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Sunfonda Group Holdings

SUNFONDA GROUP HOLDINGS LIMITED

新豐泰集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01771)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

The board of directors (the “**Board**”) of Sunfonda Group Holdings Limited (the “**Company**”) hereby announces the audited consolidated annual results of the Company and its subsidiaries for the year ended 31 December 2020. This announcement, containing the full text of the 2020 annual report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcement of annual results.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The Company’s 2021 Annual General Meeting (the “**2021 AGM**”) will be held on Tuesday, 25 May 2021. In order to determine shareholders’ entitlement to attend and vote at the 2021 AGM, the register of members of the Company will be closed from Wednesday, 19 May 2021 to Tuesday, 25 May 2021 (both days inclusive). In order to be entitled to attend and vote at the 2021 AGM, unregistered holders of shares of the Company should ensure that all the share transfer documents together with the relevant share certificates are lodged with the Company’s Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Tuesday, 18 May 2021.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to propose the distribution to shareholders of the Company of a final dividend of HK\$0.08 (equivalent to approximately RMB0.07) per ordinary share for the year ended 31 December 2020 in an aggregate amount of RMB40.4 million. The proposed distribution of final dividend is subject to the consideration and approval of shareholders at the 2021 AGM of the Company.

Where the proposed distribution of final dividend is approved at the 2021 AGM, the dividend will be paid on Friday, 2 July 2021 to shareholders whose names appear on the register of members of the Company at the close of market on Thursday, 3 June 2021. Therefore, the register of members of the Company will be closed from Tuesday, 1 June 2021 to Thursday, 3 June 2021 (both days inclusive). In order to be entitled to the final dividend, unregistered holders of shares of the Company should ensure that the share transfer documents together with the relevant share certificates are lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Monday, 31 May 2021.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

The Company's 2020 annual report will be dispatched to the shareholders of the Company and published on the websites of the Company and The Stock Exchange of Hong Kong Limited in due course.

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

30 March 2021

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

CONTENTS

Corporate Information	2
Financial Highlights	4
Chairman's Statement	6
Management Discussion and Analysis	9
Biographies of Directors, Senior Management and Company Secretary	30
Corporate Governance Report	35
Report of the Directors	55
Environmental, Social and Governance Report	73
Independent Auditors' Report	86
Consolidated Statement of Profit or Loss	92
Consolidated Statement of Comprehensive Income	93
Consolidated Statement of Financial Position	94
Consolidated Statement of Changes in Equity	96
Consolidated Statement of Cash Flows	97
Notes to Financial Statements	99
Financial Summary	186

CORPORATE INFORMATION

CHINESE NAME OF THE COMPANY

新豐泰集團控股有限公司

ENGLISH NAME OF THE COMPANY

Sunfonda Group Holdings Limited

INVESTOR INQUIRIES

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BOARD OF DIRECTORS

Executive Directors

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

Ms. Chiu Man (*Chief Executive Officer*)

Mr. Gou Xinfeng

Ms. Chen Wei

Independent Non-executive Directors

Mr. Liu Jie

Mr. Song Tao

Dr. Liu Xiaofeng

AUDIT COMMITTEE

Mr. Liu Jie (*Chairman*)

Mr. Song Tao

Dr. Liu Xiaofeng

NOMINATION COMMITTEE

Mr. Wu Tak Lam (*Chairman*)

Mr. Liu Jie

Mr. Song Tao

Dr. Liu Xiaofeng

REMUNERATION COMMITTEE

Mr. Song Tao (*Chairman*)

Mr. Liu Jie

Dr. Liu Xiaofeng

FINANCE AND INVESTMENT COMMITTEE

Mr. Wu Tak Lam (*Chairman*)

Ms. Chiu Man

Mr. Liu Jie

AUTHORISED REPRESENTATIVES

Mr. Wu Tak Lam

Ms. Chan Sze Ting

COMPANY SECRETARY

Ms. Chan Sze Ting (*ACG, ACS*)

HEADQUARTERS

Sunfonda Automobile Center

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Beichen Avenue

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Xi'an City, Shaanxi Province

PRC

CORPORATE INFORMATION

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HONG KONG SHARE REGISTRAR

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LEGAL ADVISERS

PRC Law

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Chaoyang District, Beijing
PRC

Hong Kong Law

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Central, Hong Kong

AUDITORS

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

PRINCIPAL BANKERS

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

Bank of China Limited, Shaanxi Branch
No. 18, North Section of Tangyan Road
Xi'an City, Shaanxi Province
PRC

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

STOCK CODE

01771

WEBSITE

www.sunfonda.com.cn

FINANCIAL HIGHLIGHTS

The sales volume of passenger vehicles for the year ended 31 December 2020 increased by 9.7% to 32,175 units as compared with the corresponding period in 2019.

Revenue for the year ended 31 December 2020 increased by 14.2% to RMB10,634.4 million as compared with the corresponding period in 2019.

Gross profit for the year ended 31 December 2020 increased by 14.5% to RMB748.8 million as compared with the corresponding period in 2019.

Revenue from after-sales services for the year ended 31 December 2020 increased by 4.6% to RMB1,142.7 million as compared with the corresponding period in 2019.

Gross profit margin for after-sales services decreased to 43.0% for the year ended 31 December 2020 from 44.2% for the year ended 31 December 2019.

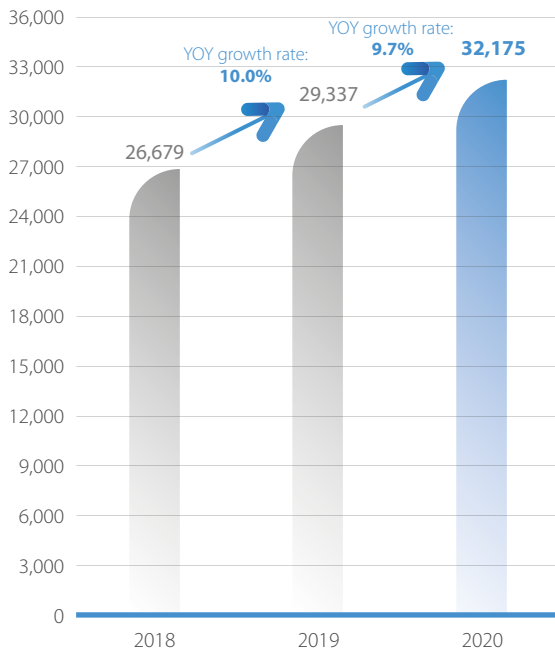
Profit for the year attributable to owners of the parent for the year ended 31 December 2020 increased by 21.1% to RMB145.2 million as compared with the corresponding period in 2019.

