润东汽车

CHINA RUNDONG AUTO GROUP LIMITED
中國潤東汽車集團有限公司

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

Stock Code 股份代號：1365

2019
ANNUAL REPORT 年報

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Yang Peng *(Chairman, executive Director and Chief Executive Officer of the Group)*
Mr. Mei Jianping *(independent non-executive Director)*
Mr. Lee Conway Kong Wai *(independent non-executive Director)*
Mr. Xiao Zhengsan *(independent non-executive Director)*
Mr. Li Xin *(independent non-executive Director)*

AUDIT COMMITTEE

Mr. Lee Conway Kong Wai *(Chairman)*
Mr. Xiao Zhengsan
Mr. Li Xin

RISK MANAGEMENT COMMITTEE

Mr. Lee Conway Kong Wai *(Chairman)*
Mr. Xiao Zhengsan
Mr. Li Xin

REMUNERATION COMMITTEE

Mr. Mei Jianping *(Chairman)*
Mr. Yang Peng
Mr. Xiao Zhengsan
Mr. Li Xin

NOMINATION COMMITTEE

Mr. Yang Peng *(Chairman)*
Mr. Mei Jianping
Mr. Xiao Zhengsan
Mr. Li Xin

COMPANY SECRETARY

Ms. Ho Siu Pik

AUTHORIZED REPRESENTATIVES

Mr. Yang Peng
Ms. Ho Siu Pik

REGISTERED OFFICE

Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEAD OFFICE IN THE PRC

9F, Shenzhou Wisdom Plaza
No. 567, West Tianshan Road
Changning District, Shanghai, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL SHARE REGISTRAR

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PO Box 1093, Boundary Hall
Cricket Square, Grand Cayman
KY1-1102, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

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

AUDITOR

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

STOCK CODE

1365

WEBSITE

www.rundong.com.cn

FINANCIAL HIGHLIGHTS

	Year ended December 31				
	2015	2016	2017	2018	**2019**
Results (RMB'000)					
Revenue	14,923,054	17,972,988	19,111,084	12,712,630	**7,635,941**
Net profit/(loss)	203,303	281,397	260,202	(1,518,286)	**(5,845,080)**
Financial Position (RMB'000)					
Total assets	12,692,785	14,206,810	18,406,129	13,432,888	**4,895,110**
Shareholders' equity	3,216,730	3,416,093	3,631,757	2,102,719	**(3,753,852)**
Financial indicators					
Gross profit margin	9.3%	9.0%	6.8%	3.4%	**(13.6%)**
Return on equity	6.5%	8.2%	7.2%	(72.2%)	**–**
Financial information per share					
Earnings per share (RMB)	0.20	0.29	0.28	(1.60)	**(6.17)**
Net assets per share (RMB)	3.13	3.61	3.84	2.22	**(3.97)**

CHAIRMAN'S **STATEMENT**

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

On behalf of the board of directors (the "**Board**") and the management of China Rundong Auto Group Limited (the "**Company**" and together with its subsidiaries, the "**Group**", the "**Company**" or "**we**"), I am pleased to present the report of the Group for the year ended 31 December 2019 (the "**Reporting Period**").

BUSINESS OVERVIEW

In 2019, due to many factors such as the macroeconomic downturn, the continued trade friction between China and the United States, insufficient consumer confidence, the early implementation of the China VI emission standards, and the substantial reduction in subsidies for new energy vehicles, demand in the auto market in China has been sluggish, with negative growth for 18 consecutive months. According to figures released by the China Association of Automobile Manufacturers, sales volume of new automobiles were 25.769 million units, representing a year-on-year decrease of 8.2%, and the decrease was 5.4 percentage points higher than that of the same period. Among which, the sales volume of passenger vehicles were 21.444 million units, representing a year-on-year decrease of 9.6%, and the sales volume of commercial vehicles were 4.325 million units, representing a year-on-year decrease of 1.1%. The decline in passenger vehicles became the main reason for the overall market decline in 2019.

Considering the impacts of overall negative growth of the automobile market and the integration after acquisition of stores acquired didn't meet the expectation of the Group, and the tightening of funds in general and increasing pressure of liquidity, the Group has adjusted the business strategies and continuously optimized the business operation in 2019. We reassessed the economic development level, power of consumption of the area where the stores are located, as well as taking into consideration of the automobile brands, operation scale of stores and operation capability, comprehensively summarized the Group's stores and shut down part of stores with poor performance, and consolidated stores of same brand in the same city, and focused on those with better performance in developed areas. In 2019, the automotive industry experienced the upgrade of the applicable National V emission standards and the switching to the new National VI emission standards, which indirectly led to increased destocking pressures and further increase in discounts. The narrowed storefronts and the increase in discounts together exerted downward pressure on the Group's turnover and gross profit. Affected by the above factors, in 2019, the Group recorded operating income of RMB7,635.9 million, representing a decrease of 39.9% from 2018, and the net loss of the Group for the year increased by 285.0% compared to last year to RMB5,845.1 million.

OUTLOOK AND STRATEGY

Before and after the Spring Festival in 2020, the epidemic of novel coronavirus ("**COVID-19**") raged, affecting the Chinese economy and people's lives as a whole in the short term, disrupting the recovery rhythm of the Chinese automobile market, which will have a further downward impact on the automobile market in China. However, the basic trend of China's economic stability and long-term improvement has not changed. We expect that the automobile market in China will return to the growth track in the next three to five years.

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

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my sincere gratitude to shareholders, customers and business partners for their support to the Company and all employees for their hard work. Looking ahead, we will strive to explore more opportunities, overcome challenges, and be determined to achieve better results for the Group.

Yang Peng
Chairman

29 May 2020

INDUSTRY REVIEW

According to the 2019 macroeconomic data published by the National Bureau of Statistics of China, China's GDP reached RMB99.1 trillion, representing a 6.1% increase from last year (comparable price). In terms of the four quarters, a 6.4%, 6.2%, 6.0% and 6.0% increase from the first, second, third and fourth quarters were seen respectively. Economic indicators on consumption, investment and industrial sectors are stable and positive.

According to the statistics of the Ministry of Public Security, as of the end of 2019, the automobile ownership in China reached 260 million units, an increase of 21.2 million units, or 8.8%, compared with 2018. In particular, as of the end of 2019, the new energy vehicle ownership in China reached 3.8 million units, accounting for 1.5% of the total number of automobiles, representing an increase of 1.2 million units, or 46.1%, compared with 2018. Among which, the electric vehicles ownership is accounted for 3.1 million units, representing 81.2% of the total number of new energy vehicles. The new energy vehicle ownership has increased by over 1 million units in the past two consecutive years, showing an accelerating growth.

According to figures released by the China Association of Automobile Manufacturers, total volumes of automobile production and sales in China were 25.7 million units and 25.8 million units respectively, representing a year-on-year decrease of 7.5% and 8.2%, and a further decrease of 4.2 percentage points and 5.4 percentage points compared with last year. Yet, the total volumes of automobile production and sales continue to rank the first around the globe. Overall, the ratio of volumes of automobile production and sales increased, with passenger vehicles' decrease ratio being larger than overall vehicles. Commercial vehicles recorded a better production and sales performance than passenger vehicles.

China's macroeconomic indicators remains positive as usual, factors benefiting a long-term economic prospect for the nation also remain unchanged. Coupling with a constant structural revolution on the supply side, the overall economy has an enhanced component structure, robustly fueling the development for innovation, new industry players and quality trade, and eventually, propelling a long-term growth for the automobile market.

The outbreak of COVID-19 and the subsequent quarantine measures imposed by the Mainland Chinese government as well as the travel restrictions imposed by other countries in early 2020 caused certain impacts on the operation of business as well as the volume of production and sales of automobiles of the Group in the first quarter in 2020. During January to February 2020, the volume of sales of passenger vehicles reached 1.8 million units, representing a year-on-year decrease of 43.6%. In particular, only 224,000 units were sold in February 2020 with the sales volume having dropped significantly compared to the previous month and previous year, representing a month-on-month decrease of 86.1% and a year-on-year decrease of 81.7%. Given the unpredictability associated with the COVID-19 global outbreak and any further contingency measures that may be put in place by the relevant governments and corporate entities, the actual financial impact imposed to the Group in the wake of the epidemic could not be reasonably and accurately estimated at this stage. Be that as it may, the Group has been continuously assessing the financial and relevant adverse impact of the COVID-19 to the Group's business and shall reveal more in the Company's 2020 interim and annual financial statements.

On 29 January 2020, the Guangdong Foshan Municipal Government launched "Publication of Notice of Implementation of (Pilot) Measures in Facilitating Automobile Consumption in Foshan" (《關於印發佛山市促進汽車市場消費升級若干措施（試行）的通知》). With polices launched to stimulate automobile consumption across the country, it is expected to restore trade prospect and momentum in no time.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

Sales of New Automobiles

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

After-sales Service

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

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

Value-added Business

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

Brand and Network Layout

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

FINANCIAL REVIEW

Revenue and loss for the year

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

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

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

Cost of sales and services

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

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

Gross loss and gross profit margin

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

Other income and net gains

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

Selling and distribution expenses

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

Administrative expenses

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

Other expenses

Other expenses of the Group amounted to RMB3,550.6 million for the year ended 31 December 2019, representing an increase of 331.0% over the other expenses of RMB823.9 million in 2018, which attributed to the significant increase in provision of impairment loss of approximately RMB3,434.8 million for the Group's goodwill, items of property, plant and equipment, intangible assets, right-of-use assets and trade receivables prepayments, other receivables and other assets.

In 2019, by reassessing its business strategies, carrying out realignment of certain automotive brands and implementing internal restructuring, the Group shut down stores with poor performance and consolidated stores of same brand in the same city, with a view to reduce further operating costs and losses, which attributed to the increase in the provisions of impairment for the year ended 31 December 2019.

Due to the shut down and poor performance of acquired stores, the goodwill was fully impaired as at 31 December 2019, as the anticipated cash flows to be generated from the future use of the assets were substantially decreased to insignificant amounts according to the valuer's report.

Finance costs

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

Income tax credits

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

CAPITAL STRUCTURE, CASH FLOWS AND FINANCIAL RESOURCES

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

Cash Flows

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

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

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

Inventory

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

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

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

Trade receivables

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

Interest rate risk

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

Gearing ratio

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

Human resources

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

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

Contingent liabilities

Please refer to note 34 to the financial statements of this annual report.

Pledge of the Group's assets

The Group pledged its assets as securities for bank loans, other borrowings and banking facilities, which were used to finance daily business operation. As at 31 December 2019, the pledged assets of the Group amounted to RMB894.2 million.

FUTURE OUTLOOK AND STRATEGY

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

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

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

DISCLAIMER OF OPINION

As disclosed in the Independent Auditor's Report, the auditor of the Company, Ernst & Young issued a disclaimer of opinion (the "Disclaimer of Opinion") on the consolidated financial statements of the Group for the year ended 31 December 2019. The below paragraphs set out an extract of the Independent Auditor's Report, regarding the consolidated financial statements of the Group for the year ended 31 December 2019:

Disclaimer of Opinion

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

Basis for Disclaimer of Opinion

Multiple Uncertainties Relating to Going Concern

As set out in note 2.1 to the consolidated financial statements, the Group incurred a net loss of RMB5,845,080,000 for the year ended 31 December 2019. As at 31 December 2019, the Group had a shareholders' deficit of RMB3,753,852,000 and the Group's current liabilities exceeded its current assets by RMB6,328,260,000. These conditions, together with other matters disclosed in note 2.1 to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

The directors of the Company have been undertaking measures to improve the Group's liquidity and financial position, which are set out in note 2.1 to the consolidated financial statements. The validity of the going concern assumptions on which the consolidated financial statements have been prepared depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) successfully negotiating with financial institutions and other lenders to seek for extension of due dates of bank and other loans; (ii) successfully implementing a consensual resolution of the terms of repayments with creditors; (iii) successfully carrying out the Group's business strategy plan and cost control measurements so as to improve working capital and cashflow position; and (iv) successfully obtaining additional new sources of financing or new strategic capital investments to be injected by independent third party into the Group within next twelve months.

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

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

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

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

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

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

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

AUDIT COMMITTEE'S VIEW ON THE DISCLAIMER OF OPINION

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

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report of the Group's annual report for the year ended 31 December 2019.

1. CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Group is committed to achieving high corporate governance standards.

The Group believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has adopted the principles and code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Board is of the view that the Company has fully complied with the code provisions set out in the CG Code during the year ended 31 December 2019, except for the deviation from code provision A.2.1:

Code Provisions A.2.1

The provision provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company has appointed Mr. Yang Peng as both the Chairman and the Chief Executive Officer of the Company. The Board believes that vesting the roles of the Chairman and Chief Executive Officer in the same individual would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. The Board believes that the balance of power and authority is sufficiently maintained by the operation of the board, comprising the executive Directors and independent non- executive Directors. The Board shall review the structure and composition of the Board from time to time in light of prevailing circumstances, to maintain a high standard of corporate governance practices of the Company.

2. COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of the Directors. Specific enquiry has been made to all the Directors who have confirmed that they have complied with the Model Code during the year ended 31 December 2019.

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

3. THE BOARD

(1) Responsibilities

The Board is responsible for leading and control of the Group and is collectively responsible for promoting the success of the Group by directing and supervising the Group's businesses. The Board focuses on formulating the Group's overall strategies, authorising the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards.

(2) Authorization

The Board delegates the day-to-day management, administration and operation of the Group to the management and contributes to the Group through monitoring daily business operation, development plan and implementation. In addition, the Board has established several board committees and delegates to the board committees the responsibilities set out in their respective written terms of reference. The Board regularly reviews the delegated functions to ensure that they suit the needs of the Group.

(3) Board composition

The Board of the Company currently comprises five Directors, including one executive Director and four independent non-executive Directors. As at the date of this report, the members of the Board are set out below:

Executive Director	Yang Peng *(Chairman and Chief Executive Officer)*
Independent Non-executive Directors	Mei Jianping Lee Conway Kong Wai Xiao Zhengsan Li Xin

The biographical information of the Directors is set out in the section headed "Directors and Senior Management Profiles" on pages 32 to 34 of this annual report.

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

All the Directors, including independent non-executive Directors, bring various invaluable operating experience, knowledge and professionalism to the Board, which allow for its effective and efficient operation.

In addition, independent non-executive Directors are identified as such in all corporate communications containing the names of the Directors. A list of the names of the Directors and their role and function is published on the websites of the Company and the Stock Exchange.

(4) Independent non-executive Directors

During the year ended 31 December 2019, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

(5) Appointment and re-election of Directors

The executive Director has entered into a service contract with the Company for an initial term of three years commencing on 5 June 2019 unless terminated by not less than three months' notice in writing served by either the executive Director or the Company.

Each of the independent non-executive Directors has entered into his appointment letter with the Company for a term of one year. It could be renewed and extended automatically for one year upon the expiration of the then term of appointment, provided that it may be not approved at the shareholders' meeting in case he shall be subject to retirement from office and re-election under the Listing Rules.

Pursuant to the articles of association of the Company (the "**Articles**"), at each annual general meeting, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director, including those appointed for a fixed term, shall be subject to retirement by rotation at least once every three years. The term of retiring Directors shall last until the end of the annual general meeting at which they are subject to retirement by rotation and they shall be eligible for re-election at the meeting.

Pursuant to article 16.18 of the Articles, Mr. Lee Conway Kong Wai, Mr. Xiao Zhengsan and Mr. Li Xin will retire at the annual general meeting of the Company to be held on 31 July 2020 (the "**AGM**") and are eligible for re-election.

(6) Continuous professional development of Directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company, and ensure that they make a profound and tangible contribution to the Board.

Internally-facilitated briefings for Directors are arranged and reading materials on relevant topics will be circulated to Directors where appropriate so as to ensure that Directors understand the condition of the Company and the latest policies from regulatory bodies in a timely manner. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2019, all Directors received regular briefings, seminars, conferences and/or updates on the Group's business, operations, risk management, corporate governance, responsibilities and obligations of Directors and other relevant matters. Materials on new or changes to salient laws and regulations applicable to the Group were provided to the Directors. All Directors have provided the Company with their respective training records pursuant to the CG Code.

The participation of Directors in internal and other external training during the year ended 31 December 2019 is as follows:

Director	Attending seminars/ workshops on Directors' responsibilities and other related issues	Reading relevant news express, newspapers, journals, magazines, relevant publications and guidelines on Directors' continuous responsibilities, corporate governance and other related issues
Executive Director		
Yang Peng	✓	✓
Independent Non-executive Directors		
Mei Jianping	✓	✓
Lee Conway Kong Wai	✓	✓
Xiao Zhengsan	✓	✓
Li Xin	✓	✓

(7) Attendance of Directors and committee members

The attendance of each Director at the Board and Board committee meetings and the general meetings of the Company held during the year ended 31 December 2019 is set out in the table below:

	Attendance/Number of Meetings					
Director	Board	Nomination Committee	Remuneration Committee	Audit Committee	Risk Management Committee	General Meeting
Executive Director						
Yang Peng	8/8	1/1	1/1			1/1
Independent Non-executive Directors						
Mei Jianping	8/8	1/1	1/1			1/1
Lee Conway Kong Wai	8/8			2/2	2/2	1/1
Xiao Zhengsan	8/8	1/1	1/1	2/2	2/2	0/1
Li Xin	8/8	1/1	1/1	2/2	2/2	0/1

Except for regular Board meetings, the Chairman also held a meeting with independent non-executive Directors on 28 March 2019. All relevant Directors attended the meeting.

The Company makes available to the Directors in advance the annual meeting schedules and draft agenda of each meeting of the Board and the Committees, and serves notices of regular Board meetings at least 14 days before the meetings. For other Board and Committee meetings, reasonable notices are given. Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or Committee meeting to keep the Directors appraised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and every Director also have separate and independent access to the senior management where necessary.

Draft and final versions of minutes are circulated to Directors or relevant Committee members for comment and record respectively within a reasonable time after each meeting. Minutes of Board meetings and Committee meetings are kept by the Company Secretary or the duly appointed secretaries of the respective meetings (as the case may be) and are available for inspection by all Directors at all reasonable time. The Articles contain provisions requiring any Director to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Director or any of his associates has a material interest.

4. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company has appointed Mr. Yang Peng as both the Chairman and the Chief Executive Officer of the Company. The Board believes that vesting the roles of the Chairman and Chief Executive Officer in the same individual would enable the Company to achieve higher responsiveness, efficiency and effectiveness when formulating business strategies and executing business plans. The Board believes that the balance of power and authority is sufficiently maintained by the operation of the Board, comprising the executive Directors and independent non-executive Directors.

