receivables	5,000	–
Impairment of inventories	22,863	–
Gain on disposal of a subsidiary	(129,864)	–
Net gain on disposal of items of property, plant and equipment	(2,595)	(7,127)

NOTES TO FINANCIAL STATEMENTS

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7. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank borrowings and other borrowings	102,723	73,517

8. 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 2018				
	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Equity- settled share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:					
– Mr. Wu Tak Lam	–	1,500	–	10	1,510
– Ms. Chiu Man ⁽ⁱ⁾	–	800	–	10	810
– Mr. Jia Ruobing ⁽ⁱⁱ⁾	–	832	101	34	967
– Mr. Liu Zhanli ⁽ⁱⁱⁱ⁾	–	440	65	40	545
– Mr. Gou Xinfeng	–	819	79	40	938
– Ms. Chen Wei ^(iv)	–	307	71	40	418
	–	4,698	316	174	5,188
Independent non-executive directors					
– Mr. Liu Jie	166	–	–	–	166
– Mr. Song Tao ^(v)	166	–	–	–	166
– Dr. Liu Xiaofeng ^(vi)	219	–	–	–	219
	551	–	–	–	551
	551	4,698	316	174	5,739

NOTES TO FINANCIAL STATEMENTS

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

	Year ended 31 December 2017				
	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Equity- settled share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:					
– Mr. Wu Tak Lam	–	201	–	10	211
– Ms. Chiu Man ⁽ⁱ⁾	–	201	–	10	211
– Mr. Jia Ruobing ⁽ⁱⁱ⁾	–	832	176	34	1,042
– Mr. Gou Xinfeng	–	567	96	37	700
	–	1,801	272	91	2,164
Independent non-executive directors					
– Mr. Liu Jie	159	–	–	–	159
– Mr. Yu Yuanbo ^(vii)	66	–	–	–	66
– Mr. Fu Johnson Chi-King ^(viii)	87	–	–	–	87
– Mr. Song Tao ^(v)	93	–	–	–	93
– Dr. Liu Xiaofeng ^(vi)	122	–	–	–	122
	527	–	–	–	527
	527	1,801	272	91	2,691

(i) The Group and the Company's chief executive is Ms. Chiu Man, who is also an executive director of the Group and the Company.

(ii) Mr. Jia Ruobing was appointed as an executive director with effect from 11 June 2012 and retired with effect from 21 May 2018.

(iii) Mr. Liu Zhanli was appointed as an executive director with effect from 27 June 2018 and retired with effect from 23 November 2018.

(iv) Ms. Chen Wei was appointed as an executive director with effect from 23 November 2018.

(v) Mr. Song Tao was appointed as an independent non-executive director with effect from 26 May 2017.

(vi) Dr. Liu Xiaofeng was appointed as an independent non-executive director with effect from 26 May 2017.

(vii) Mr. Yu Yuanbo was appointed as an independent non-executive director with effect from 19 June 2012 and retired with effect from 26 May 2017.

(viii) Mr. Fu Johnson Chi-King was appointed as an independent non-executive director with effect from 18 January 2014 and retired with effect from 26 May 2017.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (*continued*)

During the year ended 31 December 2018, certain directors were granted share awards, in respect of their services to the Group, under the share award scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of these share awards, which has been recognised in the 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.

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

No emoluments were paid to the non-executive director of the Company during the year (2017: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included four directors for the year (2017: two), details of whose remuneration are disclosed in note 8 above. Details of the remuneration for the year of the remaining one (2017: three) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	629	1,913
Pension scheme contributions	40	111
	669	2,024

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2018	2017
Nil to HK\$1,000,000	1	3

NOTES TO FINANCIAL STATEMENTS

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9. FIVE HIGHEST PAID EMPLOYEES *(continued)*

During the year ended 31 December 2018, share awards were granted to a non-director and non-chief executive highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of such share awards, which has been recognised in the 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 non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

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

	2018 RMB'000	2017 RMB'000
Current Mainland China corporate income tax	61,875	67,246
Deferred tax (note 28)	107	13,319
	61,982	80,565

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-Cabinet that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations.

The subsidiary incorporated in the 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 subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year.

According to the Corporate Income Tax Law of the People's Republic of China (the "CIT Law"), the income tax rate for the Mainland China subsidiaries is 25%. According to the CIT Law and the Taxation Policies on In-depth Implementation of Western Region Development Strategy, Xi'an Sunfonda Jinghe Logistics Development Co., Ltd. and Shaanxi Sunfonda Jinda Industrial Development Co., Ltd. were entitled to a preferential income tax rate of 15%.