Basic and diluted earnings per share attributable to ordinary equity holders of the parent for the year ended 31 December 2020 was RMB0.24. The Board of Directors of the Company recommends a final dividend of HK\$0.08 (equivalent to approximately RMB0.07) per ordinary share for the year ended 31 December 2020.

FINANCIAL HIGHLIGHTS

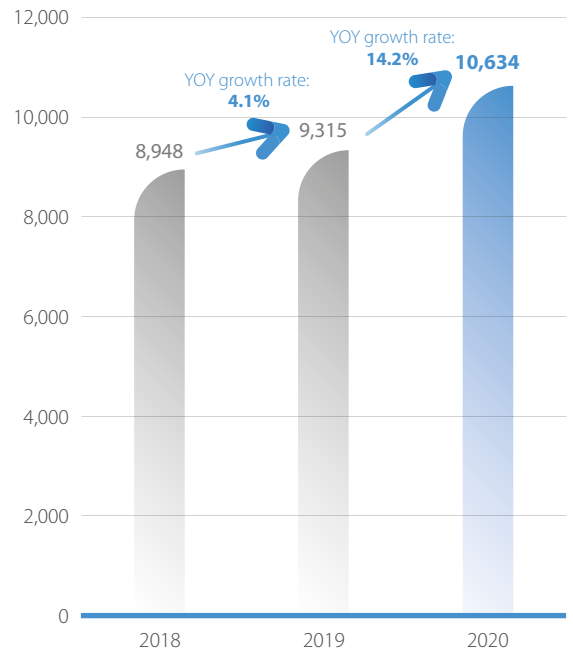
Sales volume of passenger vehicles

Sales volume of passenger vehicles (unit)



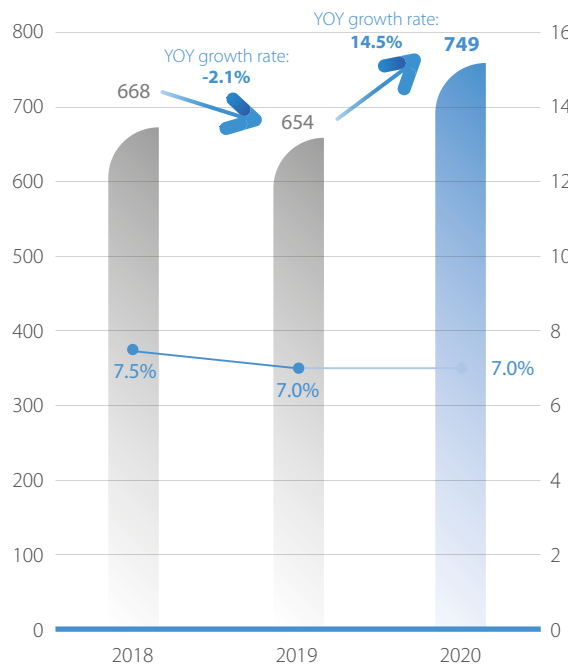
Revenue

RMB in millions



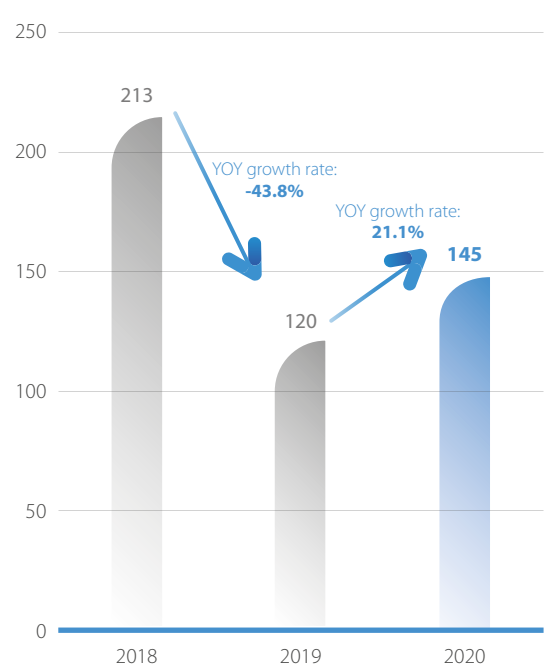
Gross profit and gross profit margin

RMB in millions



Profit for the year attributable to owners of the parent

RMB in millions



CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

On behalf of the board of directors (the **"Board"**) of Sunfonda Group Holdings Limited (the **"Company"**), I am pleased to present the annual report of the Company and its subsidiaries (the **"Group"**) for the year ended 31 December 2020 (the **"Period"**).

As a leading dealer of luxury and super-luxury automobiles in the People's Republic of China (**"PRC"** or **"China"**), the Group enjoys the regional opportunities brought about by the "Belt and Road" Initiative, and has established business presence nationwide to seize the opportunities of consumption upgrades. The Group has actively consolidated its leading position in Northwestern China and aggressively expanded its business footprint by newly opening one Lexus brand 4S store in Xi'an and two GAC Toyota brand 4S stores in Xi'an and Nanjing during the Period, increasing the number of its 4S stores to 37, so as to further capitalize on opportunities brought about by the "Belt and Road" Initiative and other favorable national policies. At the same time, the Group continued to expand its footprint coverage into more provinces across China by drawing upon its solid business foundation. During the Period, we obtained BMW brand authorization in Wuhan, poised to further expand our business to other provinces and municipalities in the future. In addition, the Group also pays close attention to market dynamics and proactively seeks acquisition opportunities to rapidly expand its business growth space. In order to further seize market opportunities, the Group successfully acquired Weinan Haizhong Car Sales Services Co., Ltd. (渭南海眾汽車銷售服務有限公司) in early 2021 to further expand its operating network and exert its scale effect, thereby enhancing its customer experience.