5. BOARD COMMITTEES

The Board has established four committees, namely, the Nomination Committee, the Remuneration Committee, the Audit Committee and the Risk Management Committee, to oversee particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

(1) Nomination Committee

As at the date of this report, the Nomination Committee comprises four members, including one executive Director, Mr. Yang Peng (chairman of the Committee) and three independent non-executive Directors, namely, Mr. Mei Jianping, Mr. Xiao Zhengsan and Mr. Li Xin.

The main responsibilities of the Nomination Committee include reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's strategy, identifying individuals suitably qualified to become Board members, selecting and nominating individuals to be appointed as a Director or advising the Board in this regard, making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors and assessing the independence of independent non-executive Directors. The Nomination Committee also reviews the Board Diversity Policy and Director Nomination Policy from time to time to ensure its effectiveness.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

For the year ended 31 December 2019, the Nomination Committee held one meeting for discussing the structure and composition of the Board and considering and approving the resolutions in relation to the measurable objectives set for implementing the Board Diversity Policy and the proposals on newly appointed Directors. Details of each committee member's attendance at the Nomination Committee meeting are set out in "Attendance of Directors and committee members" above.

Board Diversity Policy

The Board adopted a board diversity policy ("**Board Diversity Policy**") in August 2014. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

On setting the composition of the Board, the Company maintains that Board appointment should be based on merit that complements and expands the skills, experience and expertise of the Board as a whole, taking into account professional experience and qualifications, gender, age, ethnicity, cultural and educational background, and any other factors that the Board might consider relevant and applicable from time to time towards achieving a diversified Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to experience and expertise, professional experience and qualifications, gender, age, ethnicity and cultural and educational background.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered. The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

The Nomination Committee will review the Board Diversity Policy as and when appropriate to ensure its effectiveness.

Director Nomination Policy

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

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

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

- character and integrity;

- qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;

- diversity in all aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;

- requirements of independent non-executive Directors on the Board and independence of the proposed independent non-executive Directors in accordance with the Listing Rules; and

- commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committees of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. In relation to the appointment of a new director, the Nomination Committee will request the candidate to provide his/her biographical information and other information deemed necessary. The Nomination Committee will review and take reasonable steps to verify the information obtained from the candidate and seek clarification, where required. The Nomination Committee may, at its discretion, invite any candidate to meet with the Nomination Committee members to assist them in their consideration of the proposed nomination or recommendation. The Nomination Committee will then submit its nomination proposal to the Board for consideration and approval, make recommendations to the shareholders of the Company for approval.

The Nomination Committee will conduct regular review on the structure, size and composition of the Board and the Director Nomination Policy, and where appropriate, make recommendations on changes to the Board for consideration and approval to complement the Company's corporate strategy and business needs to ensure its effectiveness.

(2) Remuneration Committee

As at the date of this report, the Remuneration Committee comprises four members, including three independent non-executive Directors, namely, Mr. Mei Jianping (chairman of the Committee), Mr. Xiao Zhengsan and Mr. Li Xin, and one executive Director, Mr. Yang Peng.

The main responsibilities of the Remuneration Committee include making recommendations to the Board on the Group's policy and structure for Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy, assessing the performance of executive Directors and approving the terms set out in the service contract of executive Directors, reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives, and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

For the year ended 31 December 2019, the Remuneration Committee held one meeting for reviewing the policy and structure of the remuneration of the Directors and senior management, assessing the performance of the senior management and the remuneration proposals of new Directors, as well as reviewing the management's remuneration proposals with the reference to the Board's corporate goals and objectives. Details of each committee member's attendance at the Remuneration Committee meeting are set out in "Attendance of Directors and committee members" above.

Details of the amount of Directors' remuneration are set out in note 9 to the financial statements of this annual report.

For the year ended 31 December 2019, the aggregate emoluments payable to members of senior management fell within the following band:

Emolument Range	Number of Individuals
RMB1,000,000 to RMB1,500,000	1

(3) Audit Committee

As at the date of this report, the Audit Committee comprises three independent non-executive Directors, namely, Mr. Lee Conway Kong Wai (chairman of the Committee), Mr. Xiao Zhengsan and Mr. Li Xin.

The main responsibilities of the Audit Committee include reviewing financial information, financial and accounting standards of the Group, monitoring the external auditor's independence and objectivity and effectiveness of the audit process and making recommendations to the Board on the appointment, re-appointment, removal of the external auditor and approving its remuneration and terms of engagement. The Audit Committee is also responsible for reviewing the financial reporting process, financial control, internal control, including internal audit function and the arrangements for concerns raised about possible improprieties in the financial reporting process, financial control, internal control or other matters (i.e. the "**whistle blowing policy**").

During the year ended 31 December 2019, the Audit Committee held two meetings to conduct the following works:

(a) reviewed the audited consolidated financial statements, annual results announcement and annual report of the Company and its subsidiaries for the year ended 31 December 2018;

(b) reviewed the unaudited consolidated financial statements, interim results announcement and interim report of the Company and its subsidiaries for the six months ended 30 June 2019;

(c) reviewed and considered the major audit findings by the auditor;

(d) reviewed and considered the financial reporting system of the Company;

(e) reviewed the arrangements employees can use to raise concerns about possible improprieties in financial reporting, internal control or other matters, and to consider and review the investigation progress of reported cases; and

(f) reviewed and revised the terms of reference of the Audit Committee.

The Company's annual results for the year ended 31 December 2019 have been reviewed by the Audit Committee.

Details of each committee member's attendance at the Audit Committee meetings are set out under "Attendance of Directors and committee members" above.

The Audit Committee also held two meetings with the external auditor with the executive Directors being absent.

(4) Risk Management Committee

As at the date of this report, the Risk Management Committee comprises three independent non-executive Directors, namely, Mr. Lee Conway Kong Wai (chairman of the Committee), Mr. Xiao Zhengsan and Mr. Li Xin.

The Risk Management Committee is authorized by the Board to oversee the Group's overall risk management framework and advise the Board on risk management matters of the Company. The Risk Management Committee is also responsible for regularly assessing the effectiveness of risk management and internal controls and reviewing environmental, social and governance issues.

For the year ended 31 December 2019, the Risk Management Committee held two meetings to review the adequacy and effectiveness of risk management and internal control systems of the Company and its subsidiaries for the years ended 31 December 2018 and 2019, the Company's investment, the matters relating to the corporate governance report and the Environmental, Social and Governance Report for the year 2018. The Board confirmed that the Company maintained a sound and effective risk management and internal control systems. Details of each committee member's attendance at the Risk Management Committee meeting are set out under "Attendance of Directors and committee members" above.

6. CORPORATE GOVERNANCE FUNCTIONS

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

(1) to formulate and review the Group's corporate governance policies and practices;

(2) to review and oversee the training and continuous professional development of Directors and senior management of the Group;

(3) to review and oversee the Group's policies and practices in compliance with any requirements, guidelines and rules that may be imposed by the Board or which may be incorporated into any constitutional documents of the Group or which may have been provided by the Listing Rules, applicable laws and other regulatory requirements as well as by applicable institutional governance standards;

(4) to formulate, review and oversee the code of conduct and the compliance handbook (if any) of the employees and Directors of the Group; and

(5) to review the Group's compliance with the CG Code as adopted by it from time to time and the disclosure in the Corporate Governance Report as set out in the annual reports of the Company.

7. DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL REPORT

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019.

The Board is responsible for presenting balanced, clear and understandable annual and interim reports, price sensitive information disclosure and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management of the Company is responsible for providing such explanation and information necessary to the Board to enable the Board to carry out an informed assessment of the financial statements of the Company put to the Board for approval.

8. EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the independent auditor of the Company about its reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 45 to 46 of this annual report.

During the year, the remuneration paid or payable to the Company's external auditor in respect of audit services for the year ended 31 December 2019 was RMB3.50 million. There were no non-audit services provided by the external auditor during the year ended 31 December 2019.

9. RISK MANAGEMENT

The Company has set up an organizational structure with clarified responsibilities and reporting procedures to strengthen risk management. In 2019, the Risk Management Committee of the Board assisted the Board in monitoring risk exposure and designed and enhanced the effectiveness of risk management.

Board of Directors	• Take overall responsibility for risk management of the Company • Assess and determine the nature and extent of risks that the Company could bear for achieving business objectives • Oversee the design, implementation and monitoring of risk management by the management
Risk Management Committee	• Assist the Board of Directors in monitoring risk management performance and major risks • Consider the Company's risk management strategies • Consider, review and approve risk management policies and guidelines • Monitor the effectiveness of risk management • Monitor environmental, social and governance matters
Internal audit department	• Independent assessment of risk management systems utilizing audit procedures
Management	• Design, implement and monitor risk management systems • Notify the Risk Management Committee of major risks and report on actions to be taken to manage those risks • Confirm the effectiveness of risk management of the Company
Business department	• Identify risks, evaluate and execute risk control and rectify measures under respective responsible department

Risk Management Procedures

As for the Company's risk management procedures, the Plan-Do-Check-Act (PDCA) recurring model was adopted to identify issues during the course of business and daily operation of the Group, to advise responsive measures against major risks and to monitor their implementation, so as to fully implement risk management in the operation of the Group. The Company's risk management procedures are shown as follows:

Phase P Information Collection and Risk Identification

- Collect primary information on risk management of various departments and business lines of the Group
- Conduct a comprehensive risk assessment to identify potential risks

Phase D Risk Assessment and Risk Management

- Assess and score the impact of identified risks on the business and the likelihood of occurrence
- Set up risk management strategies and specific implementation plans for the assessment results

Phase C Risk Reporting and Risk Monitoring

- Periodically report on the results of implementation of risk management plans for respective business lines
- The management regularly monitors the execution of risk management plans for each department and makes rectification recommendation

Phase A Enhancement and Improvement of Risk Management

- Standardise the measures which were proved to be effective during the implementation of risk management, so as to continue to implement those measures in the subsequent works
- Summarise the issues materialised during the implementation of risk management and devise rectification plans, so as to improve the quality of risk management

Major Risks

Description of major risks	Risk control measures
Going concern risk In 2019, the Group incurred an annual loss of RMB5,845,080,000. As of 31 December 2019, the shareholders' deficit of the Group was RMB3,753,852,000, and the Group's current liabilities exceeded its current assets by RMB6,328,260,000, and the Group had only cash and cash equivalents of RMB55,224,000. The above matters indicate that there are material uncertainties which may cast significant doubt upon the Company's ability to continue as a going concern.	• The Group actively puts forward the implementation of its business strategy plan, including the optimization of some automobile brand structure, reassessment of operating scale of regional businesses, analysis of store operating performance and other applicable measures to optimize the overall operating structure and management of the Group; • Further streamline the organization, flatten the management of the Company, improve management efficiency, reduce costs and improve operation; • Further revitalize assets, optimize asset utilization rate and increase other business income; • Actively seek external potential investors, explore and seek possible cooperation opportunities, including various possible strategic investment cooperation and operation cooperation, so as to further promote the operation and management of the Company.

Description of major risks	Risk control measures
Industry risk In 2019, the new car sales in the automobile industry in the PRC continued to show negative growth. The intensifying brand competition and implementation of the National VI Emission standard put pressure on the profitability of automobile dealerships. Various forms of automobile sales have been developed, and industry competition has further intensified. The agency automobile brands and prices of the Group are facing fierce competition from competitors.	• Continuously monitor the market competition; • Reassess business strategy, close some automobile dealerships due to internally reorganization and adjustment on some automobile brands and regional business, meanwhile lay out the development of second-hand car, value-added and other businesses, and accelerate the transformation of business into the automotive post-market; • Maintain the competitive position through improving service quality, innovating service products and brand promotion to gain market recognition.
Financial risk Changes in financial market may have adverse impact on the financial condition of the Company. The Group is exposed to various financial risks, such as interest rate risk, foreign currency risk and liquidity risk, etc.	• Continue to pay attention to the trend of national monetary policy and make a plan to response; • Strengthen overall budget management, monitor changes in financial indicators, and adopt targeted coping strategies properly to ensure the Group's stable financial operation.
Investment and financing risk • The automobile industry was not as optimistic as expected in general with continuous negative growth of sales volume; • Funding fundamentals were tight and profitability was weakened; • The financing cost was high and repayment pressure was high. These internal and external factors may result in the decline of the Company's solvency and debt crisis; the increase in financing cost may lead to the decrease in profitability of the Company.	• According to the development strategies of the Company and based on our own actual condition, the Company will formulate scientific financing plans; • Actively expand financing channels; • Strengthen the overall control of capital use, optimise capital usage structure and reasonably allocate funds; • Continuously monitor the liquidity indicators, optimise capital usage structure and reasonably allocate funds.

Description of major risks	Risk control measures
Legal and compliance risk The risk is caused by loss arising from violation or non-compliance with applicable laws, regulations or contracts.	• Seek for internal and external legal advice for business activities or new business; • Designate specific legal personnel to review the contracts; • The internal control department conducts specific review of compliance; • Establish legal litigation emergency work agencies, regularly sort out legal dispute cases, identify major legal risks, report to management for priority disposal, and resolve major legal risks in a timely manner.

Since the Group is operating under keen competition environment, persistent and effective risk management is the key factor for achieving outstanding performance and business objectives. Facing the continuously severe market environment, the Group will continue to perfect the model and framework of risk management, and speed up the implementation of risk management responsibilities and obligations of each department.

10. INTERNAL CONTROL

The Board is responsible for maintaining a solid and effective internal control system to safeguard investments of shareholders and assets of the Company.

The Board conducts review at least once a year on the effectiveness of the internal control systems of the Group, including the adequacy of resources, staff qualifications and experience of the Company's accounting and financial staffs, as well as their training programmes and budget.

The Internal Control Management Department of the Company is responsible for the Company's internal audit function, analyzing and making an independent assessment of the effectiveness of the Company's internal control system. The Internal Control Management Department will formulate the annual internal audit plan on the basis of risk assessment every year. The audit plan will focus on the operation of principal business segment and functional department and high risk business activities. The annual internal audit plan will be subject to the consideration and approval by the Audit Committee at the beginning of every year.

In 2019, the Internal Control Management Department has consistently made an overall audit on the stores and specific audit on internal control and other audit specifics, as well as made assessment on operation and management status of stores and regions. As to various risk and management issues identified during the audit, the Internal Control Management Department will periodically follow and promote the remedies of the units being audited, and effectively propel the continuous improvement of risk management and internal control system. The Internal Control Management Department will report to the Audit Committee regularly.

The Board, through the Audit Committee and the Risk Management Committee, has conducted a review on the risk management and internal control systems of the Company and its subsidiaries for the year ended 31 December 2019. Such review covered the areas of finance, operation, compliance and risk management of the Group. The Board confirmed that these systems are effective and sufficient.

11. WHISTLE BLOWING POLICY

A whistle blowing policy was formulated by the Company to ensure inappropriate business practices and behaviors are reported and properly handled. The policy includes the set up of a reporting hotline and an electronic mailbox. Acceptance and follow-up processing will be performed by the Internal Control Management Department at the direction of the Audit Committee. Procedures and controls are in place to ensure the informant's identity is kept confidential.

12. INSIDE INFORMATION POLICY

An inside information policy was formulated by the Company. The policy covers the scope, procedures and steps of handling and dissemination of inside information for the purpose of compliance with the obligation of processing and publication of inside information.

13. DIVIDEND POLICY

A dividend policy was formulated by the Company on payment of dividends. The policy sets out the factors in determination of dividend payment of the Company, the frequency and form of dividend payments. The Dividend Policy will be reviewed periodically and submitted to the Board for approval if amendments are required.

14. INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

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

The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and extraordinary general meetings. The chairman of the Board, independent non-executive Directors, and the chairmen of all Board committees (or their delegates) will make themselves available at general meetings to meet shareholders and answer their enquiries. In addition, to promote effective communication, the Company maintains a website at www.rundongauto.com, where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

15. COMPANY SECRETARIES

Ms. Ho Siu Pik of Tricor Services Limited, an external service provider, is the company secretary of the Company. The chief responsibilities of the company secretary include supporting the Board, ensuring good communication and flow of information within the Board and the compliance of the policies and procedures of the Board, and advising the Board on governance matters, assisting Directors to their new positions and overseeing their training and continuous professional development. The biographical details of Ms. Ho Siu Pik are set out on page 34 of this annual report.

According to Rule 3.29 of the Listing Rules, Ms. Ho, the Company Secretary, has confirmed that she has taken no less than 15 hours of professional training to update her skill and knowledge for the year ended 31 December 2019.

16. GOING CONCERN CAPABILITY

During the year ended 31 December 2019, the Group incurred a net loss of RMB5,845,080,000. As at 31 December 2019, the Group had a shareholders' deficit of RMB3,753,852,000, the Group's current liabilities exceeded its current assets by RMB6,328,260,000. As at the same date, the Group had total borrowings of RMB4,147,355,000 of which approximately RMB3,848,140,000 represented current liabilities, while the Group only had cash and cash equivalents of RMB55,224,000. The status of the Group's borrowings as at 31 December 2019 was further detailed in note 28 to the consolidated financial statements. These conditions, together with others described in note 2.1 to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a going concern.

The Directors of the Company have been undertaking measures to improve the Group's liquidity and financial position, which are set out in note 2.1 to the consolidated financial statements. The validity of the going concern assumptions on which the consolidated financial statements have been prepared depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) successfully negotiating with financial institutions and other lenders to seek for extension of due dates of bank and other loans; (ii) successfully implementing a consensual resolution of the terms of repayments with creditors; (iii) successfully carrying out the Group's business strategy plan and cost control measurements so as to improve working capital and cashflow position; and (iv) successfully obtaining additional new sources of financing or new strategic capital investments to be injected by independent third party into the Group within next twelve months.

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

17. SHAREHOLDERS' RIGHTS

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

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

Procedure for convening an extraordinary general meeting by shareholders

Pursuant to the Articles of the Company, any one or more shareholders holding not less than one-tenth of the issued share capital of the Company carrying the right of voting at general meetings may require an extraordinary general meeting by a written requisition to the Board or the Company Secretary either via personal delivery or mail (for the attention of the Board of Directors/Company Secretary, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong) or via email (ir@rundongauto.cn). The Board shall, within 21 days from the date of deposit of the requisition, duly convene a general meeting.

Procedure for putting forward proposals at general meetings

Any shareholder who wishes to put forward proposals at general meetings of the Company shall submit such proposals to the Board in writing for the Board's consideration either via personal delivery, mail (for the attention of the Board of Directors/Company Secretary, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong) or via email (ir@rundongauto.cn). The Board may, in its sole discretion, consider if such proposals are appropriate and shall put forward such proposals to the shareholders for approval at the next annual general meeting, or at an extraordinary general meeting to be convened by the Board, as appropriate.