NOTES TO FINANCIAL STATEMENTS

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10. INCOME TAX (*continued*)

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

A reconciliation of the tax expense applicable to profit 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:

	2018 RMB'000	2017 RMB'000
Profit before tax	275,344	227,741
Tax at the applicable tax rate (25%)	68,836	56,935
Preferential tax rate reduction	(2,578)	–
Adjustment in respect of current tax of previous periods	574	(344)
Tax refund received from the authority	(2,209)	–
Expenses not deductible for tax	2,237	1,176
Tax losses utilised from previous periods	(20,116)	–
Tax losses recognised from previous period	(3,018)	–
Tax losses not recognised	18,256	22,798
Tax charge	61,982	80,565

11. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Proposed final – HK7.0 cents (2017: HK9.0 cents) per ordinary share	36,800	45,139

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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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 600,000,000 (2017: 600,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2018.

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

	2018 RMB'000	2017 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	213,162	147,315
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year	600,000,000	600,000,000
Earnings per share		
Basic and diluted (RMB)	0.36	0.25

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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 2018							
At 31 December 2017 and at 1 January 2018:							
Cost	970,565	55,871	144,352	86,262	145,932	55,094	1,458,076
Accumulated depreciation	(185,998)	(22,593)	(78,624)	(63,164)	(39,712)	-	(390,091)
Net carrying amount	784,567	33,278	65,728	23,098	106,220	55,094	1,067,985
At 1 January 2018, net of accumulated depreciation	784,567	33,278	65,728	23,098	106,220	55,094	1,067,985
Additions	67,143	9,680	12,308	12,780	134,228	38,583	274,722
Disposals	(3,911)	(85)	(872)	(146)	(74,540)	-	(79,554)
Depreciation provided during the year	(58,711)	(6,117)	(16,398)	(8,914)	(36,981)	-	(127,121)
Impairment	(5,000)	(7,176)	(1,193)	(388)	(405)	-	(14,162)
Transfer	55,117	1,108	-	567	-	(56,792)	-
At 31 December 2018, net of accumulated depreciation	839,205	30,688	59,573	26,997	128,522	36,885	1,121,870
At 31 December 2018:							
Cost	1,082,521	63,807	155,002	93,492	175,407	36,885	1,607,114
Accumulated depreciation and impairment	(243,316)	(33,119)	(95,429)	(66,495)	(46,885)	-	(485,244)
Net carrying amount	839,205	30,688	59,573	26,997	128,522	36,885	1,121,870
31 December 2017							
At 31 December 2016 and at 1 January 2017:							
Cost	693,817	48,703	129,454	80,569	146,063	148,344	1,246,950
Accumulated depreciation	(146,068)	(15,355)	(64,955)	(57,238)	(41,884)	-	(325,500)
Net carrying amount	547,749	33,348	64,499	23,331	104,179	148,344	921,450
At 1 January 2017, net of accumulated depreciation	547,749	33,348	64,499	23,331	104,179	148,344	921,450
Additions	82,522	2,024	15,753	7,997	106,233	85,027	299,556
Acquisition of a subsidiary	21,093	-	2,549	1,283	2,318	-	27,243
Disposals	-	-	(2,087)	(1,532)	(75,272)	-	(78,891)
Depreciation provided during the year	(39,930)	(7,238)	(14,986)	(7,981)	(31,238)	-	(101,373)
Transfer	173,133	5,144	-	-	-	(178,277)	-
At 31 December 2017, net of accumulated depreciation	784,567	33,278	65,728	23,098	106,220	55,094	1,067,985
At 31 December 2017:							
Cost	970,565	55,871	144,352	86,262	145,932	55,094	1,458,076
Accumulated depreciation	(185,998)	(22,593)	(78,624)	(63,164)	(39,712)	-	(390,091)
Net carrying amount	784,567	33,278	65,728	23,098	106,220	55,094	1,067,985

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

As at 31 December 2018, the application for the property ownership certificates of certain buildings with an aggregate net book value of approximately RMB259,407,000 (2017: RMB329,457,000) was still in progress.

At 31 December 2018, certain of the Group's buildings with an aggregate net book value of approximately RMB436,213,000 (2017: RMB285,068,000) were pledged as security for the Group's bank borrowings (note 24 (a)).

14. LAND USE RIGHTS

	2018 RMB'000	2017 RMB'000
Cost:		
At the beginning of the year	359,782	326,717
Acquisition of a subsidiary	–	11,316
Additions	296,534	21,749
At the end of the year	656,316	359,782
Amortisation:		
At the beginning of the year	43,595	36,034
Charge for the year	12,845	7,561
Amortisation capitalised	536	–
At the end of the year	56,976	43,595
Net book value:		
At the end of the year	599,340	316,187

The land use rights of the Group represent the cost of the Group's land use rights in respect of land located in Mainland China. The remaining periods of the land use rights of the Group range from 23 to 62 years.

At 31 December 2018, certain of the Group's land use rights with an aggregate net book value of approximately RMB161,487,000 (2017: RMB178,004,000) were pledged as security for the Group's bank borrowings (note 24 (a)).

