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GRAND BAOXIN AUTO GROUP LIMITED
廣 匯 寶 信 汽 車 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1293)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the "**Board**") of directors (the "**Directors**") of Grand Baoxin Auto Group Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "**Group**", "**our Group**", "**we**" or "**us**") for the year ended 31 December 2018, as well as comparative figures for the corresponding period in 2017.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2018:

- Total revenue was RMB36,723.8 million, in which the automobile sales was RMB32,203.4 million, and the after-sales revenue was RMB4,485.7 million.
- Gross profit was RMB2,784.5 million and the gross profit margin was 7.6%.
- Profit attributable to owners of the parent was 566.0 million, representing a decrease of 29.9% as compared to that for the year ended 31 December 2017.
- Earnings per share attributable to ordinary equity holders of the parent were RMB0.20.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
REVENUE	3(a)	**36,723,758**	34,557,985
Cost of sales and services provided	4(b)	**(33,939,267)**	(31,622,151)
Gross profit		**2,784,491**	2,935,834
Other income and gains, net	3(b)	**833,640**	601,145
Selling and distribution expenses		**(1,247,031)**	(1,091,154)
Administrative expenses		**(738,959)**	(557,014)
Profit from operations		**1,632,141**	1,888,811
Finance costs	5	**(706,522)**	(730,513)
Share of profits and losses of:			
A joint venture		**1,978**	542
Associates		**(14,550)**	4,919
Profit before tax	4	**913,047**	1,163,759
Income tax expense	6	**(346,226)**	(357,423)
Profit for the year		**566,821**	806,336
Incl: Net profit of the party being absorbed before business combinations involving an entity under common control		**90**	4,235
Attributable to:			
Owners of the parent		**565,999**	807,923
Non-controlling interests		**822**	(1,587)
		566,821	806,336
Earnings per share attributable to ordinary equity holders of the parent	7		
Basic and diluted			
— For profit for the year (RMB)		**0.20**	0.30

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 *RMB'000*	2017 *RMB'000* *(Restated)*
PROFIT FOR THE YEAR	**566,821**	806,336
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Time value component of fair value hedge	**(54,702)**	—
Exchange differences on translation of financial statements	**(153,744)**	191,865
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**(208,446)**	191,865
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Financial asset at fair value through other comprehensive income:		
Changes in fair value	**18,616**	—
Gains on property revaluation	**68,072**	—
Income tax effect	**(17,018)**	—
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**69,670**	—
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(138,776)**	191,865
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**428,045**	998,201
Attributable to:		
Owners of the parent	**427,223**	999,788
Non-controlling interests	**822**	(1,587)
	428,045	998,201

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	**31 December 2018** **RMB'000**	31 December 2017 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**3,963,972**	4,005,271
Investment properties		**370,905**	—
Prepaid land lease payment		**455,695**	489,796
Goodwill		**1,222,016**	893,236
Intangible assets		**1,523,106**	1,178,227
Prepayments and deposits		**58,757**	260,150
Finance lease receivables		**131,710**	148,418
Amounts due from related parties		**25,000**	—
Investment in a joint venture		**99,995**	57,183
Investments in associates		**31,556**	43,542
Available-for-sale investment		**—**	16,584
Financial asset at fair value through other comprehensive income		**36,000**	—
Derivative financial instruments		**10,359**	6,573
Deferred tax assets		**168,219**	87,595
Total non-current assets		**8,097,290**	7,186,575
CURRENT ASSETS			
Inventories	*8*	**4,126,679**	4,109,943
Trade receivables	*9*	**557,966**	504,767
Finance lease receivables		**191,338**	139,179
Prepayments, other receivables and other assets		**8,974,134**	7,494,976
Amounts due from related parties		**10,619**	46,340
Derivative financial instruments		**16,649**	—
Pledged deposits		**3,547,907**	3,044,892
Cash in transit		**46,208**	35,943
Cash and bank		**2,561,065**	3,179,357
Total current assets		**20,032,565**	18,555,397

	Notes	**31 December 2018** ***RMB'000***	31 December 2017 *RMB'000* *(Restated)*
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**3,842,108**	3,269,636
Trade and bills payables	*10*	**7,519,402**	6,277,400
Other payables and accruals		**1,265,316**	1,349,233
Amounts due to related parties		**923,661**	124,738
Income tax payable		**477,412**	423,812
Derivative financial instruments		**2,995**	19,786
Finance lease payables		**119,509**	—
Total current liabilities		**14,150,403**	11,464,605
NET CURRENT ASSETS		**5,882,162**	7,090,792
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,979,452**	14,277,367
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**5,828,368**	5,701,590
Derivative financial instruments		**—**	13,739
Other payables		**42,882**	33,022
Deferred tax liabilities		**535,028**	421,021
Amounts due to related parties		**352,788**	1,158,819
Finance lease payables		**121,400**	—
Total non-current liabilities		**6,880,466**	7,328,191
Net assets		**7,098,986**	6,949,176
EQUITY			
Equity attributable to owners of the parent			
Share capital		**23,275**	23,275
Reserves		**7,040,671**	6,886,539
		7,063,946	6,909,814
Non-controlling interests		**35,040**	39,362
Total equity		**7,098,986**	6,949,176

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

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

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

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

Other than as explained below regarding the impact of HKFRS 9 *Financial Instruments*, and HKFRS 15 *Revenue from Contracts with Customers,* the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments*: *Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together below aspects of the accounting for financial instruments: classification and measurement and impairment.

The Group has not restated comparative information and no transition adjustments recognised against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("**ECLs**").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	Note	**HKAS 39 measurement Amount** *RMB'000*	**Re-classification** *RMB'000*	**HKFRS 9 measurement Amount** *RMB'000*
Financial assets				
Financial asset at fair value through other comprehensive income		—	16,584	16,584
From: Available-for-sale investment	*(i)*	16,584	(16,584)	—

Note:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as financial asset at fair value through other comprehensive income.

Impairment

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39. The Group applies the new ECL model to the financial assets measured at amortised cost. The aggregate opening impairment allowances had no significant financial effect under HKAS 39 to the ECL allowances under HKFRS 9.