CHAIRMAN'S STATEMENT

In 2020, the domestic automobile retail market exhibited a trend of rise following a dip. The sudden outbreak of the novel coronavirus pneumonia (COVID-19) in the first half of the year had a serious impact on the automobile dealership industry. However, as China began to show signs of recovery from the impact of the pandemic, the automobile retail market picked up in the second half of the year, with the luxury automobile retail market rebounding rapidly. According to figures released by the China Association of Automobile Manufacturers (“CAAM”), the domestic sales volume of passenger vehicles was 20.178 million units in 2020, representing a decrease of 6.0% year-on-year. The luxury automobile retail market that the Group focuses on, however, showed a remarkable recovery speed which completely offset the impact of the pandemic. Since the second quarter of the year, this market has maintained double-digit growth for several consecutive months. The annual sales volume reached 3.588 million units, representing an increase of 11.7% year-on-year and accounting for 17.8% of the passenger vehicle market.

- I. **In the context of the vigorous recovery, the Group proactively adjusted its business deployment to promote sales across all of its stores in a more flexible manner.** As a result, the Group's sales volume reached 32,175 units in 2020, representing an increase of 9.7% year-on-year, leading to a record-breaking revenue of RMB10,634.4 million, representing an increase of 14.2% year-on-year. Our profit for the year increased by 21.1% year-on-year to RMB145.2 million.
- II. **As the penetration rate of luxury automobiles continues to rise, the domestic automotive after-sales market is developing rapidly, which is expected to contribute more profit to the Group.** The Group continuously strives to improve its after-sales service, introduces digital service experience and improves store reception efficiency to provide customers with a first-class experience. In addition, regarding service quality and cost-side control as breakthrough points, the Group has improved its after-sales service profit margin and promoted the development of its after-sales service business.

By actively exploring the new business model of “FUN TIME LANE (豐泰里)” for automobile sales, the Group has recorded increased revenue and scale. The construction of the “FUN TIME LANE” automobile street zone project in Xi'an is progressing in an orderly manner. The project is expected to be put into operation in 2022, and is intended to house a number of luxury automobile brands, which is expected to reduce the customer acquisition cost of each of our brand stores. In addition, the project will enhance customer experience by offering catering service, parent-child experience and other integrated entertainment services, and will develop into a regional consumption center with the theme of automobile while capitalizing on the national policy of internal circulation and opportunities of consumption upgrading, in a bid to promote wider recognition of the “FUN TIME LANE” automobile street zone project. The Group also actively endeavours to promote the “FUN TIME LANE” automobile street zone project in other regions across China, hoping to help the Group achieve greater economies of scale and improve operational efficiency, thereby further consolidating its leading position in the national luxury automobile retail market.

CHAIRMAN'S STATEMENT

In view of the diminishing impact of the pandemic, it is estimated that the market will record a growth of over 10% in sales of luxury automobiles in 2021. The Group will continue to seize market opportunities, including considering the introduction of more luxury automobile brands and the mergers with and acquisitions of its peers with potentials, in an effort to improve the Group's profitability. In the long run, the Group is optimistic about the development of dual-circulation economy and domestic consumption upgrading, which will add more momentums to the luxury automobile retail market and benefit the long-term development of its main business.

In closing, on behalf of the Board, I would like to express my gratitude to all shareholders for their great support to the Group, and our customers for their trust. The Group's development is owed in no small part to the long-standing trust and inclusiveness of all shareholders, as well as the unremitting efforts and dedications of our directors, employees and their families. Looking ahead, the Group is poised to achieve ongoing developments and deliver more lucrative and long-term returns to shareholders.

Wu Tak Lam

Chairman of the Board

30 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

I. MARKET REVIEW

China's Economic Performance Showed Steady Recovery in 2020 with Fruitful Completion of the "13th Five-year Plan"

As affected by the COVID-19 pandemic which has swept across the world, against the backdrops of severe and complex domestic and foreign environments and under the strong leadership of the Party Central Committee with Comrade Xi Jinping as the core, all regions and departments adhered to the general tone of making steady progress while coordinating the efforts of pandemic prevention and control as well as economic and social development, effectively ensuring stability in "six areas" and fully carrying out the task of "six priorities". As a result, the economic performance showed steady recovery, the employment rate and people's livelihood were strongly guaranteed, and the main objectives and tasks of economic and social development achieved better-than-expected progress.

According to the data released by the National Bureau of Statistics, in 2020, the preliminarily calculated annual gross domestic product ("GDP") stood at RMB101,598.6 billion, breaking the RMB100 trillion mark, representing an increase of 2.3% year-on-year at comparable prices. In 2020, GDP for the first quarter fell 6.8% year-on-year, followed by an increase of 3.2% in the second quarter, 4.9% in the third quarter and 6.5% in the fourth quarter thanks to the effective control over the pandemic. In 2020, the total retail sales of consumer goods was RMB39,198.1 billion, representing a decrease of 3.9% year-on-year. However, the total retail sales of consumer goods in December reached RMB4,056.6 billion, representing an increase of 4.6% year-on-year. Automobile consumption totalled RMB3,941.4 billion, representing a slight decrease of 1.8% year-on-year. The contribution of automobile consumption to China's economic development has become increasingly prominent, with the amount reaching RMB487.1 billion in December, representing an increase of 6.4% year-on-year, demonstrating a robust momentum.

MANAGEMENT DISCUSSION AND ANALYSIS

A total of 11.86 million new urban jobs were created throughout 2020, which was significantly higher than the expected target of more than 9 million, achieving 131.8% of the target set for 2020. The national per capita disposable income was RMB32,189, representing a nominal growth of 4.7% year-on-year, or an actual growth of 2.1% if price factors were excluded, which was basically in line with economic growth. The objective of doubling the national per capita income of China's urban and rural residents from 2010 was achieved on schedule. The substantial increase in new jobs and the rise in per capita disposable income have provided strong support for automobile consumption.