NOTES TO FINANCIAL STATEMENTS

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15. INTANGIBLE ASSETS

	Software RMB'000	Dealership RMB'000	Total RMB'000
31 December 2018			
Cost at 1 January 2018, net of accumulated amortisation	4,485	8,643	13,128
Disposals	(113)	–	(113)
Amortisation provided during the year	(794)	(216)	(1,010)
At 31 December 2018	3,578	8,427	12,005
At 31 December 2018			
Cost	8,981	8,643	17,624
Accumulated amortisation	(5,403)	(216)	(5,619)
Net carrying amount	3,578	8,427	12,005
31 December 2017			
Cost at 1 January 2017, net of accumulated amortisation	3,151	–	3,151
Addition	2,087	–	2,087
Acquisition of a subsidiary	–	8,643	8,643
Amortisation provided during the year	(753)	–	(753)
At 31 December 2017	4,485	8,643	13,128
At 31 December 2017			
Cost	9,136	8,643	17,779
Accumulated amortisation	(4,651)	–	(4,651)
Net carrying amount	4,485	8,643	13,128

The Group's principal identifiable intangible asset represents a dealership agreement in Mainland China with a certain vehicle manufacturer acquired from a third party. The dealership agreement does not include a specified contract period or termination arrangement. The dealership agreement is amortised over 40 years, which is management's best estimation of its useful life.

NOTES TO FINANCIAL STATEMENTS

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16. PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Prepaid lease payments for buildings and land use rights	8,877	8,323
Prepayments for purchase of land use rights	56,700	66,255
Prepayments for purchase of items of property, plant and equipment	7,870	37,826
	73,447	112,404

17. GOODWILL

	RMB'000
At 1 January 2017	
Cost	510
Accumulated impairment	–
Net carrying amount	510
Cost at 1 January 2017, net of accumulated impairment	510
Acquisition of a subsidiary	10,284
Accumulated impairment	–
At 31 December 2017	10,794
At 31 December 2017:	
Cost	10,794
Accumulated impairment	–
Net carrying amount	10,794
Cost at 1 January 2018, net of accumulated impairment	10,794
Accumulated impairment	(510)
Cost and net carrying amount at 31 December 2018	10,284
At 31 December 2018	
Cost	10,794
Accumulated impairment	(510)
Net carrying amount	10,284

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

17. GOODWILL (*continued*)

Impairment testing of goodwill

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

Goodwill acquired through business combination has been allocated to the relevant 4S dealership business from which the goodwill was resulted. The individual 4S dealership business is treated as a cash-generating unit 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% (2017: 3%) for all years. The pre-tax discount rate applied to the cash flow projections beyond the one-year period is 12% (2017: 12%).

Assumptions used in the value in use calculation

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

Revenue from the sale and service of motor vehicles — 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 the Group's operating expenses at an acceptable level.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the cash-generating unit, 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 unit to materially exceed the recoverable amount.

NOTES TO FINANCIAL STATEMENTS

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18. INVENTORIES

	2018 RMB'000	2017 RMB'000
Motor vehicles (at cost or at net realizable value)	880,383	709,019
Spare parts (at cost)	65,202	72,006
	945,585	781,025

At 31 December 2018, certain of the Group's inventories with an aggregate carrying amount of approximately RMB543,236,000 (2017: RMB493,519,000) were pledged as security for the Group's bank loans and other borrowings (note 24 (a)).

At 31 December 2018, certain of the Group's inventories with an aggregate carrying amount of approximately RMB135,264,000 (2017: RMB108,427,000) were pledged as security for the Group's bills payable (note 25).

19. TRADE RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	35,229	52,974

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. The Group does not hold any collateral or other credit enhancements over the trade receivable balances. Trade receivables are non-interest-bearing.

NOTES TO FINANCIAL STATEMENTS

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19. TRADE RECEIVABLES (continued)

An ageing analysis of the trade receivables as at each reporting date (based on the invoice date) is as follows:

	2018 RMB'000	2017 RMB'000
Within 3 months	33,382	46,966
More than 3 months but less than 1 year	1,016	4,361
Over 1 year	831	1,647
	35,229	52,974

As at 31 December 2018, no provision for impairment of trade receivables is accrued.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing for groupings of various customer segments with similar loss patterns (i.e., by geographical region, 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 was disclosed in note 40 to the financial statements.

An ageing analysis of the trade receivables that are not considered to be impaired is as follows:

	2018 RMB'000	2017 RMB'000
Neither past due nor impaired	34,398	51,327
Over 1 year past due but not impaired	831	1,647
	35,229	52,974

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

19. TRADE RECEIVABLES (continued)

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Prepayments and deposits to suppliers, net	355,235	433,498
Vendor rebate receivables	183,957	159,274
VAT receivables (i)	34,889	7,860
Others	78,314	91,366
	652,395	691,998

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 output VAT payable. The VAT recoverable is the net difference between output and deductible input VAT. The applicable VAT rate for domestic sales of the Group reduced from 17% to 16% from 1 May 2018 according to the latest requirement of the State Council.