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations. 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 disclosure is included in note 3 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition.

The Group recognises revenue from the following major sources:

(i) sales of motor vehicles

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

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 and advances and deposits from distributors amounting to RMB827,378,000 were reclassified from advances from customers and advances and deposits from distributors 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.

3. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue:

An analysis of revenue is as follows:

	2018	2017
	RMB'000	*RMB'000*
		(Restated)
Revenue from contracts with customers		
Sale of motor vehicles	**32,203,427**	30,715,654
After-sales services	**4,485,665**	3,780,275
Revenue from other sources		
Finance leasing services	**34,666**	62,056
	36,723,758	34,557,985

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Type of goods or service	
Sale of motor vehicles	**32,203,427**
After-sales services	**4,485,665**
Total	**36,689,092**
Timing of revenue recognition	
Goods transferred at a point in time	**32,203,427**
Service transferred at a point in time	**4,485,665**
Total	**36,689,092**

The amount of revenue recognised that was included in contract liabilities at the beginning of the current year is RMB827,378,000.

(ii) Performance obligations

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

Sale of motor vehicles

The performance obligation is satisfied upon delivery of the motor vehicles and payment is generally due within 30 days from delivery.

After-sales services

The performance obligation is satisfied upon finalisation, delivery and acceptance upon the service completion and payment is generally on delivery date.

(b) Other income and gains, net:

	2018	2017
	RMB'000	*RMB'000*
		(Restated)
Commission income	**782,762**	601,770
Advertisement support received from motor vehicle manufacturers	**13,620**	9,717
Rental income	**28,246**	4,001
Government grants	**62,652**	8,654
Bank interest income	**40,410**	41,406
Loss on disposal of items of property, plant and equipment	**(25,633)**	(20,027)
Loss on disposal of items of intangible assets	**(28)**	—
Loss on termination of agreement	**(33,466)**	—
Fair value gain on investment properties	**31,351**	—
Fair value gain, net:		
Derivative instruments	**6,937**	(204,242)
Equity investments at fair value through profit or loss	**—**	(891)
Loss on disposal of subsidiaries	**—**	(15,093)
Foreign exchange difference, net	**(75,125)**	162,671
Dividend income from a financial asset at fair value through other comprehensive income/available-for-sale investment	**815**	5,443
Others	**1,099**	7,736
Total	**833,640**	601,145

4. PROFIT BEFORE TAX

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

	2018	2017
	RMB'000	*RMB'000*
		(Restated)
(a) **Employee benefit expense (including Director's and chief executive's remuneration):**		
Wages and salaries	**871,481**	839,781
Other welfare	**222,999**	233,261
Equity-settled share option expense	**47,979**	—
	1,142,459	1,073,042

(b) **Cost of sales and services:**

	2018	2017
	RMB'000	*RMB'000*
		(Restated)
Cost of sales of motor vehicles	**31,486,481**	29,649,068
Others	**2,452,786**	1,973,083
	33,939,267	31,622,151

(c) **Other items:**

	2018	2017
	RMB'000	*RMB'000*
		(Restated)
Depreciation	**346,926**	365,856
Amortisation of prepaid land lease payment	**16,046**	13,928
Amortisation of intangible assets	**59,317**	51,759
Advertisement and business promotion expenses	**266,004**	237,955
Auditor's remuneration	**6,100**	6,000
Bank charges	**33,598**	32,963
Foreign exchange differences, net	**75,125**	(162,671)
Lease expenses	**218,517**	198,815
Logistics and petroleum expenses	**53,527**	58,876
Office expenses	**23,497**	25,501
Impairment of financial assets:		
Impairment of trade receivables	**3,715**	—
Impairment of financial assets included in prepayments, other receivables and other assets	**4,159**	—
Impairment of finance lease receivables	**1,003**	—
Write-down/(reversal of provision) of inventories to net realisable value	**11,928**	(112,015)
Loss on disposal of items of property, plant and equipment	**25,633**	20,027
Loss on disposal of items of intangible assets	**28**	—
Loss on termination of agreement	**33,466**	—
Fair value gain on investment properties	**(31,351)**	—
Fair value gain, net:		
Derivative instruments	**(6,937)**	204,242
Equity investments at fair value through profit or loss	**—**	891
Loss on disposal of subsidiaries	**—**	15,093
Dividend income from a financial asset at fair value through other comprehensive income/available-for-sale investment	**(815)**	(5,443)
Bank interest income	**(40,410)**	(41,406)

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2018	2017
	RMB'000	*RMB'000*
		(Restated)
Interest on bank loans and other loans	**706,522**	599,069
Incl: Loan arrangement fee	**76,820**	74,139
Interest expense on the senior perpetual capital securities	**—**	131,444
Total interest expense on financial liabilities not at fair value through profit or loss	**706,522**	730,513
	706,522	730,513

6. INCOME TAX

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

	2018	2017
	RMB'000	*RMB'000*
		(Restated)
Current:		
Mainland China corporate income tax	**430,670**	305,474
Deferred tax	**(84,444)**	51,949
Total tax charge for the year	**346,226**	357,423

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gain or appreciation shall apply to the Company or its operations.

The subsidiaries incorporated in the BVI are not subject to income tax as these subsidiaries do not have a place of business (other than a registered office only) or carry on any business in the BVI.

The subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (2017: 16.5%) 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 is 25% (2017: 25%). According to the CIT Law and the Taxation Policies on In-depth Implementation of Western Region Development Strategy, Urumqi Yandebao Auto Sales & Services Co., Ltd., Urumqi Yanbao Auto Sales & Services Co., Ltd., Urumqi Yanjun Auto Sales & Services Co., Ltd, Karamay Yanbao Auto Sales & Services Co., Ltd and Yili Baoye Auto Sales & Services Co., Ltd have been approved by the authority to pay income tax at the reduced tax rate of 15%.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,837,311,429 (2017: 2,710,736,087) in issue during the year.