Steady and High-quality Development Was Evidenced by Continuous and Steady Economic Recovery and Increased Vitality in the Places Where Our Main Business Is Located

In 2020, the economy of Shaanxi Province, where the Group's main business is located, witnessed continuous and steady economic recovery, which showed a good momentum of optimized structure, increased vitality, and steady progress in high-quality development throughout the year. The per capita disposable income in Shaanxi Province increased significantly, far above the national average. The automotive industry also performed exceptionally well.

According to the unified accounting results, Shaanxi's GDP achieved RMB2,618,186 million in 2020, representing an increase of 2.2% year-on-year. In 2020, the added value of industries above designated size in Shaanxi Province increased by 1.0% year-on-year, and the cumulative growth rate during the year maintained positive growth for eight consecutive months. According to the survey conducted by the Shaanxi Survey Team of the National Bureau of Statistics, as approved by the National Bureau of Statistics, the per capita disposable income in Shaanxi was RMB26,226 in 2020, representing a nominal increase of 6.3% year-on-year, or an actual increase of 3.7% if price factors were excluded. The growth rate of disposable income in Shaanxi was above the national average. All four incomes of residents recorded an increase in Shaanxi. At the same time, the business environment in Shaanxi Province was continuously improving. In 2020, the total number of market entities in Shaanxi Province exceeded 4.4 million, and various market entities showed a stable and healthy development trend.

According to the data from the Shaanxi Automotive Industry Association: in 2020, the output value of the automotive industry in Shaanxi Province was approximately RMB200 billion, representing an increase of 8.2% year-on-year; the cumulative output and the sales volume of automobiles was 0.6283 million units and 0.6162 million units, respectively, representing an increase of 14.78% and 11.84%, respectively. Both output and sales volume ranked first among all major automobile production provinces across China in terms of growth rate, and reached the highest level in history.

MANAGEMENT DISCUSSION AND ANALYSIS

In addition, Jiangsu Province, another major business location of the Group, reported a high-quality economic development in 2020. The GDP in Jiangsu Province increased significantly from RMB7.13 trillion to RMB10.27 trillion, with its per capita GDP reaching RMB0.125 million, ranking first across China. A total of RMB800 billion of reductions in tax and fees have been made, 525 administrative powers have been abrogated, delegated or adjusted, and the overall level of the business environment was among the highest in China.

The total retail sales of consumer goods in Jiangsu Province reached RMB3,708.61 billion, representing a decrease of 1.6% year-on-year, which was 2.3 percentage points better than the national average. The upgrading of household consumption and the continued improvement of the policy environment played a significant role in driving the development of automobile products. In 2020, the automobiles above designated size in Jiangsu grew by 1.2% year-on-year, representing an increase of 14.8 and 5.1 percentage points from the first half of the year and the first three quarters, respectively. The sales of new energy vehicles recorded a strong growth. From September to December, a total of 40,754 new energy vehicles were registered in Jiangsu, representing an increase of 174.2% year-on-year. Notably, more than 10,000 vehicles were registered for two consecutive months in November and December, hitting a record high. The retail sales of automobiles accounted for 28% of the retail sales of products above designated size, which served as a strong support for the positive increase in retail sales of products above designated size in the province.

Review of China's Automobile Market in 2020

According to the data released by the CAAM, the recovery progress of China's automobile market has exceeded expectations to a great extent. In 2020, the production and sales of automobiles reached 25.225 million units and 25.311 million units, respectively, representing a decrease of 2.0% and 1.9% year-on-year, respectively, down by 5.5 percentage points and 6.3 percentage points, respectively as compared with the previous year, but continued to rank first in the world. The production and sales of passenger vehicles were 19.994 million units and 20.178 million units, respectively, representing an increase of 6.5% and 6.0%, respectively, which represented a decrease of 2.7 percentage points and 3.6 percentage points as compared with the previous year. According to the CAAM, China's auto production and sales are recovering at a word's leading pace and extent, demonstrating strong resilience and motivation for recovery. With the steady recovery of the national economy, consumer demand will be further recovered, and the overall potential of the Chinese automobile market remains huge. According to the CAAM, the Chinese automobile market may have reached its bottom in 2020, and will achieve positive recovery growth in 2021.

According to the statistics of the Ministry of Public Security of the PRC, China's motor vehicle ownership volume reached 372 million units in 2020, of which the car ownership volume was 281 million units; and the number of newly registered motor vehicles amounted to 33.28 million units, representing an increase of 1.14 million units year-on-year. In 2020, the number of newly registered motor vehicles amounted to 33.28 million units, representing an increase of 1.14 million units or 3.56% as compared with that of 2019. There are 70 cities with car ownership volume of more than 1 million units in China, representing an increase of 4 cities year-on-year. There are 31 cities with a car ownership volume of more than 2 million units and 13 cities with more than 3 million units. Specifically, Beijing, Chengdu and Chongqing have a car ownership volume of more than 5 million units, Suzhou, Shanghai and Zhengzhou of more than 4 million units, and 7 cities including Xi'an, Wuhan, Shenzhen, Dongguan, Tianjin, Qingdao and Shijiazhuang of more than 3 million units.

MANAGEMENT DISCUSSION AND ANALYSIS

According to the data of Automotive Data of China Co., Ltd. (中汽數據有限公司), in 2020, the retail sales volume of luxury automobile reached 3.588 million units, representing an increase of 11.7% year-on-year, and the market share of luxury automobile in passenger vehicles rose to 17.8%, exhibiting the strong resilience of the luxury brand market against the impact of the pandemic. From the demand side, the mid-to-high-end population is relatively less affected by the pandemic. The redemption-oriented marketing promoted consumer brand upgrades, driving the continuous growing demand for mid-to-high-end redemption. In 2020, the market share of luxury brands after redemption reached 26.8%, representing an increase of 0.8 percentage point from 2019. Looking ahead, mid-to-high-end brands will remain a market focus with increasingly prominent polarisation of production and sales data for low-end and high-end models, and mid-to-high-end brands will dominate the market demand.

According to the sales data officially released by Porsche, the volume of new automobiles delivered around the globe reached 272,162 units in 2020, representing a decrease of 3% year-on-year. China has been the world's largest single market for Porsche for years, with the volume of new automobiles delivered amounting to 88,968 units in 2020, representing an increase of 3% year-on-year; notably, the volume delivered in the fourth quarter increased by 16% year-on-year. In terms of models, the market sales of Porsche's first battery electric sports model Taycan continued to post a steady growth, with more than 20,000 new cars delivered throughout the year.