None of the above assets is past due. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

	2018 RMB'000	2017 RMB'000
Prepayments other receivables, and other assets	252,785	250,640

NOTES TO FINANCIAL STATEMENTS

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21. PLEDGED BANK DEPOSITS

	2018 RMB'000	2017 RMB'000
Deposits pledged with banks as collateral against credit facilities granted by the banks and bills payable	277,073	274,365

Pledged bank deposits earn interest at interest rates stipulated by financial institutions.

As at 31 December 2018, certain of the Group's pledged bank deposits with an aggregate carrying amount of approximately RMB205,529,000 (2017: RMB203,677,000) were pledged as security for the Group's bills payable (note 25).

As at 31 December 2018, certain of the Group's pledged bank deposits with aggregate carrying amounts of approximately HK\$10,800,000 (equivalent to RMB9,441,000) (2017: HK\$17,100,000 (equivalent to RMB14,295,000)) and US\$8,630,000 (equivalent to RMB59,103,000) (2017: US\$8,630,000 (equivalent to RMB56,393,000)) were pledged as security for the Group's bank loans and other borrowings (note 24 (a)).

22. CASH IN TRANSIT

	2018 RMB'000	2017 RMB'000
Cash in transit	20,797	19,517

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

NOTES TO FINANCIAL STATEMENTS

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23. CASH AND CASH AT BANKS AND SHORT-TERM DEPOSITS

	2018 RMB'000	2017 RMB'000
Cash and cash at banks	794,390	615,571
Short-term deposits	96,234	55,209
	890,624	670,780
Time deposits with maturity over three months	–	55,209
Cash and cash equivalents	890,624	615,571

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.

As at 31 December 2018, the cash and cash at banks and short term deposits of the Group denominated in RMB amounted to RMB763,301,000 (2017: RMB549,011,000) in Mainland China. 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.

NOTES TO FINANCIAL STATEMENTS

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24. BANK LOANS AND OTHER BORROWINGS

	2018		2017	
	Effective interest rate (%)	Amount RMB'000	Effective interest rate (%)	Amount RMB'000
CURRENT:				
Bank loans	3.3-7.0	1,483,380	3.3-7.0	1,140,520
Other borrowings	5.6-8.5	246,504	5.6-7.8	137,769
		1,729,884		1,278,289
NON-CURRENT:				
Bank loans (b)	3.3-5.5	213,616	3.3-5.5	212,941
		1,943,500		1,491,230
Bank loans and other borrowings represent:				
– secured loans (a)		1,697,500		1,212,583
– unsecured loans		246,000		278,647
		1,943,500		1,491,230

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

24. BANK LOANS AND OTHER BORROWINGS (continued)

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	1,483,380	1,140,520
In the second year	27,923	3,000
In the third to fifth years, inclusive	67,991	79,455
Over five years	117,702	130,486
	1,696,996	1,353,461
Other borrowings repayable:		
Within one year	246,504	137,769
	1,943,500	1,491,230

Notes:

- (a) As at 31 December 2018, certain of the Group's bank loans and other borrowings are secured by:
- (i) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying value of approximately RMB161,487,000 (2017: RMB178,004,000) (note 14);
 - (ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB436,213,000 (2017: RMB285,068,000) (note 13);
 - (iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB543,236,000 (2017: RMB493,519,000) (note 18);
 - (iv) mortgages over the Group's bank deposits, which had aggregate carrying values of approximately HK\$10,800,000 (equivalent to RMB9,441,000) (2017: HK\$17,100,000 (equivalent to RMB14,295,000)) and US\$8,630,000 (equivalent to RMB59,103,000) (2017: US\$8,630,000 (equivalent to RMB56,393,000)) (note 21);
- (b) As at 31 December 2018, the Company had a long-term bank loan of HK\$223,000,000 with an interest rate at 1.8% over 12 months HIBOR from Nanyang Commercial Bank with the final maturity date on 31 December 2026. The bank loan shall be repaid according to the instalment arrangement from 31 December 2020 to 31 December 2026. This long-term bank loan is secured by mortgages over the Group's bank deposit of US\$8,630,000 mentioned in (a)(iv) above.
- As at 31 December 2018, the Company had a long-term bank loan of RMB23,724,000 with a fixed interest rate at 5.5% from Ningxia Bank with the final maturity date on 27 March 2022. The bank loan shall be repaid according to the instalment arrangement from 31 December 2017 to 27 March 2022. This long-term bank loan is secured by mortgages over the Group's building mentioned in (a)(ii) above.
- (c) Except for the secured bank loan amounting to HK\$277,000,000 (equivalent to RMB242,707,000) (2017: HK\$280,000,000 (equivalent to RMB234,055,000)) which is denominated in Hong Kong dollars, all borrowings are in Renminbi.