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

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

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

	2018	2017
Earnings	***RMB'000***	*RMB'000*
		(Restated)
Profit attributable to ordinary equity holders of the parent	**565,999**	807,923

Shares	**2018**	2017
Weighted average number of ordinary shares in issue during the year	**2,837,311,429**	2,710,736,087

	2018	2017
Earnings per share	***RMB***	*RMB*
		(Restated)
Basic and diluted	**0.20**	0.30

8. INVENTORIES

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000* *(Restated)*
Motor vehicles	**3,899,526**	3,898,397
Spare parts and accessories	**239,081**	211,546
	4,138,607	4,109,943
Less: provision for inventories	**11,928**	—
	4,126,679	4,109,943

As at 31 December 2018, vehicle certificates ("**車輛合格證**") for certain of the Group's inventories with an aggregate carrying amount of RMB295,262,000 (2017: RMB395,293,000) were pledged as security for the Group's interest-bearing bank and other borrowings.

As at 31 December 2018, vehicle certificates for certain of the Group's inventories with an aggregate carrying amount of RMB2,070,260,000 (2017 (Restated): RMB2,296,623,000) were pledged as security for the Group's bills payables.

As at 31 December 2018, the carrying amount of inventories with provision carried at net realisable value was RMB188,152,000.

9. TRADE RECEIVABLES

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000* *(Restated)*
Trade receivables	**561,681**	504,767
Impairment	**(3,715)**	—
	557,966	504,767

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. The Group does not offer any credit to the Group's customers for automobile purchases or for out-of-warranty repairs that are not covered by insurance. However, the Group generally provides a credit term of two to three months to automobile manufacturers for the reimbursement of costs relating to the in-warranty repair services. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
		(Restated)
Within 3 months	**483,898**	456,403
More than 3 months but less than 1 year	**59,036**	48,364
Over 1 year	**15,032**	—
	557,966	504,767

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

	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
At beginning year	**—**	—
Impairment losses	**3,715**	—
At end of year	**3,715**	—

Impairment under HKFRS 9 for the year ended 31 December 2018

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 grouping of various customer segments with similar loss patterns (i.e., by geographical region 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.

Impairment under HKAS 39 for the year ended 31 December 2017

An ageing analysis of the trade receivables as at 31 December 2017 that were not considered to be impaired under HKAS 39 is as follows:

	31 December 2017 *RMB'000* *(Restated)*
Neither past due nor impaired	504,767
Over 1 year past due	—
	504,767

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the Directors were of the opinion that no provision for impairment under HKAS39 was 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. The Group does not hold any collateral or other credit enhancements over these balances.

10. TRADE AND BILLS PAYABLES

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000* *(Restated)*
Trade payables	**350,777**	446,471
Bills payable	**7,168,625**	5,830,929
Trade and bills payables	**7,519,402**	6,277,400

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

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000* *(Restated)*
Within 3 months	**7,061,668**	5,948,022
3 to 6 months	**428,863**	317,011
6 to 12 months	**4,349**	1,260
Over 12 months	**24,522**	11,107
	7,519,402	6,277,400

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

11. DIVIDENDS

	2018	2017
Proposed final	**—**	228,747

No final dividend for the year ended 31 December 2018 was recommended per ordinary share (2017: HK$0.1, approximately RMB0.08).

12. COMPARATIVE FIGURE

On 5 January 2018, the Group obtained 100% equity interests in Shanghai Xinjie Automotive Sales Services Limited ("**Shanghai Xinjie**") from CGA. Since Shanghai Xinjie and the Group are subsidiaries of CGA, the acquisition was a business combination under common control. The comparative information which includes the consolidated statement of financial position, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, and notes to the consolidated financial statements for the comparative period are re-presented as if Shanghai Xinjie had been combined at the beginning of the comparative period.