According to the sales data officially released by Mercedes-Benz, in 2020, Mercedes-Benz brand sold a total of 2,164,187 new automobiles globally, with plug-in hybrid vehicle (PHEV) models and battery electric vehicle (BEV) models accounting for 7.4% of the overall sales volume of passenger vehicles. The Chinese market remained one of its main sales region, with 774,382 new automobiles sold, representing an increase of 11.7% year-on-year.

According to the sales data officially released by BMW, in 2020, the BMW Group delivered a total of 777,379 new automobiles (including BMW and MINI) in the Chinese market, representing an increase of 7.4% year-on-year, hitting a new record high in sales since its expansion into the Chinese market in 1994. In terms of new energy vehicles, the BMW Group delivered a total of approximately 30,000 new energy vehicles in China in 2020, making the total number of its new energy vehicles sold in China reach nearly 90,000 units. It occupied more than half of the high-end plug-in hybrid vehicle market in China. At present, BMW iX3, an innovative battery electric model, has been put into production in China and exported to the world, opening up a new stage of "in China, for the world". In 2021, BMW iX and BMW i4, both battery electric vehicle models, will be launched in the market and continue to enrich new energy vehicle offerings; by 2023, the BMW Group will provide 25 electric models to the global market, half of which will be battery electric ones.

MANAGEMENT DISCUSSION AND ANALYSIS

According to the official reports from Audi, based on FAW-Volkswagen Audi's sales data in the Chinese market for 2020, a total of 726,288 new automobiles were sold throughout the year, representing an increase of 5.4% year-on-year. As of 2020, the cumulative sales of the Audi brand in the Chinese market have exceeded 6.6 million units, and its huge car ownership volume has laid a strong foundation for after-sales service. 2021 marks the year of electrification for FAW-Volkswagen Audi. Starting from the launch of the domestic model e-tron and the imported model e-tron Sportback in March, a total of 5 e-tron family models will be introduced successively.

According to the sales data officially released by Lexus, a total of 223,648 new automobiles were delivered in China in 2020, representing an increase of 12% from that of 2019. Specifically, the sales volume of electrically energized models was 83,868 units, representing an increase of 22% year-on-year, which accounted for more than one third of Lexus's overall sales in 2020, reaching 38%.

According to the sales data officially released by Cadillac, the cumulative sales volume under Cadillac brand in China for 2020 reached 230,007 units, representing an increase of 8.2% year-on-year, setting a record high since its expansion into the Chinese market 17 years ago. Looking ahead, Cadillac will continue to deepen its electrification strategy. Cadillac LYRIQ, the first battery electric luxury SUV model based on Ultium, GM's third-generation global electrification platform, is also expected to officially meet with domestic consumers in 2021.

II. BUSINESS REVIEW

New Auto Sales Business

In 2020, in response to the significant impact of the COVID-19 pandemic, the Group actively adjusted its operation strategies and proactively expanded new media and other sales models. While promoting traditional sales models, the Group opened accounts on various video platforms including Douyin, and tried new online sales methods such as live-streaming sales of automobiles. In 2020, thousands of live-streaming activities were launched across all the stores under the Group, attracting a total of 0.312 million followers. With the rapid recovery of the domestic economy, the Group, through a combination of online and offline sales, capitalized on the good momentum unleashed by market demand after the pandemic to seize sales opportunities and develop market resources. As a result, the retail sales recovered quickly. The Group took full advantage of the rebounding market and successively opened three new dealership stores to further fuel the Group's overall increase in sales volume of new automobiles in 2020. For the year ended 31 December 2020, the Group realised a sales volume of new automobiles of 32,175 units, representing an increase of 9.7% year-on-year, and achieved revenue from sales of new automobiles of RMB9,491.7 million, representing an increase of 15.4% year-on-year.

MANAGEMENT DISCUSSION AND ANALYSIS

Most of the dealership stores of the Group are in an independent or continuously improving market environment, and we effectively increased their gross profit through strengthened sales process and full use of manufacturers' policies.

In addition to the increase in sales volume in 2020, the focus was placed on improving the horizontal value chain businesses, including decoration, finance, licensing and preferred products. In addition, by continuously launching various business trainings, the ability of employees were effectively improved, and business processes at the executive level were continuously optimized, thereby effectively improving the overall profitability of sales.

After-sales Services Business

Driven by the fast growth of car ownership volume, the automobile after-sales market in China is also developing rapidly. In the future, the auto after-sales market will become the main growth driver of the automotive industry.

Adhering to the customer demand-centric service philosophy, the Group proactively adjusted its response measures against the impact of the pandemic to meet customer needs, actively promoted the resumption of work and production and endeavoured to build a good brand reputation. We continued to increase our overall after-sales business volume by strengthening the repair and maintenance business, and we strived to improve the insurance accident repair business and expand the overall after-sales revenue scale. Through renovation of our facilities we built a digital service experience, improved the efficiency of our after-sales service and optimized the internal reception process of our stores to ensure that customers receive the finest reception. As a result, our customer retention rate continued to improve, thus laying a foundation for the further development of after-sales business.

The Group stepped up its efforts in brand promotion and marketing while aggressively carrying out marketing for projects with high quality and actively planning and expanding business channels, including closer communication and cooperation with insurance companies. Through all staff's comprehensive efforts, the overall business from after-sales services of the Group maintained its stable momentum and trend in 2020. For the year ended 31 December 2020, income from the Group's after-sales services amounted to RMB1,142.7 million, representing an increase of 4.6% year-on-year.

MANAGEMENT DISCUSSION AND ANALYSIS

Used Car Business

With the development of sales and after-sales replacement business, the Group continued to optimize its used car business structure and expanded its business scale. The Group also continued to explore and meet the replacement needs of new car customers and the resale needs of after-sales customers. By strengthening the growth of finance, insurance, insurance extension, decoration and other derivative businesses, the Group comprehensively improved its operating quality of used cars, and provided customers with higher quality service experience.