NOTES TO FINANCIAL STATEMENTS

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25. TRADE AND BILLS PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	135,899	109,512
Bills payable	287,688	280,246
Trade and bills payables	423,587	389,758

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

	2018 RMB'000	2017 RMB'000
Within 3 months	406,633	298,162
3 to 6 months	14,366	87,138
6 to 12 months	1,403	3,173
Over 12 months	1,185	1,285
	423,587	389,758

The trade and bills payables are non-interest-bearing. The trade and bills payables are normally settled on 90-180 days terms.

As at 31 December 2018, the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB135,264,000 (2017: RMB108,427,000) (note 18).

As at 31 December 2018, the Group's bills payable are secured by mortgages over the Group's pledged bank deposits, which had an aggregate carrying value of approximately RMB205,529,000 (2017: RMB203,677,000) (note 21).

NOTES TO FINANCIAL STATEMENTS

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26. OTHER PAYABLES AND ACCRUALS

	2018 RMB'000	2017 RMB'000
Payables for purchase of items of property, plant and equipment	43,067	36,474
Advances from customers	–	135,818
Contract liabilities (a)	156,070	–
Staff payroll and welfare payables	63,167	37,616
Tax payable (other than income tax)	10,290	14,068
Deposit received from a construction service provider	–	70,000
Others	50,709	31,915
	323,303	325,891

(a) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Short-term advances received from customers		
Sale of goods	156,070	135,818
Total contract liabilities	156,070	135,818

Contract liabilities include short-term advances received to deliver new automobiles. The increase in contract liabilities in 2018 was mainly due to the increase in short-term advances received from customers in relation to the sales of new automobiles at the end of the year.

27. EMPLOYEE RETIREMENT BENEFITS

Under the People's Republic of China (the "PRC") state regulations, the employees of the Group's subsidiaries in Mainland China are required to 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 subsidiaries in Mainland China are required to make contributions to the local social security bureau at 10% to 22% of the previous year's average basic salary amount of the geographical area where the employees are under employment with the subsidiaries in Mainland China.

The Group has no obligation for the payment of pension benefits beyond the annual contributions as set out above.

NOTES TO FINANCIAL STATEMENTS

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28. DEFERRED TAX

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 future taxable profits RMB'000	Inventory impairment RMB'000	Accrued payroll and social welfare RMB'000	Total RMB'000
At 1 January 2017	18,202	–	2,572	20,774
Deferred tax charged to the consolidated statement of profit or loss during the year (note 10 (a))	(13,319)	–	–	(13,319)
At 31 December 2017	4,883	–	2,572	7,455
Deferred tax recognised to the consolidated statement of profit or loss during the year (note 10 (a))	2,458	2,404	–	4,862
At 31 December 2018	7,341	2,404	2,572	12,317

As at 31 December 2018, deferred tax assets have not been recognised in respect of tax losses arising in Mainland China of RMB174,562,000 (2017: RMB233,832,000) 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.

NOTES TO FINANCIAL STATEMENTS

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28. DEFERRED TAX (*continued*)

Deferred tax liabilities

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

	Fair value adjustment arising from acquisition of a subsidiary RMB'000	Depreciation charges in less than depreciation allowances RMB'000	Total RMB'000
At 1 January 2017	–	–	–
Deferred tax arising from acquisition of a subsidiary	2,658	–	2,658
At 1 January 2018	2,658	–	2,658
Deferred tax recognised in the consolidated statement of profit or loss during the year	(156)	5,125	4,969
At 31 December 2018	2,502	5,125	7,627

Pursuant to the PRC CIT Law, a 5% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

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 established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,412,886,000 and RMB1,229,138,000 at 31 December 2018 and 2017, respectively.

NOTES TO FINANCIAL STATEMENTS

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29. SHARE CAPITAL

Authorised

	2018 No. of shares of US\$0.0001 each	2017 No. of shares of US\$0.0001 each
Ordinary shares	1,000,000,000	1,000,000,000

Shares

	No. of shares of US\$0.0001 each	Equivalent to RMB'000
Issued and fully paid: ordinary shares	600,000,000	377

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares US\$'000	Equivalent nominal value of ordinary shares RMB'000
As at 1 January 2017 and 31 December 2017	600,000,000	60	377
As at 1 January 2018 and 31 December 2018	600,000,000	60	377

30. SHARE-BASED PAYMENTS

(a) PRE-IPO SHARE AWARD SCHEME

The Company's Pre-IPO Share Award Scheme was approved and adopted on 8 January 2014 for the purpose of recognising and rewarding the contributions of the selected employees of the Group and motivating their contribution to the future development of the Group.