INDUSTRY OVERVIEW

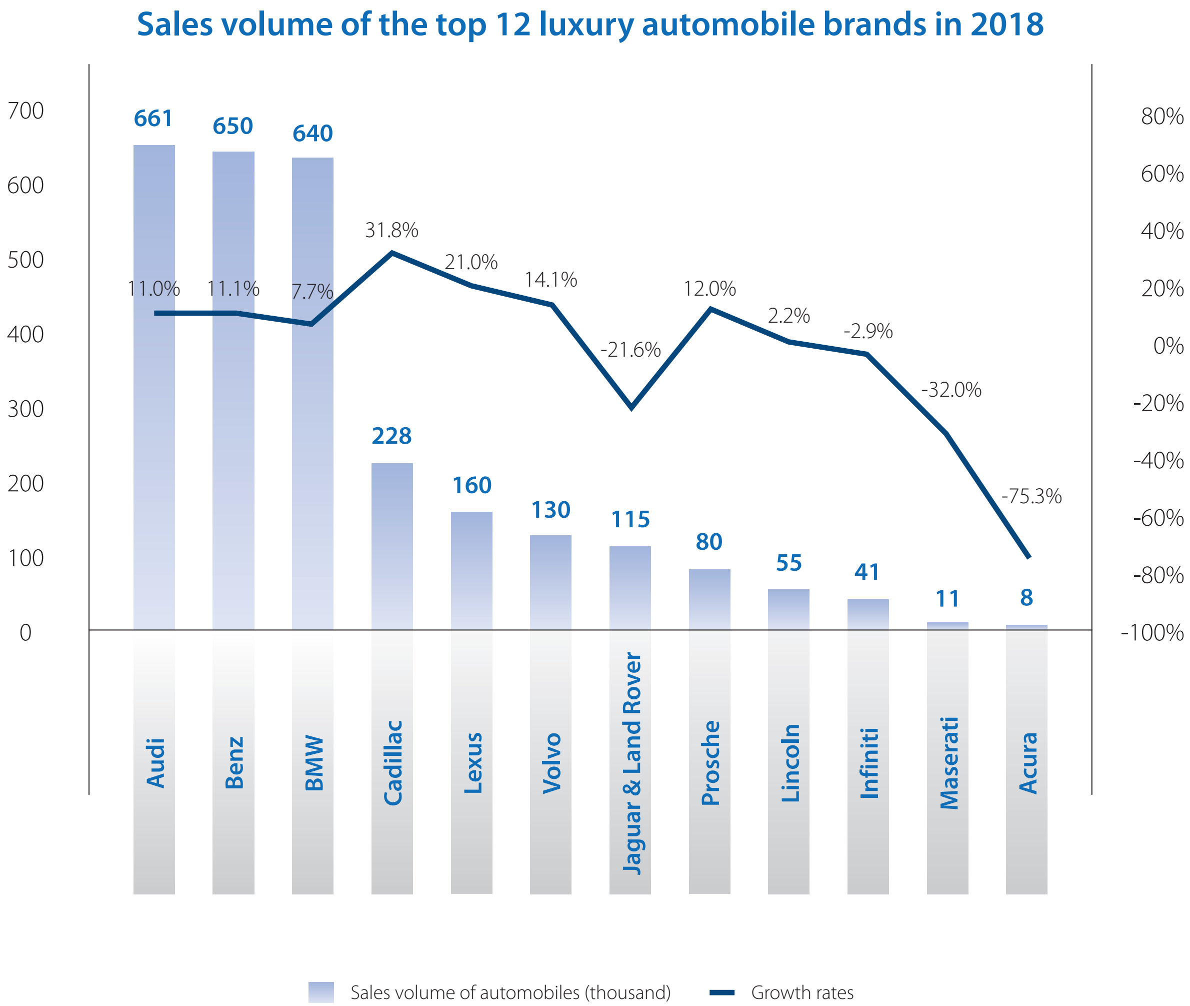
Industry review

In 2018, despite of being affected by many internal and external factors and confronted with the increasingly complicated international environment and a challenging and strenuous domestic reform mission, China's economy has maintained its steady development progress. According to data released by the National Bureau of Statistics, China's GDP exceeded RMB90 trillion for the year of 2018, representing an increase of 6.6% compared to that of last year.

The automobile industry was under pressure as a result of the changes in economic situation and policy environment. After the high-speed growth for several consecutive years, the production and sales volume of automobiles in China has reached a large base number of 29,400,000 units in 2017. It would be relatively difficult to obtain the continuous high growth on this basis again. Since the third quarter of 2018, affected by multiple factors including the cancellation of preferential treatment of purchase tax, deleveraging policy and escalating trade conflicts between China and the US, the growth in the sales of automobiles experienced a certain level of decline and weak market performance. According to statistics from the China Association of Automobile Manufacturers, the sales volume of passenger vehicles in the PRC amounted to 23.71 million units in 2018, representing a year-on-year decrease of 6.3% as compared with 2017.

In 2018, in sharp contrast with the passenger vehicle market as a whole, the mainstream luxury automobile brands in China continued to grow and recorded a high year-on-year growth of 8%, outshining all other categories of vehicles. In 2018, according to the sales volume data officially published by luxury automobile companies, the sales volume of luxury automobiles reached 2.81 million units, accounting for 11.9% of the total sales volume of passenger vehicles of 23.71 million units in China. The high growth of the luxury automobile market in China was mainly driven by the demands for upgrading purchase as a result of the upgrade in consumption of previous car buyers, and the increase of sales volume of luxury automobiles was driven by the increase in demands for luxury brands by the younger generations in China.

In 2018, the mainstream luxury brands, namely Benz, BMW and Audi ("**BBA**") all achieved different extent of growth and mostly at a rate of over 10%, which ignited a ray of hope in the gloomy automobile market in 2018. As always, the competition among BBA in China's luxury automobile market has never stopped and has become the usual state. In 2018, the three luxury brands BBA accounted for approximately 70.2% of the new automobile retail sales out of the top 12 luxury automobile brands*(Note)*. On the contrary, Jaguar & Land Rover's performance in 2018 was disappointing due to quality and word of mouth. In 2018, the sales volume of Jaguar & Land Rover fell by 4.6% in the global market, reaching 592,700 vehicles, and declined by 21.6% in the Chinese market with a total sales volume of less than 115,000 vehicles.



(Note: The Top 12 luxury automobile brands are Benz, Audi, BMW, Cadillac, Jaguar & Land Rover, Lexus, Volvo, Porsche, Lincoln, Infiniti, Maserati and Acura)

With the continuous growth of automobile ownership volume in China, the automobile finance industry also develops and expands. Taking the automobile finance industry as a whole, both traditional financial products dominated by manufacturers and banks and internet financial products invested by BAT (B=Baidu, A=Alibaba, T=Tencent) have achieved considerable development. According to the statistics from the Report of Market Prospective and Investment Strategic Planning on China Automobile Finance Industry (中國汽車金融行業市場前瞻與投資戰略規劃分析報告) issued by the Prospective Industry Research Institute, the size of China's automobile finance market was close to RMB600 billion in 2014, which expanded to RMB1,385.4 billion in 2018 and is expected to reach approximately RMB2 trillion by 2020, indicating that the future prospect of the internet automobile finance industry is promising.

With the continuous optimisation of China's secondhand automobile industry, taxation policies and the cancellation of relocation restriction policy, the secondhand automobile market has entered a period of exponential growth. The revised Measures for the Administration of Automobile Sales (汽車銷售管理辦法) will allow free movement of automobile parts and components, thus reducing the renovation cost of secondhand vehicles. Dealers can also enhance after-sales stickiness by reducing the price of accessories and offering customers various discounts. According to the data issued by China Automobile Dealers Association, in 2018, China's transaction volume of secondhand vehicles exceeded 13.82 million units, representing a year-on-year increase of 11.46%, and the transaction amount reached RMB860.3 billion, representing a year-on-year increase of 6.3%.

BUSINESS OVERVIEW

For the year ended 31 December 2018, the Group recorded revenue of approximately RMB36,723.8 million, representing a year-on-year increase of 6.3%; gross profit of RMB2,784.5 million, representing a decrease of 5.2%; profit attributable to equity holders of RMB566.0 million, representing a decrease of 29.9%; and earnings per share of RMB0.20.

Under the challenges caused by slowing down of the growth of new car sales, having replied on its established extensive network layout and brand resources, the Group removed the dependency on a specific brand or region and meanwhile the cost for developing new channels has effectively been reduced. This also enhanced the synergy effect of the Company's whole industrial chain linking new automobiles sales, financial service, insurance service, after-sales service and secondhand automobile sales.