Procedure for putting forward enquiries to the Board

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

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

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

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

18. CONSTITUTIONAL DOCUMENTS

The Company adopted its Amended and Restated Memorandum and Articles of Association on 23 July 2014, which came into effect on 12 August 2014 and have subsequently been amended by the special resolutions passed on 5 August 2015 and on 20 January 2017.

There was no change in the Company's memorandum and Articles as at 31 December 2019.

An up-to-date version of the Company's memorandum and the Articles is available for inspection on both the websites of the Stock Exchange and the Company.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

DIRECTORS

The Board currently consists of five Directors, comprising one executive Director and four independent non-executive Directors.

Executive Director

Mr. Yang Peng (楊鵬), aged 50, is our Chairman, executive Director and Chief Executive Officer of our Group as well as the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Yang has substantial experience in the automobile dealership industry. He is the founder of our Group and has been the president of our Group since March 1998. Mr. Yang is responsible for our Group's overall business development and strategic planning. Mr. Yang also serves as a director/corporate representative of various subsidiaries of the Company. From October 1999 to October 2001, he served as the deputy general manager of Jiangsu Hangao Information Industry Co., Ltd. (江蘇漢高信息產業股份有限公司). The Hangao Food website of this company (www.hangaofood.com) is the first "Pilot Urban E-Commerce Project" in the PRC and a significant technological breakthrough project under the "Ninth Five-Year Plan". Mr. Yang Peng also worked at the finance department of Xuzhou Transportation Bureau (徐州市交通局財務科) from September 1990 to September 1992. Mr. Yang obtained an EMBA degree from Cheung Kong Graduate School of Business in October 2009.

Independent Non-Executive Directors

Mr. Mei Jianping, aged 60, is an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Nomination Committee of the Company. Mr. Mei has been a professor of Finance at Cheung Kong Graduate School of Business since 2006. He is currently an independent non-executive director of Powerlong Real Estate Holdings Limited (HK stock code: 1238), MIE Holdings Corporation (HK stock code: 1555), Shanghai Shentong Metro Co., Ltd. (Shanghai stock code: 600834), Cultural Investment Holdings Company Limited (Shanghai stock code: 600715) and Dazzle Fashion Co., Ltd. (Shanghai stock code: 603587). Mr. Mei served as an independent non-executive director of Ground International Development Limited (formerly known as "Ground Properties Company Limited") (HK stock code: 989) from November 2013 to December 2017. Mr. Mei received a doctorate degree in economics (finance) from Princeton University in January 1990.

Mr. Lee Conway Kong Wai (李港衛), aged 65, is an independent non-executive Director and the chairmen of the Audit Committee and the Risk Management Committee of the Company. Mr. Lee has over 30 years of experience in public accounting and auditing, corporate finance, merger and acquisition and initial public offerings. From September 1980 to September 2009, Mr. Lee served as a partner of Ernst & Young. Mr. Lee is currently an independent non-executive director of West China Cement Limited (HK stock code: 2233), Chaowei Power Holdings Limited (HK stock code: 951), GOME Retail Holdings Limited (formerly known as "GOME Electrical Appliances Holding Limited") (HK stock code: 493), NVC International Holdings Limited (formerly known as "NVC Lighting Holding Limited" (HK stock code: 2222)), China Modern Dairy Holdings Ltd. (HK stock code: 1117), Yashili International Holdings Ltd (HK stock code: 1230), Guotai Junan Securities Co., Ltd. (HK stock code: 2611, Shanghai stock code: 601211), GCL New Energy Holdings Limited (HK stock code: 451) and WH Group Limited (HK stock code: 288). Mr. Lee acted as an independent non-executive director of Tibet Water Resource Ltd. (HK stock code: 1115) from March 2011 to February 2020. Mr. Lee also acted as a non-executive director and deputy chairman of China Environmental Technology and Bioenergy Holdings Limited (formerly known as "Merry Garden Holdings Limited") (HK stock code: 1237) from July 2014 to September 2015. Mr. Lee also acted as an independent non-executive director of CITIC Securities Company Limited (HK stock code: 6030, Shanghai stock code: 600030) from November 2011 to May 2016. Mr. Lee also acted as an independent non-executive director of China Taiping Insurance Holdings Company Limited (HK stock code: 966) from October 2009 to August 2013. Mr. Lee has been a member of the Institute of Chartered Accountants in England and Wales since October 2007, the Institute of Chartered Accountant in Australia and New Zealand since December 1996, the Association of Chartered Certified Accountants since September 1983, the Hong Kong Institute of Certified Public Accountants since March 1984 and the Macau Society of Certified Practising Accountants since July 1995. From 2007 to the end of 2017, Mr. Lee was a member of the Chinese People's Political Consultative Conference of Hunan Province. Mr. Lee obtained his post graduate diploma in business at Curtin University of Technology in Australia in February 1988.

Mr. Xiao Zhengsan (肖政三), aged 56, is an independent non-executive Director and members of the Nomination Committee, the Remuneration Committee, the Audit Committee and the Risk Management Committee of the Company. Mr. Xiao has been a director of the exhibition department and deputy secretary general of China Automobile Dealers Association (中國汽車流通協會) since August 2008, and has been promoted to the secretary general since November 2014. Mr. Xiao has been a vice-chairman of China Auto Modification Accessories Association since January 2017. He has been a vice-chairman and the secretary general of China Automobile Dealers Association (中國汽車流通協會) since November 2018. He served as a supervisor of Baocheng Investment Co., Ltd. (寶誠投資股份有限公司) (Shanghai stock code: 600892) from July 2003 to June 2008. Mr. Xiao obtained a bachelor's degree in financial accounting from Jiangxi University of Finance and Economics in July 1984.

Mr. Li Xin (李鑫), aged 47, is an independent non-executive Director and members of the Nomination Committee, the Remuneration Committee, the Audit Committee and the Risk Management Committee of the Company. He has been the president of Beijing Zhongzhi Shengdao Management Consultant Limited (北京中智盛道企業管理諮詢有限公司) since 2013. Currently, Mr. Li Xin is also a director of Qingdao ZhongFang Elink Development Investment Limited (青島中紡億聯開發投資有限公司), the vice president of Qingdao Elink Group Incorporation Company Limited (青島億聯集團股份有限公司), a director of Ningxia Taihua Corporate Company (寧夏泰華實業集團有限公司), the chairman of Qingdao Bielai Xinshe Art and Culture Co., Ltd. (青島別來心舍文化藝術有限公司) and a director of Beijing AZSY Technology Company Limited (北京愛知世元科技股份有限公司), a company listed on the National Equities Exchange and Quotations, stock code: 834817. He is also employed as a professor at the Tsinghua University Training Centre of Professional Managers and a graduate tutor at the Beihang University in China. Prior to those positions, he was a director of SmartHeat, Inc. (Nasdaq stock code: HEAT) from 2009 to 2015 and the chief executive officer of Shenggao Consulting Group (盛高諮詢集團) from 2007 to 2013. Mr. Li Xin is very experienced in management consulting and has been involved in the consultancy of renowned companies such as the headquarters of China Everbright Bank (中國光大銀行總行), Beijing Haidian Science Park (北京海澱科技園), Xtep International Holdings Limited (Hong Kong stock code: 1368), Shaanxi Xindalu Group (陝西新大陸集團), Panjiang Holdings (盤江控股), Xinjiang Electric Power Design Institute (新疆電力設計院), Delisi Group (德利斯集團) and Baolingbao Biology Company Limited (Shenzhen SME Board stock code: 002286). Mr. Li Xin obtained an MBA degree from Beihang University in China in April 2004.

COMPANY SECRETARY

Ms. Ho Siu Pik (何小碧) has been appointed as the Company Secretary of the Company since 28 March 2019. Ms. Ho is an executive director of corporate services of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. She has over 20 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational companies, private enterprises and offshore companies. Ms. Mak is a Chartered Secretary and a fellow member of both The Hong Kong Institute of Chartered Secretaries ("HKICS") and The Institute of Chartered Secretaries and Administrators in the United Kingdom ("ICSA"). She is a holder of the Practitioner's Endorsement from HKICS.

REPORT OF DIRECTORS

The Directors are pleased to present this report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the Cayman Islands with limited liability. Its registered office is situated in the Cayman Islands and its operation headquarter is located in Shanghai, China.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities and other details of subsidiaries of the Company are set out in note 41 to the financial statements of this annual report.

SUBSIDIARIES

Please refer to note 41 to the financial statements of this annual report.

RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated financial statements.

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2019 and for the past five financial years are set out on page 3 of this annual report.

BUSINESS REVIEW

For discussion and analysis as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including a fair view of the Company and a discussion of the principal risks and uncertainties exposed to the Company, particulars of significant events affecting the Company that have occurred subsequent to the end of the financial year of 2019, an indication of likely future development in the Company's business, are set out in sections headed the "Financial Highlights", "Chairman's Statement", "Management Discussion and Analysis" and "Corporate Governance Report" of this annual report. The said discussion forms part of this Report of Directors.

ENVIRONMENTAL POLICIES AND PERFORMANCE

While maintaining the leading quality of service in the industry, the Company is also dedicated to the environmental protection, safety and health and social responsibility during the development of the Group by setting up an ESG management system that is in line with business development. By adhering to the concept of sustainable development, we proactively monitor the environmental, social and governance risks in our own operations so as to achieve sustainable growth of our Group.

By adhering to the concept of sustainable development, the Company consistently increases investment in environmental protection to achieve social and environmental benefits, in order to make contributions to achieve green and sustainable environment. To this end, the Company has formulated a series of environmental, social and governance policies and has taken corresponding measures for implementation. During the Reporting Period in 2019, there was no violation against laws and regulations related to environment, society and governance and no material adverse effect on environment and society.

REPORT OF DIRECTORS

On the basis of taking responsibilities actively, the Company also discloses environmental, social and governance information initiatively. According to the requirements relating to the Environmental, Social and Governance Reporting Guide of the Hong Kong Stock Exchange, the Company will promptly announce an environmental, social and governance report of 2019 which discloses the environmental, social and governance information of the Company during the Reporting Period in 2019. For more information about the environmental, social and governance of the Company for the financial year of 2019, please refer to the environmental, social and governance report of 2019 to be published by the Company. After the publication of the report, it will be available for inspection or download at the website of the Hong Kong Stock Exchange.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company commits to strictly complying with relevant governing laws and regulations of relevant jurisdictions where the Company operates and applicable guidelines and rules issued by regulatory authorities. To the knowledge of the Directors, during the Reporting Period, the Company has complied with all the relevant laws and regulations of significant impact on the Company.

RESERVES

As at 31 December 2019, distributable reserves of the Company amounted to RMB(3,754.1) million. Details of movements in reserves of the Company during the year are set out in note 31 to the financial statements of this annual report.

FINAL DIVIDEND

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

ANNUAL GENERAL MEETING

The AGM of the Company will be held on 31 July 2020. Notice of the AGM will be published and issued to shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the the shareholders' entitlement to attend and vote at the AGM of the Company, the register of members of the Company will be closed from Tuesday, 28 July 2020 to Friday, 31 July 2020, both dates inclusive, during which time no transfer of shares will be registered. To qualify for attending and voting at the AGM, shareholders must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m.on Monday, 27 July 2020 for registration of the relevant transfer.

PROPERTY AND EQUIPMENT

Details of movements in property and equipment of the Group during the year ended 31 December 2019 are set out in note 13 to the financial statements of this annual report.

SHARE CAPITAL

Details of movements in share capital of the Company during the year ended 31 December 2019 are set out in note 30 to the financial statements of this annual report.

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

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

CONNECTED TRANSACTION

During the Reporting Period, no connected transaction or continuing connected transaction which shall be disclosed in accordance with the Listing Rules was entered into by the Group.

OTHER BORROWINGS

Details of bank loans and other borrowings of the Group during the year ended 31 December 2019 are set out in note 28 to the financial statements of this annual report.

CONTINGENT LIABILITIES

Details of contingent liabilities of the Company and the Group as at 31 December 2019 are set out in note 34 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of the Company and there is no restriction against such rights which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

TAX RELIEF

As at the end of the year ended 31 December 2019, according to the laws of the Cayman Islands, holders of listed securities of the Company are not entitled to tax relief for their status as the holder of such securities.

NON-COMPETITION UNDERTAKING FROM CONTROLLING SHAREHOLDERS

The Company has received an annual confirmation from its controlling shareholders, Rundong Fortune Investment Limited, Cheerful Autumn Holdings Limited, Rue Feng Holdings Limited and Mr. Yang Peng to confirm that from the date of execution of non-competition undertaking to the year ended 31 December 2019, they had been in compliance with the non-competition undertaking provision set out in the prospectus of the Company, and they did not engage or hold any interest in any business which is or is likely to be in competition, directly or indirectly, with the business of the Group.

The independent non-executive Directors had reviewed the above undertaking and concluded that Rundong Fortune Investment Limited, Cheerful Autumn Holdings Limited, Rue Feng Holdings Limited and Mr. Yang Peng had been in compliance with the non-competition undertaking from the date of execution of non-competition undertaking to the year ended 31 December 2019.

DIRECTORS

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

Executive Director	Yang Peng *(Chairman and Chief Executive Officer)*
Independent Non-Executive Directors	Mei Jianping Lee Conway Kong Wai Xiao Zhengsan Li Xin

Pursuant to article 16.18 of the Articles, Mr. Lee Conway Kong Wai, Mr. Xiao Zhengsan and Mr. Li Xin will retire at the AGM to be held on 31 July 2020 and, being eligible, will offer themselves for re-election at the AGM.

DIRECTORS' INTERESTS IN MAJOR TRANSACTION, ARRANGEMENT OR CONTRACTS

Save as disclosed under note 37 to the financial statements of this annual report, no major transaction, arrangement or contract to which the Company, its holding company or any of its subsidiaries was a party, and in which a Director of the Company or an entity connected with such Director had a material interest, whether directly or indirectly subsisted at any time during the year ended 31 December 2019.

MATERIAL CONTRACTS WITH CONTROLLING SHAREHOLDERS OR ITS SUBSIDIARIES

In 2019, the Company obtained a financial assistance from Mr. Yang Peng, a controlling shareholder. As at 31 December 2019, the borrowing provided by Mr. Yang Peng was RMB191,929,000. Mr. Yang Peng did not obtain any interest from the financial assistance and the Group did not provide any assets as pledge.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

As of 31 December 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interests in shares or underlying shares of the Company

Name of Director/Chief Executive	Nature of Interest	Number of Shares or underlying shares [(1)]	Approximate percentage of shareholding interest
Yang Peng[(2)]	Interest of controlled corporation, beneficial owner	1,345,027,288 (L)	142.1%

Notes:

(1) The letter "L" denotes the person's long position in such shares.

(2) Mr. Yang Peng as the protector of the Rue Feng family trust is deemed to be interested in the shares held as he has the power to appoint and remove, and to amend the rights of, the trustee to the Rue Feng family trust, currently being HSBC International Trustee Limited. Mr. Yang Peng is also (a) beneficially interested in 14,759,541 management subscription shares pursuant to the Management Subscription; and (b) interested in 664,268,747 convertible preference shares, as he is deemed to be interested in the same number of convertible preference shares which Rundong Fortune Investment Limited is interested in under the SFO.

Save as disclosed above, as at 31 December 2019, none of the Directors and the chief executives of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS TO BE DISCLOSED UNDER THE SFO

As at 31 December 2019, the interests or short positions of substantial shareholders (other than the Directors or the chief executives of the Company whose interests and short positions in the shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) as set out below) who had 5% or more interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be maintained by the Company under Section 336 of the SFO were as follows:

Name of Shareholder	Nature of Interest	Number of Shares [1]	Approximate percentage of shareholding interest
Rundong Fortune Investment Limited[2]	Beneficial owner	1,332,286,747 (L)	140.76%
Cheerful Autumn Holdings Limited[2]	Interest in controlled corporation	1,332,286,747 (L)	140.76%
Rue Feng Holdings Limited[2]	Interest in controlled corporation	1,332,286,747 (L)	140.76%
HSBC International Trustee Limited[2]	Trustee	1,332,286,747 (L)	140.76%
Central Huijin Investment Ltd.[3]	Person having a security interest in shares	352,963,987 (L)	37.29%
China Construction Bank Corporation[3]	Person having a security interest in shares	352,963,987 (L)	37.29%
LanHai International Trading Limited[4]	Person having a security interest in shares	848,270,747 (L)	89.62%
Lanhai Holding (Group) Company Limited[4]	Person having a security interest in shares	848,270,747 (L)	89.62%
Mi Chunlei (密春雷)[4]	Person having a security interest in shares	848,270,747 (L)	89.62%
OCI International Holdings Limited[5]	Person having a security interest in shares	75,981,000 (L)	8.03%

Notes:

(1) The letter "L" denotes the person's long position in such shares.

(2) Rundong Fortune Investment Limited is the wholly-owned subsidiary of Cheerful Autumn Holdings Limited, which is wholly-owned by Rue Feng Holdings Limited, which in turn is legally owned by the trustee to the Rue Feng family trust (being HSBC International Trustee Limited as at the date of this annual report) for the benefit of the beneficiaries of the Rue Feng family trust. Mr. Yang Peng, being the protector of the Rue Feng family trust, has the power to appoint and remove, and to amend the rights of, the trustee to the Rue Feng family trust.

(3) Pursuant to a deed of charge, Rundong Fortune Investment Limited has pledged certain shares in favor of Cheer Hope Holdings Limited, which is wholly controlled by CCBI Investments Limited, which is wholly controlled by CCB International (Holdings) Limited, which is wholly controlled by CCB Financial Holdings Limited, which is wholly controlled by CCB International Group Holdings Limited, which is wholly controlled by China Construction Bank Corporation, which is in turn 57.26% controlled by Central Huijin Investment Ltd.

(4) Pursuant to a deed of charge, Rundong Fortune Investment Limited has pledged certain shares in favor of LanHai International Trading Limited, which is wholly controlled by Lanhai Holding (Group) Company Limited, which is in turn 99% controlled by Mr. Mi Chunlei (密春雷).

(5) Pursuant to a deed of charge, Rundong Fortune Investment Limited has pledged certain shares in favor of OCI International Holdings Limited.

Save as disclosed above, as at 31 December 2019, the Company was not aware of any person (who are not Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be registered pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

SHARE OPTION SCHEME

a. Pre-IPO Share Option Scheme

In recognition of the contributions of the employees of the Group, the Group has implemented a share option scheme on 27 September 2011 (the "**Pre-IPO Share Option Scheme**"). For more information, please refer to the section headed "History and Reorganization – Establishment of the Employee Pre-IPO Trust" of the prospectus of the Company.