For the implementation of the Pre-IPO Share Award Scheme, a Management Trust was established by Top Wheel Limited which was fully owned by Mr. Wu Tak Lam and Ms. Chiu Man on 8 January 2014 with Cantrust (Far East) Limited acting as the trustee. On the same date, Top Wheel Limited transferred, for nil consideration, 9,000,000 shares in the Company to the Management Trust pursuant to the Pre-IPO Share Award Scheme. The vest in full of the share award would, under the present capital structure of the Company, have no impact on the additional ordinary shares of the Company.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

30. SHARE-BASED PAYMENTS (continued)

(a) PRE-IPO SHARE AWARD SCHEME (continued)

The following awarded shares were outstanding under the Scheme during the year:

	2018 Number of awarded shares '000	2017 Number of awarded shares '000
At 1 January	3,596	2,324
Granted during the year	1,400	1,910
Forfeited during the year	(442)	(40)
Vested during the year	(980)	(598)
At 31 December	3,574	3,596

Under the Pre-IPO Share Award Scheme, the vesting period is five years during which the awarded shares granted to any particular selected employee will vest on each anniversary of the grant date of the relevant awards in equal portions.

Particulars of the awarded shares as at 31 December 2018 and 2017 are as follows:

Vesting period	Dates of grant	Market price at grant dates HK\$/share	Number of outstanding shares as at 31 December	
			2018 '000	2017 '000
5 years	15 May 2014	3.76	288	576
5 years	2 July 2015	2.95	244	510
5 years	6 February 2016	2.54	330	600
5 years	23 January 2017	2.19	1,312	1,910
5 years	8 February 2018	1.23	800	—
5 years	28 December 2018	1.00	600	—
			3,574	3,596

The fair value of the share awards granted was RMB1,388,000 (2017: RMB3,497,000) for the year ended 31 December 2018.

NOTES TO FINANCIAL STATEMENTS

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30. SHARE-BASED PAYMENTS *(continued)*

(a) PRE-IPO SHARE AWARD SCHEME *(continued)*

The fair value of share awards granted was estimated, by reference to the market value of the share awards as at the date of grant, taking into account the terms and conditions upon which the share awards were granted.

The Group recognised a share award expense of RMB1,689,000 (2017: RMB2,750,000) during the year ended 31 December 2018.

At the end of the reporting period, the Company had 3,574,000 (2017: 3,596,000) awarded shares outstanding under the Pre-IPO Share Award Scheme.

(b) Share option scheme

On 18 January 2014, a share option scheme was approved and adopted by the then shareholder (the "Share Option Scheme") for the purposes of recognising and rewarding the contributions of the selected employees of the Group and motivating their contribution to the future development of the Group.

No share options were granted under the Share Option Scheme during the year ended 31 December 2018 (2017: Nil).

31. RESERVES

(i) Statutory reserve

Pursuant to the relevant PRC rules and regulations, these PRC subsidiaries which are domestic enterprises in the PRC as mentioned in note 1 to the financial statements 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.

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31. RESERVES (continued)

(iii) Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

(iv) Capital reserve

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

32. DISPOSAL OF A SUBSIDIARY

In July 2018, the Group disposed of its entire equity interest in Shaanxi Zewang Industrial Development Co., Ltd. (陝西澤望實業發展有限公司, "Shaanxi Zewang") to Shaanxi Country Garden Real Estate Co., Ltd., an independent third party, for a consideration of RMB154,864,000. As at 31 December 2018, RMB14,486,000 has not been received yet and was recorded as other receivables.

Details of the net assets disposed of are as follows:

	RMB'000
Net assets disposed of:	
Current assets	357,340
Total assets	357,340
Current liabilities	332,340
Total liabilities	332,340
Net assets	25,000
Satisfied by:	
Cash	154,864
Gain on disposal of a subsidiary	5(b) 129,864

NOTES TO FINANCIAL STATEMENTS

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32. DISPOSAL OF A SUBSIDIARY (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary during the year ended 31 December 2018 is as follows:

	RMB'000
Cash consideration received	140,378
Cash and cash equivalents disposed of	(10,000)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	130,378

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group did not enter into any material non-cash transaction (2017: Nil).

(b) Changes in liabilities arising from financing activities

2018

	Bank and other loans RMB'000	Dividends Payable RMB'000
At 1 January 2018	1,491,230	–
Changes from financing cash flows	441,019	(47,520)
Foreign exchange movement	11,251	–
Final 2017 dividend declared	–	47,520
At 31 December 2018	1,943,500	–

2017

	Bank and other loans RMB'000	Dividends Payable RMB'000
At 1 January 2017	1,287,491	–
Changes from financing cash flows	198,508	(11,616)
Increase arising from acquisition of a subsidiary	5,231	–
Final 2016 dividend declared	–	11,616
At 31 December 2017	1,491,230	–

NOTES TO FINANCIAL STATEMENTS

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34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the reporting date were as follows:

Financial assets

	Financial assets at amortised cost 2018 RMB'000	Loans and receivables 2017 RMB'000
Trade receivables	35,229	52,974
Financial assets included in prepayments, deposits and other receivables	309,485	250,640
Amount due from a related party	12,300	12,020
Pledged bank deposits	277,073	274,365
Cash in transit	20,797	19,517
Cash and cash at banks and short-term deposits	890,624	670,780
	1,545,508	1,280,296

Financial liabilities

	Financial liabilities at amortised cost 2018 RMB'000	2017 RMB'000
Trade and bills payables	423,587	389,758
Financial liabilities included in other payables and accruals	93,776	138,389
Bank loans and other borrowings	1,943,500	1,491,230
	2,460,863	2,019,377

35. CONTINGENT LIABILITIES

As at 31 December 2018 and 2017, the Group did not have any significant contingent liabilities.