New automobile sales

As a small segment of the overall automobile industry, the luxury automobiles seemed immune to the "negative impact". Most of the luxury automobile brands recorded a stable growth in sales volume, except that the sales volume of Jaguar & Land Rover and Maserati decreased comparatively larger. According to public data, the total sales volume of luxury automobiles exceeded 2.81 million units in 2018, representing a year-on-year increase of more than 9%.

During the reporting period, in response to changes in the external environment and sales policies adopted by manufacturers, the Group strengthened regional management of new car sales, proactively strove for sales opportunities of the extended business of each automobile, and continued to enhance the penetration rate of the extended business of the Group such as auto finance and auto insurance and the profitability of each automobile.

As at 31 December 2018, the Group's total sales volume of new automobiles was 112,643 units, representing a year-on-year increase of 7.8%. Sales revenue from new automobiles amounted to RMB32,203.4 million, representing a year-on-year increase of 4.8%, of which the sales volume of luxury and ultra-luxury automobiles was 82,797 units, representing a year-on-year increase of 8,733 units; sales revenue amounted to RMB28,588.9 million, accounting for 88.8% of the sales revenue from new automobiles. Gross profit margin of the sales of new automobiles was 2.2%.

After-sales service

According to the statistics from the Ministry of Public Security as at the end of 2018, the civilian automobile ownership volume in China was 240.28 million units, representing a year-on-year increase of 10.5%. Even though under the context of declining in the sales of passenger vehicles, the influx of capital has accelerated the planning for the automobile after-sales market, and with the gradual improvement of core technologies such as the Internet, big data, and cloud computing and the steady improvement of automobile ownership volume, the demand for diversified services such as maintenance, car beauty, and automobile supplies is constantly increasing, generating remarkable market potential.

During the reporting period, the after-sales service business of the Group has achieved a healthy and stable development. The Group has established a unified high-quality service standard by improving and strengthening the technical support of the Hui Yang Che (匯養車) APP, and with the combination of online and offline resource, the Group met the personalized needs of various brands, models and customers of all ages, and customized differentiated and humanized service products and contents for the customers so as to obtain their trust and create a service brand exclusively belonging to Grand Baoxin Auto Group Limited.

On the other hand, while accelerating the integration of the network layout, the Group relied on the ERP management platform and the application of big data technology to better understand customers' demands, reasonably arrange storage and logistics, optimize the supply chain, and improve the operational efficiency of the stores. In addition, through the implementation of centralized procurement and allocation of parts and components in various regions, the Group strengthened the sharing of its after-sales business resources to reduce the cost of spare parts.

During the reporting period, the revenue for after-sales service of the Group was RMB4,485.7 million, representing a year-on-year increase of 18.7%, accounting for 12.2% of the total revenue of the Group. The gross profit of after-sales service was RMB2,034.1 million, representing a year-on-year increase of 12.5%, and the gross profit margin of after-sales service was 45.3%.

Derivative business

During the reporting period, the Group focused on expanding automobile derivative business and developing derivative service varieties tailored to customers' demands via improving the current regional and hierarchical management. As at 31 December 2018, the Group recorded a revenue of RMB782.8 million from automobile derivative business, representing a year-on-year increase of 30.1%.

- ***Significant results in the development of automobile finance business***

    Both the new automobile market which is having a sales bottleneck or the fast-rising secondhand automobile market need the support of a variety of different automobile finance products. According to the Roland Berger, the penetration rate of automobile finance in China has steadily increased from 13% in 2013 to over 40% in 2018. As the third largest automobile finance business except commercial banks and automobile finance companies, the automobile finance leasing business has always been an important part of the automobile finance industry. Its penetration rate has risen from less than 1% before 2015 to 4% in 2018 and is expected to reach around 7% by 2022, with an expected market size of more than RMB300 billion.

During the reporting period, Shanghai Dingxin Leasing Co., Ltd. (上海鼎信租賃有限公司) ("**Dingxin Leasing**"), a subsidiary of the Group, and the CGA Group created a synergistic effect together. They leveraged on the financial risk control platform to conduct more effective pre-lending risk review, risk management in the lending process and post-lending risk control. The Group has been dedicated to enhancing the asset quality of automobile loans, which greatly improved the approval efficiency. The Group has also successively optimized and enriched its automobile products while insisting on taking the customers' good experience as the lead and fund cycle of the customers as the center.

During the reporting period, the Group recorded revenue of RMB260.8 million from its financial service business, which increased by 22.1% as compared to RMB213.6 million in 2017. The Group cooperated with various financial institutions to secure strong and solid resources and support.

- ***Plan for development of the secondhand automobile business, awaits blooming business***

With the gradual release of the policy of registration relocation restriction on secondhand automobiles and issuance of the promotion of financial loans proportion and other favorable policies, China's secondhand automobile market has continued to maintain rapid growth since 2018, and the volume of transactions has maintained a high-speed growth in the past five years. In 2018, China's transaction volume of secondhand automobiles was 13.82 million units, representing a year-on-year increase of 11.46%. The proportion of the transfer of ownership of secondhand automobiles was 26.43%, with big cross-regional transactions. At the same time, consumers' car purchase behavior will be more rational, and the professional 4S stores play an important part in the secondhand automobile industry. Thanks to their endorsement for the dealers' good faith, and natural advantages such as the car source authenticity, price rationality and after-sales service.

During the reporting period, the Group has ridden on the development trend of the industry and linked online and offline modes to provide end-users with evaluation quotation and consulting services, and an agent trading platform to collect agency commissions. In addition, consumers can enjoy automobile financial services and maintenance services while purchasing secondhand automobiles, a one-stop service chain to make consumers worry-free before and after buying automobiles. Besides, the Group has leveraged on the existing off-line 4S stores to expand the existing customer base by the evaluation, replacement and retail business of secondhand automobiles, improving the replacement ratio of the secondhand automobile for base customers and expanding the purchasing channel of the secondhand automobile source.

During the reporting period, the Group's transaction volume of secondhand automobiles was 36,586 units, representing a year-on-year increase of 30.6%. The penetration rate of secondhand automobiles was 34.82%, representing an increase of 7.82 percentage points as compared with the corresponding period of the preceding year. The trade in ratio of secondhand automobiles was 21.37%, representing a year-on-year increase of 3.97 percentage points.