The Group's unremitting efforts in the first half of 2020 laid a solid foundation for the stably-improving operation for the second half. In the second half of the year, the Group always maintained a sense of crisis and hard work, focused on customer experience, and strengthened detail management to ensure the leading position in the severe market environment. With the development of the sales replacement and after-sale markets and the opening of the Group's new brand stores, we continued to optimize our used vehicle car structure and expanded our business scale. The Group's overall used car business maintained a good development trend and achieved better breakthroughs in 2020.

While maintaining stable business operations of its used car business, the Group has further formulated and improved the standards for process management of used cars, strengthened risk management and control, and continuously improved the capabilities of the used car service team, thus bringing customers a more reliable and professional service experience.

Decoration Business

In the front-end decoration business, the Group stayed abreast of manufacturers' policies and market changes, adjusted its strategy in a timely manner, optimized its package model, strengthened its second recommendation, deeply explored customers' vehicle needs and improved customer satisfaction. In terms of after-sales decoration products, while consolidating its fundamental business and further improving customer experience and satisfaction, the Group increased its efforts in the after-sales development of automobile decoration projects, and developed a deep understanding in the modification and renovation needs of its after-sales and used car customers, thereby delivering improved penetration rate of its after-sales decoration business and steady growth in its gross profit.

MANAGEMENT DISCUSSION AND ANALYSIS

Insurance Agency Business

In terms of insurance business, in accordance with the requirements of the China Banking and Insurance Regulatory Commission, the Group further strengthened cooperation with insurance companies in the context of the comprehensive fee reform. Insurance companies were invited to the store to provide assistance, and our in-store insurance renewal capacity was enhanced, leading to increasing scale of premiums, thereby providing strong support for the continuous improvement of our after-sales maintenance business.

Financing Agency Business

In 2020, the Group gradually established a standardized management system for its financing agency business, and further integrated the resources of all of its stores. By drawing upon its advantages of scale to develop broader and deeper strategic cooperation with banks, the Group continuously promoted the steady improvement of its performance.

Network Development and Expansion

As of 31 December 2020, the Group had 14 brand distribution agency rights (including 9 luxury and ultra-luxury brands) with further optimized brand structure, continuously expand the business network of superior brands, with a focus on the development of Shaanxi Province to cover the Great Northwest Region as well as Jiangsu Province, a major economic province in China. In 2020, the Group was newly authorized by the BMW brand in Wuhan, Hubei Province, which further expanded the Group's business network to cover 8 provinces and 14 cities across the country, enabling the Group to gain a more prominently leading position among luxury and ultra-luxury automotive dealers in China.

In 2020, the Group opened a new Xi'an Lexus 4S store, a new Xi'an GAC Toyota 4S store and a new Nanjing GAC Toyota 4S store. In addition, in order to further optimize its brand structure, the Group has made branding adjustments to Geely New Energy and SAIC Skoda. As of 31 December 2020, the Group had 37 sale points in operation.

As of 31 December 2020, among the Group's brands in operations, Audi, BMW, Mercedes-Benz, Porsche, Lexus, FAW Toyota, imported Volkswagen, SAIC Volkswagen and Hongqi all had new energy models in operation, with increasing sales volume year by year. These automobile manufacturers have increased their efforts in strategic deployment of new energy vehicles, and their advantages, from supply chain system, research and development system to sales channel building and brand communication, have become increasingly prominent. In addition, the Group continued to aggressively strive for agency authorization for the electric vehicle business of superior brands, racing to seize market shares.

MANAGEMENT DISCUSSION AND ANALYSIS

III. FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2020 was RMB10,634.4 million, representing an increase of RMB1,319.7 million or 14.2% as compared to that for the corresponding period in 2019. Of which, revenue arising from the sale of new automobiles was RMB9,491.7 million, representing an increase of RMB1,269.6 million or 15.4% as compared to that for the corresponding period in 2019. The increase in revenue from the sale of new automobiles was mainly attributable to the increase in sales of new vehicles. Revenue arising from after-sales services business was RMB1,142.7 million, representing an increase of RMB50.1 million or 4.6% as compared to that for the corresponding period in 2019. The increase in revenue arising from after-sales services business was mainly attributable to the increase in number of retained customers.

A substantial portion of the revenue of the Group was generated from sales of new vehicles, accounting for 89.3% of our revenue for the year ended 31 December 2020 (2019: 88.3%). The remaining part of revenue was generated from after-sales services business, accounting for 10.7% of our revenue for the year ended 31 December 2020 (2019: 11.7%). Revenue of the Group was mainly derived from our operations in the PRC.

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

	For the year ended 31 December					
	Amount (RMB'000)	2020 Sales volume (Unit)	Average selling price (RMB'000)	Amount (RMB'000)	2019 Sales Volume (Unit)	Average selling price (RMB'000)
Sales of passenger automobiles						
Luxury and ultra-luxury brands	8,221,869	23,147	355.2	7,049,571	20,637	341.6
Mid-end market brands	1,269,831	9,028	140.7	1,172,537	8,700	134.8
Sub-total/Average	9,491,699	32,175	295.0	8,222,108	29,337	280.3
After-sales services	1,142,719			1,092,625		
Total	10,634,418			9,314,733		

Cost of Sales and Services Rendered

Cost of sales and services rendered for the year ended 31 December 2020 was RMB9,885.6 million, representing an increase of RMB1,225.1 million or 14.1% as compared to that for the corresponding period in 2019. Among which, cost of sales of new automobiles for the year ended 31 December 2020 was RMB9,234.8 million, representing an increase of RMB1,183.9 million or 14.7% as compared to that for the corresponding period in 2019. The increase in the cost of sales of new automobiles was mainly attributable to the increase in sales of new vehicles. Cost of after-sales services business for the year ended 31 December 2020 was RMB650.8 million, representing an increase of RMB41.2 million or 6.8% as compared to that for the corresponding period in 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit

Gross profit for the year ended 31 December 2020 was RMB748.8 million, representing an increase of RMB94.6 million or 14.5% as compared to that for the corresponding period in 2019. Of which, the gross profit of sales of new automobiles was RMB256.9 million, representing an increase of RMB85.7 million or 50.1% as compared to that for the corresponding period in 2019; gross profit of after-sales services business was RMB491.9 million, representing an increase of RMB8.9 million or 1.8% as compared to that for the corresponding period in 2019. For the year ended 31 December 2020, gross profit of after-sales services accounted for 65.7% of our total gross profit (2019: 73.8%).