NOTES TO FINANCIAL STATEMENTS

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36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

The fair values of bank loans and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, which approximate to their carrying amounts. The Group's own non-performance risk for bank loans and other borrowings as at 31 December 2018 was assessed to be insignificant.

37. COMMITMENTS

(a) Capital commitments

Capital commitments of the Group in respect of property and equipment outstanding at the reporting date not provided for in these financial statements are as follows:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for, land use rights and buildings	44,316	19,746

(b) Operating lease commitments

The Group is the lessee in respect of a number of properties and land held under operating leases. The leases typically run for an initial period of one to fifteen years, with an option to renew the leases when all the terms are renegotiated.

At each reporting date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018		2017	
	Properties RMB'000	Land RMB'000	Properties RMB'000	Land RMB'000
Within 1 year	10,226	4,236	4,626	3,320
After 1 year but within 5 years	30,373	11,140	15,485	11,102
After 5 years	18,500	–	19,469	1,444
	59,099	15,376	39,580	15,866

NOTES TO FINANCIAL STATEMENTS

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38. PLEDGE OF ASSETS

Details of the Group's assets pledged for its bank loans and other borrowings and bills payable are disclosed in notes 13, 14, 18 and 21 to these financial statements.

39. RELATED PARTY TRANSACTIONS AND BALANCES

Mr. Wu Tak Lam and Ms. Chiu Man are collectively the Controlling Shareholders (the "Controlling Shareholders") of the Group. They are also the key management personnel and considered to be related parties of the Group.

Mr. Zhao Yijian is a close family member of the Controlling Shareholders and considered to be a related party of the Group.

The Group had the following transactions with related parties during the year:

(a) Transactions with a related party

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

	2018 RMB'000	2017 RMB'000
(i) Sales of motor vehicles and spare parts		
Yangzhou Sunfonda Automobile Co., Ltd.*	519	271
(ii) Purchase of motor vehicles and spare parts		
Yangzhou Sunfonda Automobile Co., Ltd. *	8,729	1,310
(iii) Purchase of non-controlling interests		
Yangzhou Sunfonda Automobile Co., Ltd. *	9,530	–

* Yangzhou Sunfonda Automobile Co., Ltd. is controlled by Mr. Zhao Yijian.

The related party transactions above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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39. RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

(b) Balances with a related party

Due from a related party:

	2018 RMB'000	2017 RMB'000
Trade related Yangzhou Sunfonda Automobile Co., Ltd.	12,300	12,020

The balance due from a related party is repayable on credit terms similar to those offered to the major customers of the Group.

The Group had the following transactions with related parties during the year:

(c) Compensation of key management personnel of the Group

	2018 RMB'000	2017 RMB'000
Short term employee benefits	5,249	3,634
Equity-settled share award expense	316	683
Post-employment benefits	174	165
Total compensation paid to key management personnel	5,739	4,482

Further details of directors' and chief executive's emoluments are included in note 8 to the financial statements.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and other borrowings, and cash and cash equivalents. 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 and other payables, which arise directly from its operations.

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

NOTES TO FINANCIAL STATEMENTS

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group has no significant interest-bearing assets other than pledged bank deposits (note 21), short-term deposits, and cash and cash at banks (note 23).

The Group's interest rate risk arises from its borrowings, details of which are set out in note 24. Borrowings at variable rates expose the Group to the risk of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

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 long term floating rate borrowings).

	Increase/(decrease) in basis points	Increase/(decrease) in profit before tax RMB'000
Year ended 31 December 2018		
RMB	50	(1,062)
RMB	(50)	1,062
Year ended 31 December 2017		
RMB	50	(1,044)
RMB	(50)	1,044

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

40 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group's businesses are located in Mainland China and all transactions are conducted in RMB. Most of the Group's assets and liabilities were denominated in RMB, except for certain bank balances denominated in US\$ and HK\$ and certain loans denominated in HK\$.

The Group's assets and liabilities denominated in US\$ and HK\$ were mainly held by certain subsidiaries incorporated outside Mainland China which had HK\$ as their functional currency and the Group did not have material foreign currency transactions in Mainland China during the year.

Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of pledged bank deposits, cash in transit, short-term deposits, cash and cash at banks, trade and other receivables, available-for-sale investments, an amount due from a related party included in the financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

Maximum exposure and year-end staging as at 31 December 2018

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 2018. The amounts presented are gross carrying amounts for financial assets.