Steadfast growth on Insurance business

Automobile insurance played a significant role in the nationwide property premium income in the PRC. In 2018, the size of automobile insurance premiums in the PRC reached approximately RMB800 billion, accounting for approximately 70% of the total property premium income. Against this background, in March 2018, CBIRC issued the Notice on the Adjustment of Independent Pricing Scope of Commercial Automobile Insurance in Certain Regions (關於調整部分地區商業車險自主定價範圍的通知), and performed "deregulation of premium rate" for the third time. Therefore, the automobile insurance market in China will embrace a more intense and competitive landscape.

During the reporting period, the Group fully respected the market rules. While improving the existing insurance business model and at the same time combined with a reform on insurance rate, the Group provided safer and more competitive insurance products of well-designed and perfecting types based on customers' demands and by cooperating with renowned insurance companies. In the meantime, through adopting a portfolio marketing approach, the Group has raised its insurance penetration rate of key insurance, scratch insurance, paint surface insurance and other guarantee services. Furthermore, the Group is committed to strengthening its differentiated competitiveness, striving to enhance its advantages on products, services and claims, and increase customers' loyalty, so as to ensure the stable development of insurance business.

During the reporting period, the Group's revenue from its insurance business was RMB376.1 million, representing an increase of 58.9% as compared to RMB236.7 million in 2017, and the revenue from extended warranty business increased by 18.6%.

Continuous optimization of network layout

As a leading domestic dealer of luxury automobiles, the Group's business is mainly concentrated in the eastern part of China, which act as the axis for expanding into the northern, central and southern part of China, and also the northeast and northwest regions, thus covering the majority of the mainstream market for luxury and ultra-luxury automobiles as of now. At the same time, the Group has increased overall operating efficiency and service capabilities by continuously improving its dealership network and consolidating the coverage and market share of luxury 4S shop in major cities, which has effectively enhanced brand awareness and customer loyalty and also provided support for the expansion of after-sales service business for the Group.

During the reporting period, the Group acquired one Jaguar & Land Rover shop, three BMW 4S shops and one BMW secondhand automobile shop in East China in the first half of the year and also upgraded and rebuilt certain shops in other regions to better exploit its strategic advantage and optimize brand distributions in core regions.

As of 31 December 2018, the Group operated a total of 113 stores that owned a diversified car brand portfolio comprising 10 luxury and ultra-luxury automobiles (namely BMW(including MINI)), Audi, Jaguar & Land Rover, Volvo, Cadillac, Infiniti, Alfa Romeo, Porsche, Rolls Royce and Maserati). Specifically, such stores included 91 luxury and ultra-luxury brand dealing stores, 17 mid-to-high brand dealing stores and 5 independent after-sales service (maintenance and decoration and loss assessment center) stores.

FUTURE OUTLOOK

With the ebb of the industry heyday, the traditional automobile industry is making a gradual transition from the developing phase to the mature phase, and the low growth rate of sales volume will become normal. Against the backdrop of the slow growth rate and increasingly fierce competition of each segment market, the National Development and Reform Commission issued an announcement in April 2018, which, based on categories, aimed at easing the restriction on the proportion of shares held by foreign capital in the auto industry, which will eliminate all restrictions in the automobile industry after 5 years of transitional period, and Chinese automobile industry will march into the post joint venture era. The release of share proportion will bring more automobile models to the Chinese market, enriching the products in Chinese automobile products. At the same time, Chinese automobile makers will be confronted with competition from international companies, which will be conducive to the improvement of the competitiveness and R&D of Chinese automobile brands and will have profound impacts on the transformation of Chinese automobile competition patterns.

In recent years, prevailing luxury brands such as BMW, Audi and Benz entered a new round of product upgrading cycle one after another. Also, as all luxury automobile manufacturers focus on expanding the market of entry-level luxury and new-energy automobiles, the luxury automobile market has become the encouraging sunshine in the frigid automobile market. At the same time, driven by environmental protection policies, new energy vehicles will also meet new development opportunities. The Group will, as always, pay close attention to the changing trend of the industry, carry out stable and close cooperation with the automobile manufacturers of major global brands, actively deploy the sales plans of new energy vehicles sold by major luxury brands such as BMW and Audi, and jointly expand the market share in the sales services of new energy vehicles.

The superior competitor eliminates the inferior competitor is the only rule of the market and the automobile industry during reform and transformation will give automobile dealers more responsibilities and requirements. The question of how to combine the new retail mode with the traditional distribution network has become a new subject facing auto dealers. Through the official launch of Tmall Flagship Store (天貓旗艦店), which was launched together with CGA, the Group announced its courageous attempt for the new retail business. It re-empowers dealers in all aspects, and redefines the relationship between automobile manufacturers, dealers and consumers. In this way, the Group strives to provide brand new ideas for automobile retail and jointly create the ecology of the automobile industry.

According to the analysis and judgment on the industry's overall trends and development potential, and based on our existing resources and operating conditions, the Group will continue to optimize brand portfolio and dealership network so as to boost sales of new automobiles. Besides, the Group will further promote delicacy management to improve profitability. The Group will emphasize on after-sales service and value-added business to optimize business structures. Specifically, the Group will concentrate on the expansion of strategic businesses, namely second-hand car and automobile financing. Furthermore, the Group will seek new areas for growth of profit through an extended value chain to strengthen its core competitiveness, and to achieve a win-win situation for shareholders, employees, customers and society.

FINANCIAL REVIEW

Revenue

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

	Year ended 31 December			
	2018		2017	
Revenue source	**Revenue** *(RMB'000)*	**Contribution to total Revenue** *(%)*	Revenue *(RMB'000)*	Contribution to total Revenue *(%)*
Automobile sales	**32,203,427**	**87.7**	30,715,654	88.9
Luxury and ultra-luxury brands	**28,588,866**	**77.9**	27,056,909	78.3
Mid-to-upper market brands	**3,614,561**	**9.8**	3,658,745	10.6
After-sales business	**4,485,665**	**12.2**	3,780,275	10.9
Luxury and ultra-luxury brands	**4,098,643**	**11.2**	3,427,123	9.9
Mid-to-upper market brands	**387,022**	**1.0**	353,152	1.0
Finance leasing services	**34,666**	**0.1**	62,056	0.2
Total revenue	**36,723,758**	**100**	34,557,985	100

Revenue from the sales of automobiles increased by 4.8% due to the increase in living standard of residents and upgrade of consumption, which stimulated the demand for luxury vehicles and in turn the revenue from the sales of luxury and ultra-luxury vehicles of the Group increased during the reporting period.