The details of the movements of the Pre-IPO Share Option Scheme during the Reporting Period are as follows:

					Number of share options					
Type of participant	Date of grant	Exercise period	Vesting period	Exercise price per Share	Outstanding as at 1 January 2019	Granted during the Reporting Period	Lapsed/ forfeited during the Reporting Period	Exercised during the Reporting Period	Expired during the Reporting Period	Outstanding as at 31 December 2019
Employees	15 November 2011	Note 1	Note 2	US$0.3573	3,815,317	–	1,294,289	–	–	2,521,028

Note 1: Each grantee to whom a share option has been granted shall be entitled to exercise his/her share option in such manner as set out below:

Exercise date	Maximum cumulative percentage of the vested share options exercised
The date after the first anniversary of the Listing Date but before the second anniversary of the Listing Date	30%
The date after the second anniversary of the Listing Date but before the third anniversary of the Listing Date	60%
The date after the third anniversary of the Listing Date but before the fourth anniversary of the Listing Date	80%
The date after the fourth anniversary of the Listing Date	100%

The Listing Date of the Company was 12 August 2014.

Note 2: The Pre-IPO Share Option shall be vested in accordance with the following schedule (the "**Vesting Date**"):

i. if a grantee is employed on or before 31 December 2011, the Vesting Date shall be 31 March of every year commencing 2012;

ii. if a grantee is employed from 1 January 2012 to 31 December 2012, the Vesting Date shall be 31 March of every year commencing 2013; and

iii. if a grantee is employed from 1 January 2013 to 31 December 2013, the Vesting Date shall be 31 March of every year commencing 2014.

After the expiry of the Pre-IPO Share Option Scheme, no further Pre-IPO Share Options shall be offered but in all other respects the provisions of the Pre-IPO Share Option Scheme shall remain in force. The Pre-IPO Share Options (to the extent not already exercised) granted prior to such expiry shall continue to be valid and exercisable until 15 November 2021.

During the period from the Listing Date and up to the date of this annual report, none of the Pre-IPO Share Options was granted or exercised.

b. Share Option Scheme

On 23 July 2014, the shareholders of the Company approved and adopted a share option scheme (the "**Share Option Scheme**") conditionally upon the approval by the Stock Exchange of the listing of, and permission to deal in, any shares to be allotted and issued pursuant to the exercise of options under the Share Option Scheme. The Company received such approval from the Stock Exchange on 11 August 2014.

The Share Option Scheme has been terminated on 14 August 2015.

c. Management Subscriptions

The purpose of the Management Subscriptions is to provide incentives to the Directors and the senior management of the Group who are regarded as valuable human resources of the Group to continuously drive the growth of the Group's businesses. On 16 May 2015, the Company entered into the Management Subscription Agreement with each of the Management Subscribers (namely several senior management members of the Group) and the Connected Management Subscribers (namely the Directors). The Company conditionally agreed to allot and issue, and the Management Subscribers and the Connected Management Subscribers conditionally agreed to subscribe for, a total of 80,537,237 Management Subscription Shares at the price of HK$2.89 each pursuant to the terms and conditions of the Management Subscription Agreements. Please refer to the Company's circular dated 13 July 2015 for more information and terms used herein shall have the details as defined in such circular.

The Completion of the Management Subscriptions with respect to each of the Management Subscribers and the Connected Management Subscribers will take place in four installments (the "**Installment Completion**") as following, and the revenue and net profit for the financial year immediately preceding the Installment Completion are not less than the revenue and net profit of the Group for the financial year ended 31 December 2014. As the results of 2015, 2016, 2017 and 2018 cannot fulfill the Subscription Conditions, the management cannot subscribe the foresaid shares, and the management subscription scheme was terminated in 2019.

RETIREMENT BENEFITS SCHEME

As stipulated by the PRC state regulations, the Mainland China subsidiaries shall participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 12% to 16% (2018: 14% to 22%) of the year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries.

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

None of the retirement schemes have provisions for the forfeiture of contributions made to the scheme. Contributions to these plans are expensed as incurred. The Group's contributions to the retirement benefit schemes charged to the consolidated income statement for the year ended 31 December 2019 was RMB30.2 million (2018: RMB38.14 million).

According to the relevant rules and regulations of the PRC, the Mainland China subsidiaries and their employees are each required to make contributions to a housing provident fund at 5% to 10% (2018: 5% to 10%) of the salaries and wages of the employees, which is administered by the Provident Fund Administration Center. There is no further obligation on the part of the Group except for such contributions to the housing provident fund.

As at 31 December 2019, the Group had no significant obligation apart from the contributions as stated above.

EMOLUMENT POLICY

The emolument policy of the general staff of the Company is set up by the management of the Group on the basis of their merit, qualifications and competence.

The emoluments of the Directors and senior management of the Company are proposed by the Remuneration Committee of the Company to the Board, having regard to the Company's operating results, individual performance and comparable market statistics, and subject to the final decision by the Board.

The remuneration of the Directors and senior management of the Company are set out in note 9 to the financial statements of this annual report.

To the knowledge of the Company, as at the date of this annual report, none of the Directors had waived or agreed to waive any arrangement for emolument.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Directors' and senior management's liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. Pursuant to the Articles, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

EQUITY-LINK ARRANGEMENTS

Apart from the Pre-IPO Share Option Scheme as disclosed above, the Company did not enter into any equity-linked agreement during the year ended 31 December 2019, nor was there any subsisting equity-linked agreement entered into by the Company at the end of year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

MAJOR CUSTOMERS AND SUPPLIERS

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

The aggregate purchase attributable to the Group's five largest suppliers accounted for 87.97% (2018: 84.98%) and the largest supplier accounted for approximately 49.79% (2018: 51.27%) of the Group's total purchases for the year ended 31 December 2019.

At no time during the year ended 31 December 2019 have any of the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of share capital of the Company) had any interest in these major customers and suppliers.

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group recognises that the employees, customers and suppliers are important to corporate sustainability and are keen on developing long-term relationships with these stakeholders. The Company places significant emphasis on human capital and strives to foster an environment in which the employees can develop to their fullest potential and can assist their personal and professional growth. The Company provides a fair and safe workplace, promotes diversity to our staff, and provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions.

The Group understands that it is important to maintain good relationship with customers and provide the products and services in a way that satisfy needs and requirements of the customers. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand for the products and services so that the Group can respond proactively. The Group has also established procedures in place for handling customers' complaints to ensure customers' complaints are dealt with in a timely and effective manner.

The Group is also dedicated to develop good relationship with suppliers as long-term business partners to ensure stability of the Group's businesses. Our business partnerships with suppliers have been enhanced by ongoing communication in a proactive and effective manner.

PUBLIC FLOAT

For the whole year ended 31 December 2019 and up to the date of this annual report, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed the minimum percentage of public float as required by the Listing Rules.

AUDITOR

Our external auditor, Ernst & Young, will retire but is proposed to re-appoint as the external auditor of the Company, and is approved by the Board. A resolution for its re-appointment as the auditor of the Company will be proposed at the forthcoming AGM of the Company.

EVENTS AFTER THE REPORTING PERIOD

Please refer to note 42 to the financial statements of this annual report for details of significant events after the Reporting Period.

By Order of the Board
Yang Peng
Chairman

29 May 2020

INDEPENDENT AUDITOR'S REPORT

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Independent auditor's report
To the shareholders of China Rundong Auto Group Limited
(Incorporated in the Cayman Islands as an exempted company with limited liability)

DISCLAIMER OF OPINION

We have audited the consolidated financial statements of China Rundong Auto Group Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 47 to 144, which comprise the consolidated statement of financial position as at 31 December 2019, 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.

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

BASIS FOR DISCLAIMER OF OPINION

Multiple uncertainties relating to going concern

As set out in note 2.1 to the consolidated financial statements, the Group incurred a net loss of RMB5,845,080,000 for the year ended 31 December 2019. As at 31 December 2019, the Group had a shareholders' deficit of RMB3,753,852,000 and the Group's current liabilities exceeded its current assets by RMB6,328,260,000. These conditions, together with other matters disclosed in note 2.1 to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

The directors of the Company have been undertaking measures to improve the Group's liquidity and financial position, which are set out in note 2.1 to the consolidated financial statements. The validity of the going concern assumptions on which the consolidated financial statements have been prepared depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) successfully negotiating with financial institutions and other lenders to seek for extension of due dates of bank and other loans; (ii) successfully implementing a consensual resolution of the terms of repayments with creditors; (iii) successfully carrying out the Group's business strategy plan and cost control measurements so as to improve working capital and cashflow position; and (iv) successfully obtaining additional new sources of financing or new strategic capital investments to be injected by independent third party into the Group within next twelve months.

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

Independent auditor's report *(continued)*
To the shareholders of China Rundong Auto Group Limited
(Incorporated in the Cayman Islands as an exempted company with limited liability)

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.

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and to issue an auditor's report. We report 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. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, it is not possible for us to form an opinion on these consolidated financial statements due to the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements.

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.

The engagement partner on the audit resulting in this independent auditor's report is Shun Lung Wai.

Ernst & Young
Certified Public Accountants
Hong Kong
29 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	**31 December 2019 RMB'000**	31 December 2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**2,323,883**	3,342,558
Land use rights	14	**688,620**	710,009
Intangible assets	15	**1,985**	490,162
Right-of-use assets	16	**193,886**	–
Finance lease receivables	17	**–**	13
Goodwill	18	**–**	869,107
Equity investments designated at fair value through other comprehensive income	19	**49,100**	55,719
Deferred tax assets	29	**–**	1,510
Total non-current assets		**3,257,474**	5,469,078
CURRENT ASSETS			
Inventories	20	**491,834**	1,480,761
Trade receivables	21	**109,961**	311,029
Finance lease receivables	17	**3,066**	2,587
Prepayments, other receivables and other assets	22	**899,977**	3,907,031
Cash in transit	23	**4,386**	9,821
Pledged bank deposits	24	**73,188**	1,386,631
Cash and cash equivalents	25	**55,224**	865,950
Total current assets		**1,637,636**	7,963,810
TOTAL ASSETS		**4,895,110**	13,432,888
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	28	**299,215**	679,976
Deferred tax liabilities	29	**103,198**	190,800
Lease liabilities	16	**280,653**	–
Total non-current liabilities		**683,066**	870,776
CURRENT LIABILITIES			
Trade and bills payables	26	**408,085**	2,150,700
Other payables and accruals	27	**3,279,177**	1,998,749
Amount due to a related party	37	**191,929**	361,416
Interest-bearing bank and other borrowings	28	**3,848,140**	5,702,266
Income tax payable		**219,331**	246,262
Lease liabilities	16	**19,234**	–
Total current liabilities		**7,965,896**	10,459,393
NET CURRENT LIABILITIES		**(6,328,260)**	(2,495,583)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(3,070,786)**	2,973,495
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	**5**	5
Reserves	31	**(3,754,122)**	2,097,150
		(3,754,117)	2,097,155
Non-controlling interests		**265**	5,564
Total equity		**(3,753,852)**	2,102,719
TOTAL EQUITY AND LIABILITIES		**4,895,110**	13,432,888

	Attributable to owners of the parent											
	Share capital RMB'000 (note 30)	Share premium RMB'000 (note 30)	Merger reserve RMB'000 (note 31(i))	Share option reserve RMB'000 (note 33)	Statutory reserve RMB'000 (note 31(ii))	Other reserve RMB'000 (note 31(iii))	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000 (note 31(iv))	Exchange fluctuation reserve RMB'000 (note 31(v))	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018	5	2,026,648*	522,797*	8,861*	269,541*	(30,603)*	(3,931)*	(9,338)*	833,793*	3,617,773	10,053	3,627,826
Loss for the year	–	–	–	–	–	–	–	–	(1,513,797)	(1,513,797)	(4,489)	(1,518,286)
Other comprehensive loss	–	–	–	–	–	–	(1,835)	(5,011)	–	(6,846)	–	(6,846)
Total comprehensive loss for the year	–	–	–	–	–	–	(1,835)	(5,011)	(1,513,797)	(1,520,643)	(4,489)	(1,525,132)
Transfer from retained earnings	–	–	–	–	15,120	–	–	–	(15,120)	–	–	–
Equity-settled share option arrangements	–	–	–	25	–	–	–	–	–	25	–	25
At 31 December 2018	5	2,026,648*	522,797*	8,886*	284,661*	(30,603)*	(5,766)*	(14,349)*	(695,124)*	2,097,155	5,564	2,102,719
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5,843,776)**	**(5,843,776)**	**(1,304)**	**(5,845,080)**
Other comprehensive income/(loss) for the year:												
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	**–**	**–**	**–**	**–**	**–**	**–**	**2,456**	**–**	**–**	**2,456**	**–**	**2,456**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,012)**	**–**	**(3,012)**	**–**	**(3,012)**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**2,456**	**(3,012)**	**(5,843,776)**	**(5,844,332)**	**(1,304)**	**(5,845,636)**
Acquisition of non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(6,945)**	**–**	**–**	**–**	**(6,945)**	**(3,995)**	**(10,940)**
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**(5,415)**	**–**	**5,420**	**5**	**–**	**5**
At 31 December 2019	**5**	**2,026,648***	**522,797***	**8,886***	**284,661***	**(37,548)***	**(8,725)***	**(17,361)***	**(6,533,480)***	**(3,754,117)**	**265**	**(3,753,852)**

* These reserve accounts comprise the consolidated reserves of RMB2,097,150,000 and RMB(3,754,122,000), respectively, in the consolidated statements of financial position as at 31 December 2018 and 2019.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Operating activities			
Loss before tax		**(5,924,512)**	(1,454,239)
Adjustments for:			
Depreciation and impairment of property, plant and equipment	6(c)/6(d)	**1,089,545**	426,993
Depreciation and impairment of right-of-use assets	6(c)/6(d)	**123,453**	–
Amortisation and impairment of intangible assets	6(c)/6(d)	**488,350**	84,987
Amortisation of land use rights	6(d)	**21,389**	21,248
Finance costs	7	**353,920**	531,119
Interest income	5(b)	**(8,450)**	(39,212)
Loss on disposal of items of property, plant and equipment	6(c)	**6,946**	6,289
Gain from disposal of subsidiaries		**–**	(227,881)
Impairment of goodwill	6(c)	**869,107**	488,959
Equity-settled share option expense	33	**–**	25
Decrease in inventories		**988,927**	1,122,551
Decrease in trade receivables		**201,068**	99,448
Decrease in prepayments, other receivables and other assets		**2,702,510**	610,979
Decrease in pledged bank deposits		**1,089,354**	432,244
Decrease in cash in transit		**5,435**	13,301
Decrease in trade and bills payables		**(1,742,615)**	(2,101,025)
Increase/(decrease) in other payables and accruals		**(238,128)**	274,684
		26,299	290,470
Income taxes paid		**(33,724)**	(51,935)
Net cash flows (used in)/generated from operating activities		**(7,425)**	238,535
Investing activities			
Purchase of items of property, plant and equipment		**(327,002)**	(243,629)
Proceeds from disposal of items of property, plant and equipment		**174,911**	173,768
Proceeds from disposal of subsidiaries		**–**	200,484
Purchase of intangible assets		**(224)**	(1,705)
Proceeds from disposal of intangible assets		**51**	–
Interest received		**9,663**	38,614
Advance from a proposed potential acquirer		**1,716,000**	–
Refund for potential acquisitions, net		**–**	300,000

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Net cash flows generated from investing activities		**1,573,399**	467,532
Financing activities			
Proceeds from interest-bearing bank and other borrowings		**3,754,572**	10,302,023
Repayment of interest-bearing bank and other borrowings		**(5,989,459)**	(11,731,762)
Interest paid		**(334,498)**	(531,119)
Increase in amounts due to a related party	*32(b)/37*	**–**	155,839
Principal portion of lease payments	*32(b)*	**(17,452)**	–
Acquisition of non-controlling interests		**(10,940)**	–
Decrease in other payable	*32(b)*	**–**	(427,200)
Decrease in pledged bank deposits		**224,089**	1,178,972
Net cash flows used in financing activities		**(2,373,688)**	(1,053,247)
Net decrease in cash and cash equivalents		**(807,714)**	(347,180)
Net foreign exchange differences		**(3,012)**	(5,011)
Cash and cash equivalents at beginning of year		**865,950**	1,218,141
Cash and cash equivalents at end of year	*25*	**55,224**	865,950
Analysis of balances of cash and cash equivalents			
Cash and bank balances	*25*	**55,224**	865,950
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		**55,224**	865,950

1. CORPORATE AND GROUP INFORMATION

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

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

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

2.1 BASIS OF PRESENTATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income, which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern basis

During the year ended 31 December 2019, the Group incurred a net loss of RMB5,845,080,000. As at 31 December 2019, the Group had a shareholders' deficit of RMB3,753,852,000, the Group's current liabilities exceeded its current assets by RMB6,328,260,000 and the Group only had cash and cash equivalents of RMB55,224,000. The status of the Group's borrowings as at 31 December 2019 was further detailed in note 28 to the consolidated financial statements.

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

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

2.1 BASIS OF PRESENTATION *(Continued)*

Going concern basis *(Continued)*

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

(i) Business strategy plan

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

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

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

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

(iii) Creditors' repayment schedules

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

2.1 BASIS OF PRESENTATION *(Continued)*

Going concern basis *(Continued)*

(iv) Cost control measurements

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

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

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

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

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

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

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

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

2.1 BASIS OF PRESENTATION *(Continued)*

Basis of consolidation

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

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

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

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

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

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

(a) Adoption of HKFRS 16

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

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

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

(a) Adoption of HKFRS 16 *(Continued)*

New definition of a lease

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

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

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

Impacts on transition

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

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

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

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

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

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

(a) Adoption of HKFRS 16 *(Continued)*

Financial impact at 1 January 2019

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

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

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

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

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

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

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	*Definition of a Business*[1]
Amendments to HKFRS 9 HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 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. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group’s financial statements.

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

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

Amendments to HKAS 1 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) 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 by 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(1) Business combinations and goodwill *(Continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(2) Fair value measurement

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(3) Impairment of non-financial assets

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

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

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

(4) 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)*

(4) 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Property, plant and equipment and depreciation

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

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Category	Estimated useful life	Estimated residual value
Buildings	15-25 years	3%
Leasehold improvements	Over the shorter of the lease terms and 5 years	–
Plant and machinery	10 years	3%
Furniture and fixtures	3-5 years	3%
Motor vehicles	6 years	3%

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Property, plant and equipment and depreciation *(Continued)*

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

(6) 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:

Category	Estimated useful life
Software	5 years
Dealership relationship	15-20 years
Customer relationship	15 years
Insurance licence	15 years

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(7) Leases (applicable from 1 January 2019)

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

Group as a lessee

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

(a) Right-of-use assets

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

Property	10-20 years
Land use rights	15-20 years

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

(b) Lease liabilities

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

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

The Group's lease liabilities are presented separately in the statement of financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(7) Leases (applicable from 1 January 2019) *(Continued)*

Group as a lessor

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

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

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases. At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. The finance income of such leases is recognised in the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

(8) Leases (applicable before 1 January 2019)

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, including prepaid land lease payments under 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.