	12-months ECLs	Lifetime ECL	Total RMB'000
	Stage 1 RMB'000	Simplified Approach RMB'000	
Trade receivables	–	35,229	35,229
Financial assets included in prepayments, other receivables and other assets	309,485	–	309,485
	309,485	35,229	344,714

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

40 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging as at 31 December 2018 (continued)

For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix at 31 December 2018 was set as below:

	Ageing		
	Within 3 months	3 months to 1 year	over 1 year
Expected credit loss rate	<1‰	<1‰	<1‰
Gross carrying amount (RMB'000)	33,382	1,016	831
Expected credit losses (RMB'000)	–	–	–

For the financial assets included in prepayments, other receivables 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. No loss allowance was provided because management estimated that the expected credit losses as at 31 December 2018 were not significant.

As at 31 December 2018, all pledged bank deposits and, short-term deposits, cash and cash at banks were deposited in reputable financial institutions without significant credit risk.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

40. 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 each reporting period, based on the contractual undiscounted payments, is as follows:

	As at 31 December 2018					
	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
Bank loans and other borrowings	–	313,801	1,452,669	97,977	143,272	2,007,719
Trade and bills payables	135,899	286,318	1,370	–	–	423,587
Financial liabilities included in other payables and accruals	50,709	10,767	32,300	–	–	93,776
	186,608	610,886	1,486,339	97,977	143,272	2,525,082

	As at 31 December 2017					
	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
Bank loans and other borrowings	–	302,395	1,008,613	118,624	141,996	1,571,628
Trade and bills payables	109,512	206,080	74,166	–	–	389,758
Financial liabilities included in other payables and accruals	31,914	9,119	97,356	–	–	138,389
	141,426	517,594	1,180,135	118,624	141,996	2,099,775

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 year.

The Group monitors capital using a gearing ratio, which is bank loans and other borrowings divided by the equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2018 RMB'000	2017 RMB'000
Bank loans and other borrowings	1,943,500	1,491,230
Equity attributable to owners of the parent	1,953,103	1,793,873
Gearing ratio	99.5%	83.1%

41. EVENTS AFTER THE REPORTING PERIOD

There was no significant subsequent event undertaken by the Group after 31 December 2018.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

42. 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:

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Interests in subsidiaries	758,723	797,370
CURRENT ASSETS		
Prepayments, deposits and other receivables	227	336
Pledged bank deposits	64,191	69,503
Cash and cash equivalents	16,174	17,505
Total current assets	80,592	87,344
CURRENT LIABILITIES		
Bank loans and other borrowings	47,315	47,647
Total current liabilities	47,315	47,647
NET CURRENT ASSETS	33,277	39,697
TOTAL ASSETS LESS CURRENT LIABILITIES	792,000	837,067
NON-CURRENT LIABILITIES		
Bank loans and other borrowings	195,393	186,408
NET ASSETS	596,607	650,659
EQUITY		
Share capital	377	377
Reserves (note)	596,230	650,282
Total equity	596,607	650,659

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2018

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (*continued*)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	347,058	320,214	(547)	(6,575)	660,150
Total profit for the year	–	–	2,533	(785)	1,748
Final 2016 dividend declared	(11,616)	–	–	–	(11,616)
At 31 December 2017 and 1 January 2018	335,442	320,214	1,986	(7,360)	650,282
Total profit for the year	–	–	(7,244)	712	(6,532)
Final 2017 dividend declared	(47,520)	–	–	–	(47,520)
At 31 December 2018	287,922	320,214	(5,258)	(6,648)	596,230

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2019.

FINANCIAL SUMMARY

31 DECEMBER 2018

		As at 31 December			
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
REVENUE	8,948,414	7,687,005	7,685,994	7,487,079	7,879,528
Cost of sales and services	(8,280,456)	(7,091,568)	(7,215,366)	(6,996,371)	(7,272,444)
Gross profit	667,958	595,437	470,628	490,708	607,084
Other income and gains, net	342,043	206,459	150,455	118,212	201,468
Selling and distribution expenses	(385,947)	(320,777)	(258,890)	(267,229)	(249,460)
Administrative expenses	(245,987)	(179,861)	(182,678)	(178,298)	(186,624)
Profit from operations	378,067	301,258	179,515	163,393	372,468
Finance costs	(102,723)	(73,517)	(87,482)	(121,759)	(138,642)
Profit before tax	275,344	227,741	92,033	41,634	233,826
Income tax expense	(61,982)	(80,565)	(45,624)	(16,507)	(61,096)
Profit for the year	213,362	147,176	46,409	25,127	172,730
Attributable to:					
Owners of the parent	213,162	147,315	46,863	25,916	172,370
Non-controlling interests	200	(139)	(454)	(789)	360
	213,362	147,176	46,409	25,127	172,730
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	4,663,266	4,030,632	3,698,280	3,998,403	4,231,179
Total liabilities	2,710,163	2,233,611	2,035,243	2,399,673	2,648,912
Non-controlling interests	–	3,148	4,094	4,548	5,337
Equity attributable to owners of the parent	1,953,103	1,793,873	1,658,943	1,594,182	1,576,930