Automobile sales generated a substantial portion of our revenue, accounting for 87.7% of our total revenue for the year ended 31 December 2018. Revenue generated from the sales of luxury and ultra-luxury brands and our mid-to-upper market brands accounted for approximately 77.9% (2017: 78.3%) and 9.8% (2017: 10.6%), respectively, of our total revenue.

Revenue from our after-sales business increased by 18.7% from RMB3,780.3 million for the year ended 31 December 2017 to RMB4,485.7 million for the same period in 2018.

Cost of sales and services

For the year ended 31 December 2018, our cost of sales and services increased by 7.3%, from RMB31,622.2 million for the same period in 2017 to RMB33,939.3 million, which was primarily due to increase in cost of sales and after-sales services of luxury and ultra-luxury brand passenger vehicles.

The cost of sales and services attributable to our automobile sales business amounted to RMB31,486.5 million for the year ended 31 December 2018, representing an increase of RMB1,837.4 million, or 6.2%, from the same period in 2017. The cost of sales attributable to our after-sales business amounted to RMB2,451.5 million for the year ended 31 December 2018, representing an increase of RMB478.6 million, or 24.3% from the same period in 2017.

Gross profit and gross profit margin

Gross profit for the year ended 31 December 2018 was RMB2,784.5 million, representing a decrease of RMB151.3 million or 5.2% from the same period in 2017. Gross profit from automobile sales decreased by 32.8% from RMB1,066.6 million for the year ended 31 December 2017 to RMB716.9 million for the same period in 2018, of which RMB669.7 million was from the sales of luxury and ultra-luxury automobiles. Gross profit from after-sales business increased by 12.5% from RMB1,807.4 million for the year ended 31 December 2017 to RMB2,034.1 million for the same period in 2018. Automobile sales and after-sales business contributed to 25.7% (2017: 36.3%) and 73.1% (2017: 61.6%), respectively, to the total gross profit for the year ended 31 December 2018.

Gross profit margin for the year ended 31 December 2018 was 7.6% (2017: 8.5%), of which the gross profit margin of automobile sales was 2.2% (2017: 3.5%) and of after-sales business was 45.3% (2017: 47.8%).

Other income and gains, net

Other income and net gains increased by 38.7% from RMB601.1 million for the same period in 2017 to RMB833.6 million for the year ended 31 December 2018, mainly due to an increase in the commission income of RMB601.8 million for the same period in 2017 to RMB782.8 million for the year of 2018. During the reporting period, the Group recorded other gains amounting to RMB31.35 million from the changes of fair value of investment properties.

Selling and distribution costs and administrative expenses

For the year ended 31 December 2018, our selling and distribution costs increased by 14.3% to RMB1,247.0 million from RMB1,091.2 million for the same period in 2017. Our administrative expenses increased by 32.7% from RMB557.0 million for the same period in 2017 to RMB739.0 million, which was primarily due to the expansion of our sales and services network and sales scale.

Profit from operations

As a result of the foregoing, our profit from operations for the year ended 31 December 2018 decreased by 13.6% to RMB1,632.1 million from RMB1,888.8 million for the same period in 2017.

Finance costs

Finance costs decreased by 3.3% from RMB730.5 million for the year ended 31 December 2017 to RMB706.5 million for the same period in 2018, primarily because of the Group had no interest expense on the senior perpetual capital securities for the year ended 31 December 2018.

Profit for the year

As a result of the cumulative effect of the foregoing, our profit for the year ended 31 December 2018 decreased by 29.7% to RMB566.8 million from RMB806.3 million for the same period in 2017.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

As at 31 December 2018, our cash and cash equivalents amounted to RMB2,541.2 million, representing a decrease of 19.9% from RMB3,173.2 million as at 31 December 2017.

Our primary uses of cash were to pay for purchases of new automobiles, spare parts and automobile accessories, to establish new dealership stores and to fund our working capital and normal operating costs. We financed our liquidity requirements through a combination of short-term bank loans and other borrowings and cash flows generated from our operating activities.

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of bank loans and other borrowings, cash flow generated from our operating activities and other funds raised from the capital markets from time to time. For the year ended 31 December 2018, our net cash generated from operating activities was RMB706.9 million (2017: RMB955.1 million).

Net current assets

As at 31 December 2018, we had net current assets of RMB5,882.2 million, representing a decrease of RMB1,208.6 million from RMB7,090.8 million as at 31 December 2017.

Capital expenditure

Our capital expenditures primarily comprised of expenditures on property, plant and equipment land use rights and intangible assets. During the year ended 31 December 2018, our total capital expenditures amounted to RMB776.0 million (2017: RMB640.2 million).

Inventories

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

Our inventories increased by 0.4% from RMB4,109.9 million as at 31 December 2017 to RMB4,126.7 million as at 31 December 2018, primarily due to the Group's effective inventory management measures, which mitigated the effect of increased inventories resulting from the acquisition of "Zhongguo Project". Therefore, our inventories remained stable.

Our average inventory turnover days for the year ended 31 December 2018 increased to 44.3 days from 40.7 days in 2017.

Trade Receivables

Trade receivables increased from RMB504.8 million for the year ended 31 December 2017 to RMB558.0 million for the year ended 31 December 2018, primarily due to the Group's acquisition of Zhangguo (眾國) project in March 2018 resulting in the increase in trade receivables.

Interest-bearing bank and other borrowings

As at 31 December 2018, the Group's available and unutilised banking facilities amounted to approximately RMB8,544.0 million (31 December 2017: RMB8,330.5 million).