Group as a lessor

Amounts due from lessees under finance leases of passenger vehicles are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(9) Land use rights

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the rights to use certain land and the considerations paid for such rights are recorded as land use rights, which are amortised over the lease terms ranging from 20 to 50 years using the straight-line method.

(10) Investments and other financial assets

Initial recognition and measurement

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(10) Investments and other financial assets *(Continued)*

Subsequent measurement

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

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.

(11) Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(12) Impairment of financial assets

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

General approach

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

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

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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 financial assets which apply the simplified approach as detailed below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(12) Impairment of financial assets *(Continued)*

General approach *(Continued)*

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

Simplified approach

For financial 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.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(13) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate.

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

The Group's financial liabilities include trade and bills payables, other payables and accruals, interest-bearing bank and other borrowings.

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in 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.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "**Impairment of financial assets**"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(14) Derecognition of financial liabilities

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

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

(15) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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.

(16) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated on a 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 the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(17) Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(18) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

(19) Income tax

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

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

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

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

(i) Where the deferred tax liability arises from the initial recognition of goodwill or 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

(ii) 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(19) Income tax *(Continued)*

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

(i) 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

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

Deferred tax assets and deferred tax liabilities are offset only if 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(20) 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.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

(21) Revenue recognition

Revenue from contracts with customers

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

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

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(21) Revenue recognition *(Continued)*

(a) Sale of motor vehicles

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

(b) After-sales services

Revenue from the after-sales services is recognised at the point in time when services are completed, generally on confirmation of completion of after-sale services by the customer.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

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.

(22) Contract liabilities

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

(23) Vendor rebate

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(24) Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 33 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)*

(24) 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.

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

(25) 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 certain percentages 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.

(26) 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.

(27) Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(28) 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 are initially recorded using the functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated 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 currencies of the Company and certain overseas subsidiaries are currencies other than RMB. The functional currency of Mainland China subsidiaries is RMB. As the Group mainly operates in Mainland China, RMB is used as the presentation currency of the Group. 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.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries and the Company are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and the Company 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 judgments, 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.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount, which is the higher of its fair value less costs to sell and its 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 2019 was detailed in note 18.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell 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.

Accrual of vendor rebate

The Group reviews the accruals of vendor rebate at the end of each reporting period by reference to the rebates receivables in accordance with the applicable terms and conditions of the suppliers' agreements. The accruals of vendor rebates involve management estimation and the extent of rebates entitlement under the respective categories of vendor rebates. Specific factors that management consider include the recent historical sales volume patterns, the rebate rates applied and any other available information concerning the creditworthiness of suppliers.

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

Estimation uncertainty *(Continued)*

Useful lives of property, plant and equipment

The intangible assets are depreciated on the straight-line basis by taking into account the residual value. The Group reviews the estimated useful lives periodically to determine the related amortisation charges for its intangible assets. The estimation is based on the historical experience of the actual useful lives of intangible assets of similar nature and functions, with consideration of market condition. The Group will increase the amortisation charges when useful lives become shorter than previously estimated.

Useful lives of intangible assets

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

Provision for expected credit losses on financial assets

The Group uses a provision matrix to calculate ECLs for financial assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future.

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

Estimation uncertainty *(Continued)*

Leases – Estimating the incremental borrowing rate

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

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying values of deferred tax assets were nil and RMB1,510,000 as at 31 December 2019 and 2018, respectively. Further details are contained in note 29 to the financial statements.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 39 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2019 was RMB49,100,000 (2018: RMB55,719,000). Further details are included in note 19 to the financial statements.

Provision for inventories

The Group reviews the carrying amounts of the inventories at the end of each reporting period to determine whether the inventories are carried at lower of cost and net realisable value. The net realisable value is estimated based on current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories written-down or the related reversals of write-down and affect the Group's financial position.

4. SEGMENT INFORMATION

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

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

Information about geographical areas

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

Information about major customers

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

5. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue

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

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

(b) Other income and gains

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

6. LOSS BEFORE TAX

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

		2019 RMB'000	2018 RMB'000
(a)	Employee benefit expense (excluding directors' and chief executive's remuneration *(note 9)*):		
	Wages and salaries	**236,467**	264,725
	Equity-settled share option expense	**–**	25
	Other welfare	**111,124**	103,226
		347,591	367,976
(b)	Cost of sales and services:		
	Cost of sales of motor vehicles	**7,782,900**	11,038,986
	Cost of after-sales services	**894,665**	1,261,485
		8,677,565	12,300,471
(c)	Other expenses:		
	Impairment allowance of prepayments, other receivables and other assets	**1,220,032**	102,183
	Impairment of goodwill	**869,107**	488,959
	Impairment of items of property, plant and equipment	**761,933**	169,917
	Impairment of intangible assets	**449,986**	42,797
	Impairment of trade receivables	**99,384**	–
	Impairment of right-of-use assets	**84,260**	–
	Loss on disposal of items of property, plant and equipment	**6,946**	6,289
	Exchange gain	**(50)**	(143)
	Others	**59,003**	13,867
		3,550,601	823,869

6. LOSS BEFORE TAX *(Continued)*

	2019 **RMB'000**	2018 RMB'000
(d) Other items:		
Depreciation of items of property, plant and equipment	**327,612**	257,076
Depreciation of right-of-use assets	**39,193**	–
Lease expenses	**15,460**	64,642
Advertisement and business promotion expenses	**31,916**	55,672
Amortisation of intangible assets	**38,364**	42,190
Write-down of inventories to net realisable value	**64,014**	26,102
Amortisation of land use rights	**21,389**	21,248
Bank charges	**4,524**	10,229
Auditor's remuneration	**3,500**	4,950

7. FINANCE COSTS

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

8. TAX

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

	2019 **RMB'000**	2018 RMB'000
Current:		
Mainland China corporate income tax	**5,680**	76,563
Deferred tax *(note 29)*	**(85,112)**	(12,516)
	(79,432)	64,047

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

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

8. TAX *(Continued)*

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

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

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

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

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

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

9. 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 2019				
	Directors' fees *RMB'000*	Salaries, allowances and other benefits *RMB'000*	Pension scheme contributions *RMB'000*	Equity-settled share option expense *RMB'000*	Total *RMB'000*
Executive director:					
Mr. Yang Peng*	–	1,002	72	–	1,074
Non-executive directors:					
Mr. Xiao Zhengsan	220	–	–	–	220
Mr. Mei Jianping	220	–	–	–	220
Mr. Li Xin	220	–	–	–	220
Mr. Lee Conway Kong Wai	220	–	–	–	220
	880	1,002	72	–	1,954

* Mr. Yang Peng, who acted as an executive director of the Company, was also the chief executive officer of the Company for the year ended 31 December 2019.

	Year ended 31 December 2018				
	Directors' fees *RMB'000*	Salaries, allowances and other benefits *RMB'000*	Pension scheme contributions *RMB'000*	Equity-settled share option expense *RMB'000*	Total *RMB'000*
Executive directors:					
Mr. Yang Peng*	–	1,291	50	–	1,341
Mr. Zhao Zhongjie**	–	533	33	–	566
Mr. Liu Jian**	–	101	12	–	113
Non-executive directors:					
Mr. Xiao Zhengsan	220	–	–	–	220
Mr. Mei Jianping	220	–	–	–	220
Mr. Li Xin	220	–	–	–	220
Mr. Lee Conway Kong Wai	220	–	–	–	220
	880	1,925	95	–	2,900

* Mr. Yang Peng, who acted as an executive director of the Company, was also the chief executive officer of the Company for the year ended 31 December 2018.

** On 28 March 2018, Mr. Liu Jian resigned as executive director of the Company. On 30 August 2018, Mr. Zhao Zhongjie resigned as executive director of the Company.

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2019 and 2018.

10. FIVE HIGHEST PAID EMPLOYEES

The five individuals whose emoluments were the highest for the years ended 31 December 2019 and 2018 included one and two directors respectively, whose emoluments are reflected in the analysis presented in note 9 above.

Details of the remuneration for the year of the four (2018: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019	2018
	RMB'000	*RMB'000*
Salaries, bonuses, allowances and benefits in kind	**4,153**	970
Pension scheme contributions	**94**	150
Equity-settled share option expense	**–**	–
	4,247	1,120

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

	2019	2018
Nil to RMB1,000,000	**2**	3
RMB1,000,001 to RMB1,500,000	**2**	–
RMB1,500,001 to RMB2,000,000	**–**	–
	4	3

11. DIVIDENDS

The board of the directors does not recommend the payment of any dividend to the ordinary equity holders of the Company for the year ended 31 December 2019 (2018: Nil).

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

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

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

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

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

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

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

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
Cost:							
At 1 January 2019	**2,914,087**	**729,539**	**260,436**	**229,092**	**294,474**	**266,745**	**4,694,373**
Additions	**–**	**23,153**	**4,293**	**2,247**	**138,100**	**84,934**	**252,727**
Transfers	**213,568**	**12,907**	**–**	**–**	**–**	**(226,475)**	**–**
Disposals	**(1,165)**	**(3,184)**	**(9,129)**	**(17,670)**	**(250,978)**	**–**	**(282,126)**
At 31 December 2019	**3,126,490**	**762,415**	**255,600**	**213,669**	**181,596**	**125,204**	**4,664,974**
Accumulated depreciation and impairment:							
At 1 January 2019	**(702,907)**	**(204,124)**	**(141,987)**	**(177,374)**	**(125,423)**	**–**	**(1,351,815)**
Depreciation and impairment provided during the year	**(178,438)**	**(558,291)**	**(115,915)**	**(22,149)**	**(89,548)**	**(125,204)**	**(1,089,545)**
Disposals	**484**	**–**	**6,768**	**16,949**	**76,068**	**–**	**100,269**
At 31 December 2019	**(880,861)**	**(762,415)**	**(251,134)**	**(182,574)**	**(138,903)**	**(125,204)**	**(2,341,091)**
Net book value:							
At 31 December 2018	**2,211,180**	**525,415**	**118,449**	**51,718**	**169,051**	**266,745**	**3,342,558**
At 31 December 2019	**2,245,629**	**–**	**4,466**	**31,095**	**42,693**	**–**	**2,323,883**

	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
Cost:							
At 1 January 2018	3,007,046	698,945	257,166	232,742	367,786	281,044	4,844,729
Additions	–	9,121	7,898	7,678	153,533	64,908	243,138
Transfers	57,024	21,578	316	289	–	(79,207)	–
Disposals	(2,125)	–	(775)	(2,421)	(221,873)	–	(227,194)
Disposal of subsidiaries	(147,858)	(105)	(4,169)	(9,196)	(4,972)	–	(166,300)
At 31 December 2018	2,914,087	729,539	260,436	229,092	294,474	266,745	4,694,373
Accumulated depreciation and impairment:							
At 1 January 2018	(473,757)	(148,251)	(105,391)	(159,959)	(128,882)	–	(1,016,240)
Depreciation and impairment provided during the year	(263,808)	(55,900)	(39,476)	(26,902)	(40,907)	–	(426,993)
Disposals	1,763	–	559	2,381	42,434	–	47,137
Disposal of subsidiaries	32,895	27	2,321	7,106	1,932	–	44,281
At 31 December 2018	(702,907)	(204,124)	(141,987)	(177,374)	(125,423)	–	(1,351,815)
Net book value:							
At 31 December 2017	2,533,289	550,694	151,775	72,783	238,904	281,044	3,828,489
At 31 December 2018	2,211,180	525,415	118,449	51,718	169,051	266,745	3,342,558

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

The application for the property ownership certificates for certain buildings with a net book values of approximately RMB248,047,000 (2018: RMB276,140,000) as at 31 December 2019 was still in progress.

Certain of the Group's buildings with aggregate net book values of approximately RMB380,254,000 (2018: RMB654,877,000) as at 31 December 2019 were pledged as security for the Group's interest-bearing bank and other borrowings (note 28).

Certain of the Group's motor vehicles with aggregate net book values of approximately RMB28,762,000 (2018: RMB71,379,000) as at 31 December 2019 were pledged as security for the Group's interest-bearing other borrowings.

Certain of the Group's buildings with aggregate net book values of RMB27,627,000 (2018: RMB29,051,000) as at 31 December 2019 did not have building ownership certificates because they were built on land where the Group did not have the land use right certificates. Notwithstanding this, the directors are of the opinion that the Group owned the beneficial titles to these buildings as at 31 December 2019.

14. LAND USE RIGHTS

	2019 ***RMB'000***	2018 *RMB'000*
Cost		
At the beginning of the year	**809,086**	838,335
Acquisition of subsidiaries	**–**	–
Disposal of subsidiaries	**–**	(29,249)
At the end of the year	**809,086**	809,086
Accumulated amortisation		
At the beginning of the year	**(99,077)**	(82,915)
Charge for the year	**(21,389)**	(21,248)
Disposal of subsidiaries	**–**	5,086
At the end of the year	**(120,466)**	(99,077)
Net book value:		
At the end of the year	**688,620**	710,009

The Group's land use rights are related to land located in Mainland China. The remaining periods of the land use rights of the Group are from 10 to 46 years.

Certain of the Group's land use rights with aggregate net book values of approximately RMB190,232,000 (2018: RMB235,916,000) as at 31 December 2019 were pledged as security for the Group's interest-bearing bank and other borrowings (note 28).

The Group had not obtained the land use right certificates for certain of the Group's land use rights with aggregate net book values of RMB23,434,000 (2018: RMB24,164,000) as at 31 December 2019. Notwithstanding this, the directors are of the opinion that the Group owned the beneficial titles to these land use rights as at 31 December 2019.

Included in the Group's land use rights are rights to some parcels of land, with aggregate net book values of RMB64,768,000 (2018: RMB66,988,000) as at 31 December 2019, which the Group did not use for their designated usage. Under applicable PRC laws and regulations, government approval is required for land use rights holders to change the designated usage for the land. Notwithstanding this, the directors are of the opinion that the Group owned the beneficial titles to these land use rights as at 31 December 2019.

15. INTANGIBLE ASSETS

	Software RMB'000	Dealership relationship RMB'000	Customer relationship RMB'000	Insurance licence RMB'000	Total RMB'000
Cost					
At 1 January 2019	**24,722**	**463,000**	**179,349**	**26,500**	**693,571**
Additions	**224**	**–**	**–**	**–**	**224**
Disposals	**(876)**	**–**	**–**	**–**	**(876)**
At 31 December 2019	**24,070**	**463,000**	**179,349**	**26,500**	**692,919**
Accumulated amortisation					
At 1 January 2019	**(21,359)**	**(86,939)**	**(41,641)**	**(10,673)**	**(160,612)**
Charge for the year	**(1,551)**	**(24,938)**	**(11,503)**	**(372)**	**(38,364)**
Disposals	**825**	**–**	**–**	**–**	**825**
At 31 December 2019	**(22,085)**	**(111,877)**	**(53,144)**	**(11,045)**	**(198,151)**
Accumulated impairment					
At 1 January 2019	**–**	**(31,322)**	**(11,475)**	**–**	**(42,797)**
Impairment during the year	**–**	**(319,801)**	**(114,730)**	**(15,455)**	**(449,986)**
At 31 December 2019	**–**	**(351,123)**	**(126,205)**	**(15,455)**	**(492,783)**
Net book value					
At 31 December 2019	**1,985**	**–**	**–**	**–**	**1,985**
Cost					
At 1 January 2018	23,652	463,000	179,349	26,500	692,501
Additions	1,705	–	–	–	1,705
Disposal of subsidiaries	(635)	–	–	–	(635)
At 31 December 2018	24,722	463,000	179,349	26,500	693,571
Accumulated amortisation					
At 1 January 2018	(18,980)	(61,842)	(29,684)	(8,441)	(118,947)
Charge for the year	(2,904)	(25,097)	(11,957)	(2,232)	(42,190)
Disposal of subsidiaries	525	–	–	–	525
At 31 December 2018	(21,359)	(86,939)	(41,641)	(10,673)	(160,612)
Accumulated impairment					
At 1 January 2018	–	–	–	–	–
Impairment during the year	–	(31,322)	(11,475)	–	(42,797)
At 31 December 2018	–	(31,322)	(11,475)	–	(42,797)
Net book value					
At 31 December 2018	3,363	344,739	126,233	15,827	490,162

16. LEASES

The Group as a lessee

The Group has lease contracts for various items of property and land use rights. Leases of property generally have lease terms between 10 and 20 years, while land use rights generally have lease terms between 15 and 20 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

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

	Property *RMB'000*	Prepaid land lease payments *RMB'000*	Total *RMB'000*
As at 1 January 2019	162,828	154,511	317,339
Depreciation charge	(26,155)	(13,038)	(39,193)
As at 31 December 2019	136,673	141,473	278,146
Impairment during the year	(60,286)	(23,974)	(84,260)
Net carrying amount	76,387	117,499	193,886

(b) Lease liabilities

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

	2019 Lease liabilities *RMB'000*
Carrying amount at 1 January	317,339
Accretion of interest recognised during the year	30,245
Payments	(47,697)
Carrying amount at 31 December	299,887
Analysed into:	
Current	19,234
Non-current	280,653

16. LEASES *(Continued)*

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

	2019 *RMB'000*
Interest on lease liabilities	**30,245**
Depreciation charge of right-of-use assets	**39,193**
Impairment of right-of-use assets	**84,260**
Total amount recognised in profit or loss	**153,698**

17. FINANCE LEASE RECEIVABLES

Certain motor vehicles of the Group are leased out under finance leases. All interest rates inherent in the leases are fixed at the contract date over the lease terms.

	2019 *RMB'000*	2018 *RMB'000*
Analysed into:		
Current	**3,066**	2,587
Non-current	**–**	13
	3,066	2,600

Finance lease receivables comprise:

	Minimum lease receivables 2019 *RMB'000*	Present value of minimum lease receivables 2019 *RMB'000*
Analysed into:		
Within one year	**3,528**	**3,066**
In the second to fifth years, inclusive	**–**	**–**
	3,528	**3,066**
Less: Unearned finance income	**462**	**–**
Present value of minimum lease receivables	**3,066**	**3,066**

18. GOODWILL

	2019 RMB'000	2018 RMB'000
Cost:		
At the beginning of the year	**869,107**	1,358,066
Impairment during the year	**(869,107)**	(488,959)
At 31 December 2019	–	869,107
Cost	**1,358,066**	1,358,066
Accumulated impairment	**(1,358,066)**	(488,959)
Net carrying amount	–	869,107

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the respective cash-generating units for impairment testing.