Gross profit margin for the year ended 31 December 2020 was 7.0% (2019: 7.0%). Of which, gross profit margin for sales of new automobiles was 2.7% (2019: 2.1%) and gross profit margin for after-sales services was 43.0% (2019: 44.2%).

Other Net Income and Gains

Other net income and gains mainly consist of commission income from automobile insurance agency and automobile financing agency business, logistics and storage income, government grants and interest income.

Other net income and gains for the year ended 31 December 2020 amounted to RMB187.2 million, representing an increase of 1.9% as compared with RMB183.7 million for the year ended 31 December 2019. The increase was mainly attributable to the increase in commission income from the automobile insurance agency business as compared with the corresponding period of 2019.

Selling and Distribution Expenses

Selling and distribution expenses for the year ended 31 December 2020 amounted to RMB410.5 million, representing an increase of RMB35.2 million or 9.4% as compared with RMB375.3 million for the year ended 31 December 2019. The increase was mainly attributable to the increase in advertising and promotion expenses as a result of the increase in sales of new vehicles, as well as the increase in payroll of sales staff and the increase in depreciation and amortisation expenses for newly opened stores. As a percentage of revenue, the selling and distribution expenses decreased slightly as compared with the corresponding period last year, decreased from 4.0% for the year ended 31 December 2019 to 3.9% for the year ended 31 December 2020, down by 0.1 percentage point.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

Administrative expenses for the year ended 31 December 2020 amounted to RMB218.7 million, representing an increase of RMB5.1 million or 2.4% as compared with RMB213.6 million for the year ended 31 December 2019. The increase was mainly attributable to the increase in administrative expenses for newly opened stores as compared with the corresponding period last year. As a percentage of revenue, the administrative expenses decreased slightly as compared with the corresponding period last year, decreased from 2.3% for the year ended 31 December 2019 to 2.1% for the year ended 31 December 2020, down by 0.2 percentage point.

Finance Costs

Finance costs for the year ended 31 December 2020 amounted to RMB103.0 million, representing a decrease of 4.5% as compared with RMB107.9 million for the year ended 31 December 2019. The decrease was mainly attributable to the decrease in the scale of current borrowings used for inventory procurement as compared to the corresponding period in 2019. The scale of financing decreased from RMB2,208.4 million as at 31 December 2019 to RMB1,860.3 million as at 31 December 2020, among which the balance of bank borrowings decreased by RMB431.6 million, and balance of other financings (including financing from manufacturers' financial institutions and bank commercial bills) increased by RMB83.5 million.

Profit Before Tax

As a result of the foregoing, profit before tax for the year ended 31 December 2020 amounted to RMB203.7 million, representing an increase of 44.4% as compared with RMB141.1 million for the year ended 31 December 2019.

Income Tax Expense

Income tax expense for the year ended 31 December 2020 amounted to RMB58.5 million, representing an increase of RMB37.3 million as compared with RMB21.2 million for the year ended 31 December 2019, mainly due to the effect of the increase in profit. The effective income tax rate of the Group for the year ended 31 December 2020 was approximately 28.7% (2019: 15.0%).

Profit for the Year

As a result of the foregoing, profit for the year ended 31 December 2020 amounted to RMB145.2 million, representing an increase of 21.1% as compared with RMB119.9 million for the year ended 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the Year Attributable to Owners of the Parent

For the year ended 31 December 2020, profit for the year attributable to owners of the parent amounted to RMB145.2 million, representing an increase of 21.1% as compared with RMB119.9 million for the year ended 31 December 2019.

IV. LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

For the year ended 31 December 2020, the Group's net cash inflow generated from operating activities was RMB617.9 million, as compared with RMB130.5 million of its net cash inflow generated from operating activities for the year ended 31 December 2019. The increase in net cash inflow of operating activities was mainly attributable to the combined effect of, amongst others, the increase in gross profit from business operations and the acceleration of sales progress.

For the year ended 31 December 2020, the Group's net cash outflow of investing activities was RMB274.3 million, as compared with RMB236.9 million of its net cash outflow of investing activities for the year ended 31 December 2019.

For the year ended 31 December 2020, the Group's net cash outflow of financing activities was RMB480.4 million, as compared with RMB99.9 million of its net cash inflow of financing activities for the year ended 31 December 2019. The increase in the net cash outflow of financing activities was mainly attributable to the higher capital use efficiency for the year ended 31 December 2020.

Net Current Assets

As at 31 December 2020, the Group's net current assets amounted to RMB351.9 million, representing an increase of 33.6% as compared with RMB263.4 million as at 31 December 2019.

Inventories

The Group's inventories primarily consist of new automobiles, spare parts and decoration accessories. As at 31 December 2020, the Group's inventories amounted to RMB900.4 million, representing a decrease of 23.0% as compared with RMB1,169.3 million as at 31 December 2019, mainly due to the higher inventory turnover rate as a result of the accelerated sales of new vehicles.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2020, the Group's average inventory turnover days (the average inventory turnover days = the average of opening and closing inventory balances divided by the cost of sales and services for that year and multiplied by 360 days) were 38.4 days, representing a significant decrease as compared with 44.8 days in 2019, mainly attributable to the accelerated sales progress.

Bank Loans and Other Borrowings

As at 31 December 2020, the Group's bank loans and other borrowings were RMB1,860.3 million, representing a decrease of 15.8% as compared with RMB2,208.4 million as at 31 December 2019, mainly due to the optimized financing structure and higher inventory turnover rate, leading to the further improvement of capital use efficiency.