Our interest-bearing bank and other borrowings as at 31 December 2018 were RMB9,670.5 million, representing an increase of RMB699.3 million from RMB8,971.2 million as at 31 December 2017. The increase was due to the increase in requirements of working capital from expending the business scale.

Interest rate risk and foreign exchange rate risk

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

Substantially all of our revenue, costs and expenses are denominated in Renminbi. We also use Renminbi as our reporting currency. As of 31 December 2018, certain of our financial liabilities were denominated in foreign currencies, and considering the fluctuation of foreign currency rate. We also used derivative financial instruments to hedge our exposure to foreign exchange risk.

Gearing ratio

The Group monitors capital by using a gearing ratio, which is net debt divided by the equity attributable to owners of the parent plus net debt. Net debt includes bank loans and other borrowings, trade, bills and other payables, accruals, and senior perpetual capital securities less cash and bank. Our gearing ratio for the year ended 31 December 2018 was 69.3% (2017: 66.1%).

Human resources

As at 31 December 2018, the Group had 7,759 employees (31 December 2017: 7,658). Total staff costs for the year ended 31 December 2018, excluding Directors' remuneration were approximately RMB1,126.4 million (2017: RMB1,067.8 million).

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

Contingent liabilities

As at 31 December 2018, the Group had no significant contingent liabilities (31 December 2017: Nil).

Pledge of the Group's assets

Our Group had pledged our group assets, shares in certain subsidiaries and letters of credit as securities against bank loans and other borrowings and bills payable which were used to finance daily business operation and acquisition. As at 31 December 2018, the pledged group assets amounted to approximately RMB5,999.5 million (31 December 2017: RMB5,794.7 million); the pledged letters of credit have an aggregated credit amount of approximated RMB207.3 million (31 December 2017: RMB197.8 million).

SIGNIFICANT ACQUISITION, DISPOSAL OR INVESTMENT

Acquisition

On 5 January 2018, Shanghai Tianhua Automobile Sales Services Limited* (上海天華汽車銷售服務有限公司) ("**Shanghai Tianhua**"), an indirect wholly-owned subsidiary of the Company, as the purchaser entered into a sale and purchase agreement with Xinjiang Longze Automobile Services Management Co., Ltd.* (新疆龍澤汽車服務管理有限責任公司) ("**Xinjiang Longze**") as the vendor, an indirect wholly-owned subsidiary of CGA, pursuant to which Xinjiang Longze agreed to sell to Shanghai Tianhua, and Shanghai Tianhua agreed to acquire from Xiujuang Longze, 100% equity interest in a company engaged in the management and operation of 4S dealership stores of auto brand of Jaguar Land Rover, for a consideration of RMB85 million. For further details, please refer to the announcement of the Company dated 5 January 2018.

On 25 March 2018, Suzhou Baoxin Automotive Distribution Services Co., Ltd.* (蘇州寶信汽車銷售服務有限公司), an indirect wholly-owned subsidiary of the Company (the "**Purchaser**"), entered into an acquisition agreement with Shanghai Zhongguo Automotive Group Co., Ltd.* (上海眾國汽車集團有限公司) and Hefei Gangrong Hotel Management Co., Ltd.* (合肥港榮酒店管理有限公司) (the "**Vendors**"), pursuant to which the Vendors agreed to sell and the Purchaser agreed to acquire the entire equity interests of the Vendors' four subsidiaries engaged in the distribution of BMW vehicles and maintenance services in PRC (the "**Zhongguo Project**"), for a consideration of not more than RMB619 million. Please refer to the announcement of the Company dated 25 March 2018 for further details.

Disposals

The Group did not have any disposals of subsidiaries and affiliated companies during the year ended 31 December 2018.

Important events after 31 December 2018

There are no significant events affecting the Group that have occurred after the year ended 31 December 2018.

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

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules.

In the opinion of the Directors, throughout the year ended 31 December 2018, the Company has complied with most of the code provisions as set out in the CG Code, save and except for provision A.2.1.

Under code provision A.2.1, the division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Our chairman, Mr. Li Jianping is responsible for the operation and management of the Board, and no chief executive officer is appointed. The day-to-day management of the Group is delegated to other executive Directors and the management of the Company. The Board is of the view that the current management structure can effectively facilitate the Group's operation and business development.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of the Directors. Specific enquiry has been made to all the Directors who have confirmed that they have complied with the Model Code throughout the year ended 31 December 2018.

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

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2018.

ANNUAL GENERAL MEETING

The 2019 annual general meeting (the "**2019 AGM**") will be held on 14 June 2019 (Friday). Notice of the 2019 AGM and all other relevant documents will be published and despatched to shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders of the Company who are eligible to attend and vote at the 2019 AGM, the register of members of the Company will be closed from 11 June 2019 (Tuesday) to 14 June 2019 (Friday), both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the 2019 AGM, all duly stamped share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712—1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 10 June 2019 (Monday).

AUDIT COMMITTEE REVIEW

Pursuant to the requirement of the CG Code and the Listing Rules, the Company has established an audit committee (the "**Audit Committee**") comprising Mr. DIAO Jianshen (chairman), Ms. LIU Yangfang and Mr. CHAN Wan Tsun Adrian Alan, all of whom are the Company's independent non-executive Directors.

The Audit Committee has reviewed the audited consolidated financial statements of the Group 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.

SCOPE OF WORK OF THE AUDITORS

The figures in respect of the Group's financial results for the year ended 31 December 2018 as set out in this preliminary announcement have been agreed by the Group's independent auditors, Messrs. Ernst & Young ("**EY**"), to be consistent with the amounts set out in the Group's consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by EY on this preliminary announcement.

PUBLICATION OF FINAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement will be published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.klbaoxin.com). The annual report of the Company for the year ended 31 December 2018 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and made available on the same websites in due course.

By order of the Board
Grand Baoxin Auto Group Limited
LI Jianping
Chairman

Hong Kong, 29 March 2019

As at the date of this announcement, the executive Directors are Mr. LI Jianping, Mr. WANG Xinming, Mr. QI Junjie, Mr. LU Ao and Ms. XU Xing; and the independent non-executive Directors are Mr. DIAO Jianshen, Ms. LIU Yangfang and Mr. CHAN Wan Tsun Adrian Alan.