The recoverable amounts of the cash-generating units have been determined based on the higher of its fair value less costs and its value in use of each of the CGU or group of CGUs to which the goodwill is assigned to. The value in use calculation using cash flow projections is 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 units beyond the five-year period from the end of the reporting period is 3% (2018: 3%) for all years. The pre-tax discount rate applied to the cash flow projections is 17.0% (2018: 15.0%).

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

	2019 RMB'000	2018 RMB'000
4S dealership business	–	869,107

Key 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 growth rate of similar 4S stores of the Group over the last two years.

18. GOODWILL *(Continued)*

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

The Directors considered that the related goodwill was fully impaired as at 31 December 2019 as the anticipated cash flows to be generated from the future use of the assets were substantially decreased to insignificant amounts.

19. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 ***RMB'000***	2018 *RMB'000*
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value		
Xuzhou Huaihai Nongcun Commercial Bank Company Limited	**36,900**	34,600
Tongshanxian Nongcun Credit Cooperation Association	**10,800**	9,800
Gaojing Internet Technology Company	**1,400**	1,419
Yangzhou Nongcun Commercial Bank Company Limited	**–**	9,900
	49,100	55,719

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

In November 2019, the Group disposed of its equity interest in Yangzhou Nongcun Commercial Bank Company Limited. The accumulated gain recognised in other comprehensive income of RMB5,415,000 was transferred to retained earnings.

20. INVENTORIES

	2019 RMB'000	2018 RMB'000
Motor vehicles	**387,494**	1,244,175
Spare parts and accessories	**206,565**	274,797
	594,059	1,518,972
Less: Provision for inventories	**102,225**	38,211
	491,834	1,480,761

Certain of the Group's inventories with carrying amounts of RMB20,871,000 (2018: RMB728,451,000) as at 31 December 2019 were pledged as security for the Group's bills payable.

Certain of the Group's inventories with aggregate net book values of approximately RMB200,936,000 (2018: RMB745,408,000) as at 31 December 2019 were pledged as security for the Group's interest-bearing bank and other borrowings (note 28).

21. TRADE RECEIVABLES

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

The Group's trading terms with its customers are mainly on cash, except for some transactions which are traded on credit. The credit period is generally three months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

21. TRADE RECEIVABLES *(Continued)*

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

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

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

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

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group performed an impairment analysis at the end of reporting period by considering the probability of default of the debtors. The probability of default is minimal for debtors other than defaulted receivables. The average expected credit loss rate was 47.4% (2018: 0.2%) as at 31 December 2019. Trade receivables for which the balances are overdue with age more than three months and the counterparties failed to make the demanded repayments are defaulted receivables. The Group has provided for 100% of the defaulted receivables at the end of the reporting period.

During the comparative period, the Group estimated that the expected credit loss for the above receivables is insignificant.

22. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 *RMB'000*	2018 *RMB'000*
Prepayments to suppliers	**792,487**	1,457,612
Rebate receivables	**85,092**	1,337,670
Other receivables *(i)*	**1,141,734**	996,672
Consideration receivable	**54,419**	54,419
VAT recoverable	**18,392**	38,562
Prepaid expense	**4,006**	22,872
Others	**126,062**	101,407
	2,222,192	4,009,214
Impairment allowance	**(1,322,215)**	(102,183)
	899,977	3,907,031

(i) Included in other receivables is an amount of RMB944,000,000 (2018: RMB956,000,000), which represented the amount due from former shareholders of certain subsidiaries arising from the acquisition of Yangzhou Huawei Automobile Investment Management Company Limited and its subsidiaries (collectively referred to as "**Huawei entities**") in the year of 2017. The receivable amount is interest free with no fixed terms of repayment and secured by pledge of buildings and land use rights.

23. CASH IN TRANSIT

	2019 *RMB'000*	2018 *RMB'000*
Cash in transit	**4,386**	9,821

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

24. PLEDGED BANK DEPOSITS

	2019 *RMB'000*	2018 *RMB'000*
Deposits pledged with banks as collateral against:		
– Bills payable granted by the banks	**61,326**	1,147,680
– Credit facilities granted by the banks	**11,862**	238,951
	73,188	1,386,631

The pledged bank deposits, which are all denominated in RMB as at 31 December 2019 and 2018, earn interest at interest rates stipulated by the respective financial institutions.

25. CASH AND CASH EQUIVALENTS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	**55,224**	865,950

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.

The Group's cash and bank balances as at 31 December 2019 and 2018 are denominated in the following currencies:

	2019 RMB'000	2018 RMB'000
Denominated in:		
– RMB	**46,956**	858,191
– USD	**7,738**	7,639
– HKD	**530**	120
	55,224	865,950

26. TRADE AND BILLS PAYABLES

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

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

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

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

27. OTHER PAYABLES AND ACCRUALS

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

As at 31 December 2019, certain suppliers and third parties have demanded payment for overdue balances through commencing legal proceedings, as further detailed in note 34 to the consolidated financial statements.

As disclosed in note 2.1, the directors are continuing to negotiate with the creditors to identify and implement a consensual resolution of the terms of repayments, and provision have been made to accrue for any potential interest or other penalties that may arise.

Notes:

(i) Details of contract liabilities are as follows:

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

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

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

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

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

28. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

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

As at 31 December 2019, several banks and institutions have demanded repayment for the overdue principal of borrowings through commencing legal proceedings, as further detailed in note 34 to the consolidated financial statements.

As disclosed in note 2.1, the directors are continuing to negotiate with the financial institutions to seek for extension of due dates, and provision have been made to the consolidated financial statements to accrue for any potential interest or other penalties that may arise.

Notes:

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

(1) mortgages over the Group's buildings, which had aggregate net book values of approximately RMB380,254,000 and RMB654,877,000, respectively, as at 31 December 2019 and 2018 (note 13);

(2) mortgages over the Group's land use rights situated in Mainland China, which had aggregate net book values of approximately RMB190,232,000 and RMB235,916,000, respectively, as at 31 December 2019 and 2018 (note 14);

(3) mortgages over the Group's inventories, which had aggregate net book values of approximately RMB200,936,000 and RMB745,408,000, respectively, as at 31 December 2019 and 2018 (note 20); and

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

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

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

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

(c) The Group entered into facility agreements with independent third parties. The facilities were unsecured and the facility periods were for terms from 12 months to 60 months and the interest rates were 4.28 to 15.00 per annum:

29. DEFERRED TAX

Deferred tax assets

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements for the years ended 31 December 2019 and 2018 are as follows:

	Accrued payroll *RMB'000*	Provisions *RMB'000*	Total *RMB'000*
At 1 January 2019	275	1,235	1,510
Deferred tax credited/(charged) to the statement of profit or loss during the year *(note 8)*	(275)	(1,235)	(1,510)
At 31 December 2019 and 1 January 2020	–	–	–
Gross deferred tax assets at 31 December 2019	**–**	**–**	**–**

Deferred tax assets have not been recognised in respect of the following item:

	2019 ***RMB'000***	2018 *RMB'000*
Tax losses	**3,243,243**	1,212,739

The above tax losses arising in Mainland China are subject to an expiry period of five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses 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.

29. DEFERRED TAX *(Continued)*

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries *RMB'000*	Fair value adjustments of equity investments at fair value through other comprehensive income *RMB'000*	Right-of-use assets *RMB'000*	Total *RMB'000*
At 1 January 2018	201,511	1,481	–	202,992
Deferred tax charged to the consolidated statement of comprehensive income	–	324	–	324
Deferred tax credited to the statement of profit or loss during the year *(note 8)*	(12,516)	–	–	(12,516)
At 31 December 2018 and 1 January 2019	188,995	1,805	–	190,800
Deferred tax credited to the consolidated statement of comprehensive income	–	(980)	–	(980)
Deferred tax charged/(credited) to the statement of profit or loss during the year *(note 8)*	(135,094)	–	48,472	(86,622)
Gross deferred tax liabilities at 31 December 2019	**53,901**	**825**	**48,472**	**103,198**

Pursuant to the EIT Law, a 10% 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 generated 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 to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The applicable tax rate of the Group is 10%. At 31 December 2019 deferred tax has not 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 remaining 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 was RMB92,792,000 at 31 December 2019 (2018: RMB408,250,000). There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

30. SHARE CAPITAL

Shares

	2019 RMB'000	2018 RMB'000
Issued and fully paid:		
946,476,000 (2018: 946,476,000) ordinary shares of US$0.0000005 each	**3**	3
664,268,747 (2018: 664,268,747) convertible preference shares of US$0.0000005 each	**2**	2
	5	5

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

	Number of shares in issue	Share capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2018	1,610,744,747	5	2,026,648	2,026,653
Issue of new shares	–	–	–	–
At 31 December 2018 and 1 January 2019	1,610,744,747	5	2,026,648	2,026,653
Issue of new shares	–	–	–	–
At 31 December 2019	**1,610,744,747**	**5**	**2,026,648**	**2,026,653**

31. RESERVES

(i) Merger reserve

The merger reserve of the Group represents the capital contributions from the then equity holders of the Company. The additions during the year represent the injection of additional paid-up capital by the equity holders of the subsidiaries to the respective companies, which were consolidated from the earliest date presented or since the date when the subsidiaries first came under the common control. The deductions during the year represent the decrease in the Group's net assets resulted from the distribution to equity holders of the Company and acquisition of interests in subsidiaries for business combinations under common control.

(ii) Statutory reserve

Pursuant to the relevant PRC rules and regulations, those PRC subsidiaries which are domestic enterprises in the PRC as mentioned in note 42 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.

(iii) Other reserve

The other reserve of the Group represents the excess of the carrying amount of the non-controlling interests acquired over the consideration.

(iv) Available-for-sale investment revaluation/fair value reserve

The available-for-sale investment revaluation/fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities/equity investments designated at fair value through other comprehensive income held at the end of the reporting period.

(v) Exchange fluctuation reserve

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

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB317,339,000 and RMB317,339,000, respectively, in respect of lease arrangements for plant and equipment (2018: Nil).

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(b) Changes in liabilities arising from financing activities

2019

	Bank and other loans *RMB'000*	Lease liabilities *RMB'000*	Advance from a substantial shareholder *RMB'000*
At 31 December 2018	**6,382,242**	**–**	**361,416**
Effect of adoption of HKFRS 16	**–**	**317,339**	**–**
At 1 January 2019 (restated)	**6,382,242**	**317,339**	**361,416**
Changes from financing cash flows	**(2,234,887)**	**(17,452)**	**(169,487)**
Interest expense	**–**	**30,245**	**–**
Interest paid classified as operating cash flows	**–**	**(30,245)**	**–**
At 31 December 2019	**4,147,355**	**299,887**	**191,929**

2018

	Bank and other loans *RMB'000*	Other payable *RMB'000*	Advance from a substantial shareholder *RMB'000*
At 1 January 2018	7,489,781	427,200	226,397
Changes from financing cash flows	(1,093,337)	(427,200)	155,839
Liabilities reducing from disposal of subsidiaries	(14,202)	–	(20,820)
At 31 December 2018	6,382,242	–	361,416

(c) Total cash outflow for leases

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

	2019 *RMB'000*
Within operating activities	**30,245**
Within financing activities	**17,452**
	47,697

33. SHARE OPTION SCHEME

Before the incorporation of the Company, China Rundong Auto Holding Ltd. (the "**Former Listing Vehicle**") operates a share option scheme (the "**Pre-IPO Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. In order to operate the Pre-IPO Scheme, the Former Listing Vehicle established a trust (the "**Employee Pre-IPO Trust**") under a trust deed in September 2011. Eligible participants of the Pre-IPO Scheme will be nominated as beneficiaries of the Employee Pre-IPO Trust. Eligible participants include the Company's directors, including independent non-executive directors, and other employees of the Group and its subsidiaries. The Pre-IPO Scheme became effective on 15 November 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date with a fixed exercise price of US$0.3573 per share.

The Former Listing Vehicle offered the share options to subscribe for a total of 40,000,000 shares upon their exercise, representing 5% of the then issued share capital of the Former Listing Vehicle, to Runda (PTC) Limited ("**Runda**"), acting as the trustee to the Employee Pre-IPO Trust. Runda holds the share options for the benefit of the eligible participants when they are granted with the share options. Share options were offered to each eligible participant in various batches from 2 January 2012 to 31 December 2013.

Each of the eligible participants has entered into a share option agreement (the "**Pre-IPO Share Option Agreement**") with the Former Listing Vehicle and Runda under which the Former Listing Vehicle nominated eligible participants as a beneficiary of the Employee Pre-IPO Trust. The offer of a grant of options may be accepted within seven days from the date of offer. The exercise period of the share options granted is dependent on the Company's qualified IPO listing and commences after a vesting period of one to five years and ends on the expiry date of the Pre-IPO Scheme.

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

On 24 March 2014, 14 eligible participants (the "**Relevant Grantees**") entered into supplemental agreements (each, the "**Supplemental Agreement**") to their respective Pre-IPO Share Option Agreements with the Former Listing Vehicle and Runda to modify the original vesting conditions and periods and be entitled to fully vest their share options on the date of modification. The share options would be exercisable upon the completion of the IPO. Pursuant to the Supplemental Agreement, the Former Listing Vehicle agreed to (a) procure Runda to exercise the share options to which each of these Relevant Grantees was entitled to; and (b) upon such exercise, issue 30,700,000 shares in the Former Listing Vehicle to Runda as unpaid shares for the Relevant Grantees as beneficiaries of those shares. The incremental fair value of share options during the three months ended 31 March 2014 was estimated as at the date of modification, using a binomial model, taking into account the terms and conditions upon which the options were modified. The incremental fair value was measured as the difference between the fair value of the original award and that of the modified award and was recognised as a share option expense.

Upon the Company's public listing, the Former Listing Vehicle, the Company, Runda and eligible participants entered into share option agreements to carry forward its former share options, other than those early exercised, to the Company without any change in terms and conditions.

33. SHARE OPTION SCHEME *(Continued)*

The following share options were outstanding under the Pre-IPO Scheme during the years ended 31 December 2019 and 2018:

	2019		2018	
	Exercise price ***US$ per share***	**Number of options** ***'000***	Exercise price *US$ per share*	Number of options *'000*
At the beginning of the year	**0.3573**	**3,815**	0.3573	4,702
Granted during the year	**0.3573**	**–**	0.3573	20
Forfeited during the year	**0.3573**	**(1,294)**	0.3573	(907)
Exercised during the year	**0.3573**	**–**	0.3573	–
At the end of the year	**0.3573**	**2,521**	0.3573	3,815

The weighted average fair values of the share options granted during the year ended 31 December 2018 were US$0.1616 (RMB1.0559) per option. The Group recognised equity-settled share option expenses of RMB25,000 during the year ended 31 December 2018. As at 31 December 2018, the grant period expired, the Group recognised no equity-settled share option expenses during the year ended 31 December 2019.

The fair value of the share options granted during the year ended 31 December 2018 was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2018
Dividend yield (%)	–
Expected volatility (%)	46.0-47.0
Risk-free interest rate (%)	2.07-2.24
Expected life of options (year)	10
Weighted average share price (US$ per share)	0.4364

The expected life of the options is based on the Pre-IPO Scheme which became effective on 15 November 2011 and will remain in force for 10 years until 15 November 2021. The expected volatility reflects the assumption that the historical volatility of other similar listed companies is indicative of future trend of the Company, which may also not necessarily be the actual outcome. The weighted average share price reflects the assumption that the historical weighted average share price of other similar listed companies is indicative of future trend of the Company.

No other feature of the options granted was incorporated into the measurement of fair value.

At 31 December 2019 and 2018, 2,521,028 and 3,815,317 share options were outstanding under the Pre-IPO Scheme, respectively.

34. CONTINGENT LIABILITIES

In the ordinary course of business, the Group may from time to time be involved in legal litigations matters relating to borrowings, creditors and employee matters among others. As disclosed in note 27 & note 28, with respect to the Group's legal matters, based on the Company's current knowledge and management estimation, the Group records a liability provision when the Company believes that it is both probable that a loss has been incurred and the amount can be reasonably estimated. However, the eventual outcome of such legal matters is inherently unpredictable and subject to significant uncertainties. For contingencies other than the legal matters, the Group evaluates the potential financial impact and believes that the amount or range of reasonably possible loss will not have a material effect on the Group's operations and financial position.

35. COMMITMENTS

(a) Capital commitments

Capital commitments of the Group in respect of property, plant and equipment outstanding as at 31 December 2019 not provided for in the financial statements were as follows:

	2019	2018
	RMB'000	*RMB'000*
Contracted, but not provided for land use rights and buildings	**93,384**	187,565

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its properties and land under operating lease arrangements. Leases for properties and land were negotiated for terms ranging from 10 to 20 years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases with its tenants falling due as follows:

	2018	
	Properties	Land use right
	RMB'000	*RMB'000*
Within one year	32,111	19,974
In the second to fifth years, inclusive	122,738	88,008
After five years	65,044	159,030
	219,893	267,012

36. PLEDGE OF ASSETS

Details of the Group's assets pledged for its interest-bearing bank and other borrowings and bills payable are disclosed in notes 13, 14, 20, 24 and 28 to the financial statements.

37. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

In addition to the transactions and balances disclosed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year ended 31 December 2019:

Mr. Yang Peng is the chairman and a substantial shareholder of the Group, and is considered to be a related party of the Group.

(a) The Group had the following transaction with a related party during the year:

	2019 *RMB'000*	2018 *RMB'000*
(Repayment of)/Advance from a substantial shareholder:		
Mr. Yang Peng	**(169,487)**	135,019

The above transactions were conducted in accordance with the terms mutually agreed between the parties.

(b) The Group had the following significant balance with its related party during the year:

	2019 *RMB'000*	2018 *RMB'000*
Due to a substantial shareholder:		
Mr. Yang Peng	**191,929**	361,416

The amount due to the related party was unsecured, interest-free, with no fixed terms of repayment and non-trade in nature.

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

	2019 *RMB'000*	2018 *RMB'000*
Short term employee benefits	**1,882**	2,805
Pension scheme contributions	**72**	95
Equity-settled share option expense	**–**	–
Total compensation paid to key management personnel	**1,954**	2,900

Further details of directors' emoluments are included in note 9 to the financial statements.

38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

As at 31 December 2019

Financial assets

	Financial assets at fair value through other comprehensive income Equity investments *RMB'000*	Financial assets at amortised cost *RMB'000*	Total *RMB'000*
Equity investments at fair value through other comprehensive income *(note 19)*	49,100	–	49,100
Trade receivables *(note 21)*	–	109,961	109,961
Finance lease receivables *(note 17)*	–	3,066	3,066
Financial assets included in prepayments, other receivables and other assets *(note 22)*	–	899,977	899,977
Cash in transit *(note 23)*	–	4,386	4,386
Pledged deposits *(note 24)*	–	73,188	73,188
Cash and cash equivalents *(note 25)*	–	55,224	55,224
	49,100	1,145,802	1,194,902

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables *(note 26)*	408,085
Financial liabilities included in other payables and accruals *(note 27)*	3,279,177
Amount due to a related party *(note 37)*	191,929
Interest-bearing bank and other borrowings *(note 28)*	4,147,355
	8,026,546

38. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

As at 31 December 2018

Financial assets

	Financial assets at fair value through other comprehensive income Equity investments *RMB'000*	Financial assets at amortised cost *RMB'000*	Total *RMB'000*
Equity investments at fair value through other comprehensive income *(note 19)*	55,719	–	55,719
Trade receivables *(note 21)*	–	311,029	311,029
Finance lease receivables *(note 17)*	–	2,600	2,600
Financial assets included in prepayments, other receivables and other assets *(note 22)*	–	3,907,031	3,907,031
Cash in transit *(note 23)*	–	9,821	9,821
Pledged deposits *(note 24)*	–	1,386,631	1,386,631
Cash and cash equivalents *(note 25)*	–	865,950	865,950
	55,719	6,483,062	6,538,781

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables *(note 26)*	2,150,700
Financial liabilities included in other payables and accruals *(note 27)*	1,998,749
Amount due to a related party *(note 37)*	361,416
Interest-bearing bank and other borrowings *(note 28)*	6,382,242
	10,893,107

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	2019	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial assets				
Equity investments designated at fair value through other comprehensive income	**49,100**	55,719	**49,100**	55,719
	49,100	55,719	**49,100**	55,719

	Carrying amounts		Fair values	
	2019	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial liabilities				
Interest-bearing bank and other borrowings	**4,147,355**	6,382,242	**4,147,355**	6,382,242
	4,147,355	6,382,242	**4,147,355**	6,382,242

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, an amount due to a related party and the current portion of interest bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

The fair values of the non-current portion of finance lease receivables and interest-bearing bank 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. The change in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2019 was assessed to be insignificant.

For the fair value of the unlisted equity investments at fair value through other comprehensive income, which were previously classified as available-for-sale equity investments, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Equity investments designated at fair value through other comprehensive income	–	–	**49,100**	**49,100**
	–	–	**49,100**	**49,100**

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Equity investments designated at fair value through other comprehensive income	–	–	55,719	55,719
	–	–	55,719	55,719

The movements in fair value measurements within Level 3 during the year are as follows:

	2019	2018
	RMB'000	*RMB'000*
Equity investments at fair value through other comprehensive income:		
At 1 January	**55,719**	57,230
Total gains/(losses) recognised in other comprehensive income	**3,281**	(1,511)
Disposal	**(9,900)**	–
At 31 December	**49,100**	55,719

The Company did not have any financial liabilities measured at fair value as at 31 December 2018 and 2019.

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Liabilities for which fair values are disclosed:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Interest-bearing bank and other borrowings	–	**4,147,355**	–	**4,147,355**
	–	**4,147,355**	–	**4,147,355**

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Interest-bearing bank and other borrowings	–	6,382,242	–	6,382,242
	–	6,382,242	–	6,382,242

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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 24) and cash and cash equivalents (note 25).

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

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

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

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in loss before tax *RMB'000*	Increase/ (decrease) in equity* *RMB'000*
2019			
RMB	**50**	**(13,055)**	**(13,055)**
RMB	**(50)**	**13,055**	**13,055**
2018			
RMB	50	(19,353)	(19,353)
RMB	(50)	19,353	19,353

* Excluding retained profits

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk

The Group's business is located in Mainland China and all transactions were conducted in RMB. Most of the Group's assets and liabilities were denominated in RMB, except for certain bank balances denominated in HK$ and US$ as disclosed in note 25.

The Group's assets and liabilities denominated in HK$ and US$ were mainly held by certain subsidiaries incorporated outside Mainland China which had HK$ and US$ as their functional currencies.

The Group did not have material foreign currency transactions in Mainland China during the years ended 31 December 2019 and 2018.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK$ and US$ exchange rate, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of forward currency contracts).

	Increase/ (decrease) in HK$ rate %	Increase/ (decrease) in loss before tax *RMB'000*	Increase/ (decrease) in equity *RMB'000*
2019			
If RMB weakens against HK$	**5**	**26**	**26**
If RMB strengthens against HK$	**(5)**	**(26)**	**(26)**

	Increase/ (decrease) in US$ rate %	Increase/ (decrease) in loss before tax *RMB'000*	Increase/ (decrease) in equity *RMB'000*
2019			
If RMB weakens against US$	**5**	**382**	**382**
If RMB strengthens against US$	**(5)**	**(382)**	**(382)**

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk *(Continued)*

	Increase/ (decrease) in HK$ rate %	Increase/ (decrease) in loss before tax *RMB'000*	Increase/ (decrease) in equity *RMB'000*
2018			
If RMB weakens against HK$	5	126	126
If RMB strengthens against HK$	(5)	(126)	(126)

	Increase/ (decrease) in US$ rate %	Increase/ (decrease) in loss before tax *RMB'000*	Increase/ (decrease) in equity *RMB'000*
2018			
If RMB weakens against US$	5	8,021	8,021
If RMB strengthens against US$	(5)	(8,021)	(8,021)

Credit risk

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

As at 31 December 2019 and 2018, all pledged bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

Maximum exposure and year-end staging

The tables below show 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.

The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Maximum exposure and year-end staging *(Continued)*

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Simplified approach *RMB'000*	Total *RMB'000*
Trade receivables*	109,961	–	–	–	109,961
Financial assets included in prepayments, other receivables and other assets					
– Normal**	–	–	–	899,977	899,977
– Doubtful**	–	–	–	–	–
Pledged deposits					
– Not yet past due	73,188	–	–	–	73,188
Cash and cash equivalents					
– Not yet past due	55,224	–	–	–	55,224
Cash in transit	4,386	–	–	–	4,386
	242,759	–	–	899,977	1,142,736

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Maximum exposure and year-end staging *(Continued)*

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables*	311,029	–	–	–	311,029
Financial assets included in prepayments, other receivables and other assets					
– Normal**	–	–	–	3,907,031	3,907,031
– Doubtful**	–	–	–	–	–
Pledged deposits					
– Not yet past due	1,386,631	–	–	–	1,386,631
Cash and cash equivalents					
– Not yet past due	865,950	–	–	–	865,950
Cash in transit	9,821	–	–	–	9,821
	2,573,431	–	–	3,907,031	6,480,462

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 21 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "**normal**" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "**doubtful**".

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from associates and joint ventures, other receivables and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 21 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

The Group monitors its exposure to a shortage of funds by considering the maturity of both its financial liabilities and financial assets and projected cash flows from operations.

The maturity profile of the Group's financial liabilities at the end of each reporting period, based on the contractual undiscounted payments, is as follows:

31 December 2019	Less than 3 months *RMB'000*	3 to 12 months *RMB'000*	1 to 5 years *RMB'000*	Total *RMB'000*
Trade and bills payables	219,722	–	–	219,722
Other payables and accruals	–	2,587,741	–	2,587,741
Lease liabilities	4,809	14,425	280,653	299,887
Interest-bearing bank and other borrowings	2,392,630	1,164,946	738,102	4,295,678
Due to a controlling shareholder	–	191,929	–	191,929
	2,617,161	3,959,041	1,018,755	7,594,957

31 December 2018	Less than 3 months *RMB'000*	3 to 12 months *RMB'000*	1 to 5 years *RMB'000*	Total *RMB'000*
Trade and bills payables	496,373	–	–	496,373
Interest-bearing bank and other borrowings	1,636,028	4,314,769	708,226	6,659,023
Due to a controlling shareholder	–	361,416	–	361,416
	2,132,401	4,676,185	708,226	7,516,812

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, an amount due to a related party, trade and bills payables and other payables and accruals (excluding contract liabilities/advances from customers), less cash and cash equivalents. The gearing ratios as at the end of the reporting periods are as follows:

	2019 ***RMB'000***	2018 *RMB'000*
Trade and bills payables	**408,085**	2,150,700
Interest-bearing bank and other borrowings	**4,147,355**	6,382,242
Other payables and accruals	**2,587,741**	1,196,937
Amount due to a related party	**191,929**	361,416
Less: Cash and cash equivalents	**(55,224)**	(865,950)
Net debt	**7,279,886**	9,225,345
Equity attributable to owners of the parent	**(3,754,117)**	2,097,155
Capital and net debt	**3,525,769**	11,322,500
Gearing ratio	**206%**	81%

41. INVESTMENTS IN SUBSIDIARIES

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of operations	Registered capital	Percentage of ownership interest Direct %	Percentage of ownership interest Indirect %	Principal activities
Schnell International Ltd.	British Virgin Islands 14 September 2010	Registered capital of US$5	100	–	Investment holding
Schnell Holding Ltd.	Hong Kong, the PRC 29 October 2010	Registered capital of HK$10,000	–	100	Investment holding
Allegro Auto International Ltd.	British Virgin Islands 14 September 2010	Registered capital of US$5	100	–	Investment holding
Spring Oasis Investments Limited	Hong Kong, the PRC 13 September 2010	Registered capital of HK$10,000	–	100	Investment holding
Spring Oasis Investments Holding Limited	Cayman Islands 28 October 2011	Registered capital of US$50,000	–	100	Investment holding
Fresca International Ltd.	British Virgin Islands 14 September 2010	Registered capital of US$5	100	–	Investment holding
Stay Success Limited	Hong Kong, the PRC 13 September 2010	Registered capital of HK10,000	–	100	Investment holding
Presto Auto International Ltd.	British Virgin Islands 14 September 2010	Registered capital of US$5	100	–	Investment holding
Trea sure Path Holdings Limited	Hong Kong, the PRC 13 September 2010	Registered capital of HK$10,000	–	100	Investment holding
Vivace Auto International Ltd.	British Virgin Islands 14 September 2010	Registered capital of US$5	100	–	Investment holding
True Worth Investments Limited	Hong Kong, the PRC 13 September 2010	Registered capital of HK$10,000	–	100	Investment holding

41. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place and date of incorporation/ registration and place of operations	Registered capital	Percentage of ownership interest Direct %	Indirect %	Principal activities
Rundong Automobile Group Co., Ltd. 潤東汽車集團有限公司	Xuzhou, the PRC 3 March 1998	Registered capital of RMB1,791,999,800	–	100	Investment holding
Xuzhou Rundong Jiaoguang Automobile Sales and Services Company Limited 徐州潤東交廣汽車營銷管理有限公司	Xuzhou, the PRC 10 June 2008	Registered capital of RMB107,150,000	–	100	Investment holding
Xuzhou Rundong Automobile Sales Management Company Limited 徐州潤東汽車營銷管理有限公司	Xuzhou, the PRC 20 June 2003	Registered capital of RMB204,090,000	–	100	Investment holding
Xuzhou Yuemei Automobile Sales Management Company Limited 徐州悦美汽車營銷管理有限公司	Xuzhou, the PRC 20 September 2010	Registered capital of RMB50,000,000	–	100	Investment holding
Shanghai Baojing Automobile Sales and Services Company Limited 上海寶景汽車銷售服務有限公司	Shanghai, the PRC 6 July 2010	Registered capital of RMB20,000,000	–	100	Sale and service of motor vehicles
Shanghai Baojing Xingcheng Automobile Sales and Services Company Limited 上海寶景星誠汽車銷售服務有限公司	Shanghai, the PRC 26 November 2010	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Shanghai Baojing Yuejie Automobile Services Company Limited 上海寶景悦捷汽車服務有限公司	Shanghai, the PRC 13 December 2011	Registered capital of RMB500,000	–	100	Service of motor vehicles
Shanghai Jierun Automobile Sales and Services Company Limited 上海捷潤汽車銷售服務有限公司	Shanghai, the PRC 19 September 2011	Registered capital of RMB40,000,000	–	100	Sale and service of motor vehicles

41. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place and date of incorporation/ registration and place of operations	Registered capital	Percentage of ownership interest Direct %	Indirect %	Principal activities
Xuzhou Baojing Automobile Sales Services Company Limited 徐州寶景汽車銷售服務有限公司	Xuzhou, the PRC 6 March 2007	Registered capital of RMB20,000,000	–	100	Sale and service of motor vehicles
Xuzhou Baojing Runbao Automobile Sales and Services Company Limited 徐州寶景潤寶汽車銷售服務有限公司	Xuzhou, the PRC 12 April 2011	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Xuzhou Rundong Ruijing Automobile Sales and Services Company Limited 徐州潤東瑞景汽車銷售服務有限公司	Xuzhou, the PRC 24 November 2004	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Xuzhou Rongchuang Automobile Services Company Limited 徐州融創車業服務有限公司	Xuzhou, the PRC 16 March 2010	Registered capital of RMB1,000,000	–	100	Service of motor vehicles
Xuzhou Rundong Huijing Automobile Sales & Services Co., Ltd. 徐州潤東匯景汽車銷售服務有限公司	Xuzhou, the PRC 26 September 2002	Registered capital of RMB5,000,000	–	100	Sale and service of motor vehicles
Xuzhou Rundong Pre-owned Automobiles Trading Company Limited 徐州潤東二手車交易市場有限公司	Xuzhou, the PRC 19 June 2009	Registered capital of RMB3,000,000	–	100	Service of motor vehicles
Xuzhou Dongchen Automobile Sales Services Company Limited 徐州東辰汽車銷售服務有限公司	Xuzhou, the PRC 13 September 2002	Registered capital of RMB13,000,000	–	100	Sale and service of motor vehicles
Xuzhou Rundong Huitong Automobile Sales Services Company Limited 徐州潤東匯通汽車銷售服務有限公司	Xuzhou, the PRC 12 June 2003	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles

41. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place and date of incorporation/ registration and place of operations	Registered capital	Percentage of ownership interest Direct %	Indirect %	Principal activities
Xuzhou Rundong Fengtian Automobile Sales Services Company Limited 徐州潤東豐田汽車銷售服務有限公司	Xuzhou, the PRC 14 April 2006	Registered capital of RMB15,000,000	–	100	Sale and service of motor vehicles
Xuzhou Rundong Zhitian Automobile Sales and Services Company Limited 徐州潤東之田汽車銷售服務有限公司	Xuzhou, the PRC 4 December 2005	Registered capital of RMB15,000,000	–	100	Sale and service of motor vehicles
Xuzhou Rundong Zhouji Automobile Sales Services Company Limited 徐州潤東洲際汽車銷售服務有限公司	Xuzhou, the PRC 29 March 2004	Registered capital of RMB12,000,000	–	100	Sale and service of motor vehicles
Xuzhou Rundong Jiahua Automobile Sales and Services Company Limited 徐州潤東嘉華汽車銷售服務有限公司	Xuzhou, the PRC 25 May 2004	Registered capital of RMB12,000,000	–	100	Sale and service of motor vehicles
Xuzhou Rundong Automobile Trading Company Limited 徐州潤東汽車貿易有限公司	Xuzhou, the PRC 13 July 2001	Registered capital of RMB13,000,000	–	100	Sale and service of motor vehicles
Xuzhou Huifeng Lexus Automobile Sales and Services Company Limited 徐州匯豐雷克薩斯汽車銷售服務有限公司	Xuzhou, the PRC 28 February 2006	Registered capital of RMB30,000,000	–	100	Sale and service of motor vehicles
Xuzhou Jierun Automobile Sales and Services Company Limited 徐州捷潤汽車銷售服務有限公司	Xuzhou, the PRC 27 July 2011	Registered capital of RMB16,000,000	–	100	Sale and service of motor vehicles
Maanshan City Baojing Automobile Sales and Services Company Limited 馬鞍山市寶景汽車銷售服務有限公司	Maanshan, the PRC 10 December 2010	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles

41. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place and date of incorporation/ registration and place of operations	Registered capital	Percentage of ownership interest Direct %	Indirect %	Principal activities
Nantong Runbaohang Automobile Sales and Services Company Limited 南通潤寶行汽車銷售服務有限公司	Nantong, the PRC 28 June 2010	Registered capital of RMB12,000,000	–	100	Sale and service of motor vehicles
Huzhou Runzhiyi Automobile Sales and Services Company Limited 湖州潤之翼汽車銷售服務有限公司	Huzhou, the PRC 9 June 2011	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Huzhou Baojing Automobile Sales and Services Company Limited 湖州寶景汽車銷售服務有限公司	Huzhou, the PRC 28 May 2010	Registered capital of RMB30,000,000	–	100	Sale and service of motor vehicles
Huaian Baotielong Automobile Sales and Services Company Limited 淮安寶鐵龍汽車銷售有限公司	Huaian, the PRC 25 February 2011	Registered capital of RMB15,000,000	–	100	Sale and service of motor vehicles
Huaian Rundong Zhifu Automobile Sales and Services Company Limited 淮安潤東之福汽車銷售服務有限公司	Huaian, the PRC 6 April 2006	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Huaian Rundong Huifeng Automobile Sales Services Company Limited 淮安潤東匯豐汽車銷售服務有限公司	Huaian, the PRC 24 September 2007	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Huaian Rundong Renheng Automobile Sales and Services Company Limited 淮安潤東仁恒汽車銷售服務有限公司	Huaian, the PRC 29 March 2007	Registered capital of RMB13,000,000	–	100	Sale and service of motor vehicles
Huaian Baojing Automobile Sales and Services Company Limited 淮安寶景汽車銷售服務有限公司	Huaian, the PRC 20 January 2010	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles

41. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place and date of incorporation/ registration and place of operations	Registered capital	Percentage of ownership interest Direct %	Indirect %	Principal activities
Lianyungang Tianlan Automobile Sales and Services Company Limited 連雲港天瀾汽車銷售服務有限公司	Lianyungang, the PRC 1 July 2004	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Lianyungang Tianlan Fengtian Automobile Sales and Services Company Limited 連雲港天瀾豐田汽車銷售服務有限公司	Lianyungang, the PRC 25 April 2006	Registered capital of RMB12,000,000	–	100	Sale and service of motor vehicles
Lianyungang Rundong Tianyue Automobile Sales and Services Company Limited 連雲港潤東天裕汽車銷售服務有限公司	Lianyungang, the PRC 10 January 2008	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Lianyungang Zhibao Automobile Sales and Services Company Limited 連雲港之寶汽車銷售服務有限公司	Lianyungang, the PRC 22 April 2009	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Suqian Runkai Automobile Sales and Services Company Limited 宿遷潤凱汽車銷售服務有限公司	Suqian, the PRC 15 August 2011	Registered capital of RMB15,000,000	–	100	Sale and service of motor vehicles
Yantai Runjie Automobile Sales and Services Company Limited 煙台潤捷汽車銷售服務有限公司	Yantai, the PRC 16 September 2011	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Qingdao Baojing Automobile Sales and Services Company Limited 青島寶景汽車銷售服務有限公司	Qingdao, the PRC 16 September 2011	Registered capital of RMB20,000,000	–	100	Sale and service of motor vehicles
Suzhou Baojing Automobile Sales and Services Company Limited 蘇州市寶景汽車銷售服務有限公司	Suzhou, the PRC 24 November 2011	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles

41. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place and date of incorporation/ registration and place of operations	Registered capital	Percentage of ownership interest Direct %	Indirect %	Principal activities
Linyi Baojing Automobile Sales and Services Company Limited 臨沂寶景汽車銷售服務有限公司	Linyi, the PRC 14 April 2011	Registered capital of RMB30,000,000	–	100	Sale and service of motor vehicles
Taizhou Baojing Automobile Sales and Services Company Limited 泰州寶景汽車銷售服務有限公司	Taizhou, the PRC 1 March 2011	Registered capital of RMB21,000,000	–	100	Sale and service of motor vehicles
Zaozhuang Baojing Automobile Sales and Services Company Limited 棗莊寶景汽車銷售服務有限公司	Zaozhuang, the PRC 14 April 2011	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Rizhao Baojing Automobile Sales Company Limited 日照寶景汽車銷售服務有限公司	Rizhao, the PRC 12 March 2012	Registered capital of RMB17,000,000	–	100	Sale and service of motor vehicles
Lianyungang Runhe Automobile Sales and Services Company Limited 連雲港潤合汽車銷售有限公司	Lianyungang, the PRC 10 August 2012	Registered capital of RMB20,000,000	–	100	Sale and service of motor vehicles
Nanjing Baojing Automobile Sales and Services Company Limited 南京寶景汽車銷售服務有限公司	Nanjing, the PRC 25 May 2012	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Yancheng Baojing Automobile Sales and Services Company Limited 鹽城寶景汽車銷售服務有限公司	Yancheng, the PRC 1 August 2012	Registered capital of RMB20,000,000	–	100	Sale and service of motor vehicles
Linyi Aofeng Automobile Sales and Services Company Limited 臨沂奧豐汽車銷售服務有限公司	Linyi, the PRC 18 May 2011	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles

41. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place and date of incorporation/ registration and place of operations	Registered capital	Percentage of ownership interest Direct %	Indirect %	Principal activities
Linyi Jinhua Automobile Sales and Services Company Limited 臨沂金華汽車銷售服務有限公司	Linyi, the PRC 29 November 2002	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Linyi Jialun Automobile Insurance Brokerage Co., Ltd. 臨沂佳輪汽車保險代理有限公司	Linyi, the PRC 23 May 2012	Registered capital of RMB3,000,000	–	100	Brokerage of automobile insurance
Zaozhuang Aowei Automobile Sales and Services Company 棗莊奧威汽車銷售服務有限公司	Zaozhuang, the PRC 5 May 2008	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Lianyungang Runjie Automobile Sales Company Limited 連雲港潤捷汽車銷售有限公司	Lianyungang, the PRC 25 April 2013	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Xuzhou Runzhiyi Automobile Sales and Services Company Limited 徐州潤之意汽車銷售服務有限公司	Xuzhou, the PRC 26 June 2013	Registered capital of RMB20,000,000	–	100	Sale and service of motor vehicles
Huai'an Runbaohang Automobile Sales and Services Company Limited 淮安潤寶行汽車銷售服務有限公司	Huaian, the PRC 11 July 2013	Registered capital of RMB20,000,000	–	100	Sale and service of motor vehicles
Jinan Runzhiyi Automobile Sales and Services Company Limited 濟南潤之意汽車銷售服務有限公司	Jinan, the PRC 23 July 2013	Registered capital of RMB30,000,000	–	100	Sale and service of motor vehicles
Hong Kong Gen-kun Investment Co., Limited	Hong Kong, the PRC 25 July 2011	Registered capital of HK$10,000	–	100	Investment holding

41. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place and date of incorporation/ registration and place of operations	Registered capital	Percentage of ownership interest Direct %	Indirect %	Principal activities
Huiyu (Shanghai) Financing and Leasing Company 匯譽(上海)融資租賃有限公司	Shanghai, the PRC 30 September 2013	Registered capital of US$30,000,000	–	100	Automobile financing and leasing
Nanjing Runzhiyi Automobile Sales and Services Company Limited 南京潤之意汽車銷售服務有限公司	Nanjing, the PRC 4 March 2014	Registered capital of RMB50,000,000	–	100	Sale and service of motor vehicles
Suzhou Runbaohang Automobile Services Company Limited 蘇州潤寶行汽車服務有限公司	Suzhou, the PRC 27 February 2014	Registered capital of RMB3,000,000	–	100	Service of motor vehicles
Shanghai Jingbao Automobile Services Company Limited 上海景寶汽車服務有限公司	Shanghai, the PRC 12 May 2014	Registered capital of RMB5,000,000	–	100	Service of motor vehicles
Shanghai Zhilian Automobile Sales and Services Company Limited 上海智聯汽車銷售服務有限公司	Shanghai, the PRC 3 June 2014	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Shanghai Puyuan Automobile Sales and Services Company Limited 上海浦源汽車銷售服務有限公司	Shanghai, the PRC 7 November 2014	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Zhangjiagang Free Trade Zone Zhibao Automobile Sales and Services Company Limited 張家港保税區智寶汽車銷售服務有限公司	Zhangjiagang, the PRC 7 November 2014	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Xuzhou Jingzhong Automobile Sales and Services Company Limited 徐州景眾汽車銷售服務有限公司	Xuzhou, the PRC 28 November 2014	Registered capital of RMB5,000,000	–	100	Sale and service of motor vehicles

41. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place and date of incorporation/ registration and place of operations	Registered capital	Percentage of ownership interest Direct %	Indirect %	Principal activities
Xuzhou Zhixin Automobile Services Company Limited 徐州智信汽車服務有限公司	Xuzhou, the PRC 2 February 2015	Registered capital of RMB500,000	–	100	Service of motor spare parts
Linyi Jialun Automobile Sales and Services Company Limited 臨沂佳輪汽車銷售服務有限公司	Linyi, the PRC 25 October 1989	Registered capital of RMB30,000,000	–	100	Sale and service of motor vehicles
Linyi Fenghui Automobile Sales and Services Company Limited 臨沂豐匯汽車銷售服務有限公司	Linyi, the PRC 18 August 2010	Registered capital of RMB8,000,000	–	100	Sale and service of motor vehicles
Linyi Jinyang Automobile Sales and Services Company Limited 臨沂金羊汽車銷售服務有限公司	Linyi, the PRC 30 June 1999	Registered capital of RMB8,000,000	–	100	Sale and service of motor vehicles
Linyi Jinlun Automobile Sales and Services Company Limited 臨沂金倫汽車銷售服務有限公司	Linyi, the PRC 22 October 2002	Registered capital of RMB8,000,000	–	100	Sale and service of motor vehicles
Nantong Runzhiyi Automobile Sales and Services Company Limited 南通潤之意汽車銷售服務有限公司	Nantong, the PRC 3 July 2015	Registered capital of RMB30,000,000	–	100	Sale and service of motor vehicles
Shanghai Puze Automobile Sales and Services Company Limited 上海浦澤汽車銷售服務有限公司	Shanghai, the PRC 29 October 2015	Registered capital of RMB2,000,000	–	100	Sale and service of motor vehicles
Xuzhou Baozun Automobile Sales and Services Company Limited 徐州寶尊汽車銷售服務有限公司	Xuzhou, the PRC 29 February 2012	Registered capital of RMB25,500,000	–	100	Sale and service of motor vehicles

41. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place and date of incorporation/ registration and place of operations	Registered capital	Percentage of ownership interest Direct %	Indirect %	Principal activities
Suqian Baozun Automobile Sales and Services Company Limited 宿遷寶尊汽車銷售服務有限公司	Suqian, the PRC 25 November 2011	Registered capital of RMB16,500,000	–	100	Sale and service of motor vehicles
Xuzhou Kainuo Automobile Sales and Services Company Limited 徐州凱諾汽車銷售服務有限公司	Xuzhou, the PRC 14 January 2013	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Xuzhou Weichen Shenlan Automobile Sales and Services Company Limited 徐州維辰深藍汽車銷售服務有限公司	Xuzhou, the PRC 29 March 2013	Registered capital of RMB25,000,000	–	100	Sale and service of motor vehicles
Nanjing Zhihang Automobile Sales and Services Company Limited 南京智航汽車銷售服務有限公司	Nanjing, the PRC 28 December 2015	Registered capital of RMB1,000,000	–	100	Sale and service of motor vehicles
Huainan Xin'ao Automobile Sales and Services Company Limited 淮南鑫澳汽車銷售服務有限公司	Huainan, the PRC 22 December 2014	Registered capital of RMB10,000,000	–	60	Sale and service of motor vehicles
Chongqing Zhilan Automobile Sales and Services Company Limited 重慶智瀾汽車銷售服務有限公司	Chongqing, the PRC 25 March 2016	Registered capital of RMB100,000,000	–	100	Sale and service of motor vehicles
Yangzhou Huawei Automobile Investment Management Company Limited 揚州華為汽車投資管理有限公司	Yangzhou, the PRC 19 November 2013	Registered capital of RMB733,000,000	–	100	Sale and service of motor vehicles/I.C
Jiangsu Jin'ao Automobile Sales and Services Company Limited 江蘇金澳汽車銷售服務有限公司	Yangzhou, the PRC 4 August 2004	Registered capital of RMB80,000,000	–	100	Sale and service of motor vehicles

41. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place and date of incorporation/ registration and place of operations	Registered capital	Percentage of ownership interest Direct %	Indirect %	Principal activities
Yangzhou Jindi Automobile Sales and Services Company Limited 揚州金迪汽車銷售服務有限公司	Yangzhou, the PRC 5 March 2014	Registered capital of RMB70,000,000	–	100	Sale and service of motor vehicles
Dalian Shenlan Automobile Sales and Services Company Limited 大連深藍汽車銷售服務有限公司	Dalian, the PRC 9 September 2011	Registered capital of RMB85,000,000	–	100	Sale and service of motor vehicles
Zhenjiang Jin'ao Automobile Sales and Services Company Limited 鎮江金奧汽車銷售服務有限公司	Zhenjiang, the PRC 2 April 2013	Registered capital of RMB30,000,000	–	100	Sale and service of motor vehicles
Jiangsu Jintaiyang Automobile Sales and Services Company Limited 江蘇金太陽汽車銷售服務有限公司	Yangzhou, the PRC 20 September 2002	Registered capital of RMB30,000,000	–	100	Sale and service of motor vehicles
Jiangsu Jintaiyang Ruizhong Automobile Trading Company Limited 江蘇金太陽瑞眾汽車貿易有限公司	Yangzhou, the PRC 14 January 2013	Registered capital of RMB50,000,000	–	100	Sale and service of motor vehicles
Yangzhou Jintong Automobile Sales and Services Company Limited 揚州金通汽車銷售服務有限公司	Yangzhou, the PRC 13 April 2012	Registered capital of RMB20,000,000	–	100	Sale and service of motor vehicles
Yangzhou Jinhu Automobile Sales and Services Company Limited 揚州金滬汽車銷售服務有限公司	Yangzhou, the PRC 15 November 2012	Registered capital of RMB20,000,000	–	100	Sale and service of motor vehicles
Yangzhou Jinmai Automobile Sales and Services Company Limited 揚州金邁汽車銷售服務有限公司	Yangzhou, the PRC 15 November 2012	Registered capital of RMB20,000,000	–	100	Sale and service of motor vehicles

41. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place and date of incorporation/ registration and place of operations	Registered capital	Percentage of ownership interest Direct %	Indirect %	Principal activities
Taizhou Jintaiyang Automobile Trading Company Limited 泰州金太陽汽車貿易有限公司	Taizhou, the PRC 15 March 2010	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Taizhou Jinbang Automobile Sales and Services Company Limited 泰州金邦汽車銷售服務有限公司	Taizhou, the PRC 10 December 2012	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Taizhou Jin'ao Automobile Sales and Services Company Limited 泰州金翺汽車銷售服務有限公司	Taizhou, the PRC 21 February 2013	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Taizhou Jinkun Automobile Sales and Services Company Limited 泰州金坤汽車銷售服務有限公司	Taizhou, the PRC 22 February 2013	Registered capital of RMB30,000,000	–	85	Sale and service of motor vehicles
Taizhou Jinpu Automobile Sales and Services Company Limited 泰州金浦汽車銷售服務有限公司	Taizhou, the PRC 21 January 2013	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Zhenjiang Jinwei Automobile Sales and Services Company Limited 鎮江金煒汽車銷售服務有限公司	Zhenjiang, the PRC 12 October 2013	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Yangzhou De'ao Automobile Services Company Limited 揚州德澳汽車服務有限公司	Yangzhou, the PRC 22 March 2010	Registered capital of RMB12,000,000	–	100	Service of motor vehicles
Yangzhou Ruiao Automobile Sales and Services Company Limited 揚州瑞澳汽車銷售服務有限公司	Yangzhou, the PRC 20 November 2014	Registered capital of RMB10,000,000	–	100	Sale and service of motor vehicles
Changzhou Ruida Automobile Sales and Services Company Limited 常州瑞達汽車銷售服務有限公司	Changzhou, the PRC 26 May 2011	Registered capital of RMB188,000,000	–	100	Sale and service of motor vehicles

41. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place and date of incorporation/ registration and place of operations	Registered capital	Percentage of ownership interest Direct %	Indirect %	Principal activities
Changzhou Shangrui Kaidi Automobile Sales and Services Company Limited 常州上瑞凱迪汽車銷售服務有限公司	Changzhou, the PRC 3 March 2010	Registered capital of RMB321,320,000	–	100	Sale and service of motor vehicles
Changzhoushi Shangrui Automobile Sales and Services Company Limited 常州市上瑞汽車銷售服務有限公司	Changzhou, the PRC 28 September 2009	Registered capital of RMB74,000,000	–	100	Sale and service of motor vehicles
Beijing Yizhibao Automobile Sales and Services Company Limited 北京易至寶汽車銷售服務有限公司	Beijing, the PRC 14 June 2016	Registered capital of RMB30,000,000	–	100	Sale and service of motor vehicles
Shanghai Xingang Automobile Services Company Limited 上海新港汽車銷售服務有限公司	Shanghai, the PRC 29 March 2006	Registered capital of RMB18,180,000	–	100	Sale and service of motor vehicles
Nanjing Wandeyou Automobile Services Company Limited 南京萬德友汽車銷售服務有限公司	Nanjing, the PRC 19 October 2010	Registered capital of RMB70,000,000	–	100	Sale and service of motor vehicles
Nanjing Xingang Automobile Services Company Limited 南京新港汽車銷售服務有限公司	Nanjing, the PRC 27 December 2000	Registered capital of RMB24,150,000	–	100	Sale and service of motor vehicles
Nanjing Changfu Xingang Automobile Services Company Limited 南京長福新港汽車銷售服務有限公司	Nanjing, the PRC 02 June 2005	Registered capital of RMB20,500,000	–	100	Sale and service of motor vehicles
Nanjing Suifeng Xingang Automobile Services Company Limited 南京穗豐新港汽車銷售服務有限公司	Nanjing, the PRC 23 December 2005	Registered capital of RMB21,540,000	–	100	Sale and service of motor vehicles
Linyi Runzhiyi Automobile Sales and Services Company Limited 臨沂潤之意汽車銷售服務有限公司	Linyi, the PRC 28 September, 2016	Registered capital of RMB20,000,000	–	100	Sale and service of motor vehicles

41. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place and date of incorporation/ registration and place of operations	Registered capital	Percentage of ownership interest Direct %	Indirect %	Principal activities
Shanghai Jierun Rongjie Automobile Sales and Service Company Limited 上海捷潤榮捷汽車銷售服務有限公司	Shanghai, the PRC 17 July, 2018	Registered capital of RMB2,000,000	–	100	Sale and service of motor vehicles
Tengzhou Runbaohang Automobile Services Company Limited 滕州潤寶行汽車服務有限公司	Tengzhou, the PRC 12 November, 2015	Registered capital of RMB5,000,000	–	100	Service of motor spare parts
Yunnan Rundong Automobile Sales Management Company Limited 雲南潤東汽車營銷管理有限公司	Yunnan, the PRC 5 December, 2017	Registered capital of RMB50,000,000	–	100	Investment holding
Zaozhuang Baoyuan Automobile Sales Management Company Limited 棗莊寶源汽車銷售服務有限公司	Zaozhuang, the PRC 19 November, 2009	Registered capital of RMB5,000,000	–	100	Sale and service of motor vehicles
Weifang Runzhiyi Automobile Sales and Services Company Limited 濰坊潤之意汽車銷售服務有限公司	Weifang, the PRC 16 May 2017	Registered capital of RMB20,000,000	–	100	Sale and service of motor vehicles
Yantai Runzhiyi Automobile Sales and Services Company Limited 煙台潤之意汽車銷售服務有限公司	Yantai, the PRC 22 February 2017	Registered capital of RMB20,000,000	–	100	Sale and service of motor vehicles

42. EVENTS AFTER THE REPORTING PERIOD

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

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

43. 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:

	2019 ***RMB'000***	2018 *RMB'000*
NON-CURRENT ASSETS		
Investments in subsidiaries	**4,329,049**	4,329,049
CURRENT ASSETS		
Cash and cash equivalents	**6,730**	4,714
Due from subsidiaries	**333,773**	330,761
Total current assets	**340,503**	335,475
TOTAL ASSETS	**4,669,552**	4,664,524
CURRENT LIABILITIES		
Other payables and accruals	**13,320**	13,971
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,656,232**	4,650,553
NET ASSETS	**4,656,232**	4,650,553
EQUITY		
Share capital	**5**	5
Reserves *(note)*	**4,656,227**	4,650,548
TOTAL EQUITY	**4,656,232**	4,650,553

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

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

	Share option reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
Balance at 1 January 2018	8,861	4,637,169	4,646,030
Total comprehensive income for the year	–	4,493	4,493
Equity-settled share option arrangements	25	–	25
At 31 December 2018 and 1 January 2019	8,886	4,641,662	4,650,548
Total comprehensive income for the year	–	5,679	5,679
At 31 December 2019	8,886	4,647,341	4,656,227

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

44. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of the new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made, and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of the Directors on 29 May 2020.

润东汽车

CHINA RUNDONG AUTO GROUP LIMITED

中國潤東汽車集團有限公司