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

	2020 Effective interest rate (%)	As at 31 December Amount RMB'000	2019 Effective interest rate (%)	Amount RMB'000
CURRENT				
Bank loans	3.3-6.7	1,256,945	3.3-6.7	1,691,680
Other borrowings	3.0-8.6	406,011	3.9-8.5	327,216
Sub-total		1,662,956		2,018,896
NON-CURRENT				
Bank loans	3.5-6.7	192,626	3.3-6.7	189,507
Other borrowings	4.5	4,750		–
Sub-total		197,376		189,507
Total		1,860,332		2,208,403
Among which:				
Secured loans		1,662,610		1,866,543
Unsecured loans		197,722		341,860
Total		1,860,332		2,208,403

As at 31 December 2020, the Group's gearing ratio, which is net debt divided by total equity plus net debt, was 42.5% (2019: 48.7%). Net debt includes bank loans and other borrowings, trade and bills payables and other payables and accruals, less cash and cash at banks, short-term deposits, cash in transit and pledged bank deposits.

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of Assets

As at 31 December 2020, certain of the Group's bank loans were secured by charges or pledges over its assets. The Group's assets subject to these charges or pledges as at 31 December 2020 consisted of: (i) inventories amounting to RMB548.4 million; (ii) property, plant and equipment amounting to RMB415.4 million; (iii) land use rights amounting to RMB228.3 million; and (iv) pledged bank deposits of HK\$4.8 million (equivalent to RMB4.0 million) and US\$8.6 million (equivalent to RMB56.3 million).

As at 31 December 2020, certain of the Group's inventories amounting to RMB248.7 million and pledged bank deposits amounting to RMB314.0 million were pledged as securities for bills payable.

Capital Expenditures and Investment

The Group's capital expenditures comprise primarily expenditures on property, plant and equipment, land use rights and intangible assets. For the year ended 31 December 2020, the Group's total capital expenditures were RMB304.9 million, representing a decrease of RMB334.3 million as compared with the RMB29.4 million for the year ended 31 December 2019.

Contingent Liabilities

As at 31 December 2020, the Group did not have any material contingent liabilities or guarantees.

MANAGEMENT DISCUSSION AND ANALYSIS

Staff Cost and Employee Remuneration Policy

As at 31 December 2020, the Group had 3,217 employees. Staff cost of the Group increased by 1.4% from RMB284.5 million for the year ended 31 December 2019 to RMB288.5 million for the year ended 31 December 2020, mainly attributable to the increase in the number of employees as well as the increase in performance-based bonus paid to employees as a result of the increased sales volume and gross profit. The Group offers attractive remuneration packages according to market conditions, including competitive fixed salaries and performance-based bonuses, etc. The Group provides its automobile sales and after-sales staff with performance-based bonuses based on their contribution to revenue, technical skills, customer satisfaction and other results of their performance assessment according to their job nature. Our employees are subject to regular job reviews which determine their promotion prospects and remuneration packages. In order to keep up with the rapid development of the Group's network, the Group also continues to build up its quality talent pool and prudently manages its human resources and makes corresponding adjustments to the arrangement of positions based on the changes in overall business volume. Meanwhile, the Group attaches great importance to the reserve of talent and teambuilding. Regular training in respect of business skills, expertise and professional qualifications have been provided to key personnel. The Group also pays close attention to the career development of its employees, so as to provide primary drivers for the future development of the Group.

V. PRINCIPAL RISKS

Business Risk

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

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations at a floating interest rate. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

MANAGEMENT DISCUSSION AND ANALYSIS

Exchange Rate Risk

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

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

COVID-19 Pandemic Risk

Since the beginning of 2020, the COVID-19 pandemic has spread across the world, posing unexpected shocks to the global economy and various industries. With the strong support of national policies, China has propelled the resumption of work and production in a solid and orderly manner, the positive trend of pandemic prevention and control has been further consolidated, and the China's economy has returned to normal. After the outbreak of the pandemic, consumer demand in the domestic automobile market has ushered in a strong recovery, especially luxury automobiles which are rebounding rapidly. Capitalizing on opportunities arising from policies and market demand, the Group carried out marketing reforms in a timely manner and continued outstanding operating performance, thereby further promoting the development of the Group. At the same time, the Group will continue to pay close attention to various uncertainties which might be brought by a possible reoccurrence of the pandemic, further evaluate the impact of the pandemic and relevant response measures, and continue to focus on the latest changes and challenges in the automobile dealer industry in the post-pandemic era. The Group will also ride on the market development trend and take responsive measures in a timely manner to further accelerate its pace of business development.

VI. FUTURE STRATEGY AND PROSPECTS

Forecast of China's Economic Trends in 2021 – To Ride the Wind and Waves and to Move Forward Steadily

According to the Economic Blue Book of China's Economy for 2021 released by the Chinese Academy of Social Sciences, as affected by the low economic growth base in 2020 and taking into account the cross-cyclical design and adjustment of macro-control, China's economy is expected to record a growth of approximately 7.8% in 2021. From a quarterly perspective, it is expected to show a tapering trend, and the GDP growth rate in the first quarter may break the double-digit mark. Analyzed from the qualitative factors, it will be in line with the current situation of the supply side and the demand side.

MANAGEMENT DISCUSSION AND ANALYSIS

2021 marks the first year of the 14th Five-Year Plan for the National Economic and Social Development of the PRC (the “**14th Five-Year Plan**”), and the new round of opening up (Hainan Free Trade Zone, accession to RCEP, new models of foreign investment) together with the solid advancement of the “Belt and Road” Initiative will stabilize and stimulate external demand, and consolidate China’s position in the global industrial chain, supply chain and value chain. Despite the relatively substantial price hikes in bulk commodities such as international crude oil and iron ore, the rise in exchange rates has also offset part of the increase in import prices, which has limited impact on domestic imports. Therefore, China is able to maintain generally stable price level.

In view of the continuous improvement of the domestic pandemic prevention and control situation, the gradual improvement of corporate operating conditions, the continuous liberalization of offline consumption scenarios, the increasing recovery of the national economy, coupled with the boosting effect of the promotion of consumption policies promulgated by both central and local governments, Yang Cuihong, deputy director of the Center for Forecasting Science under Chinese Academy of Sciences, analyzed that China’s final consumption is expected to show a recovery growth in 2021 with a year-on-year nominal growth rate ranging from 10.7% to 11.7%, which will become the main engine of economic growth.

In short, it is forecast that China’s economic growth in 2021 will be within a reasonable range, employment and prices will remain basically stable, and China’s economy will not experience a hard landing. However, as there are still various uncertainties in the COVID-19 pandemic and the external environment, downward pressure on the economy still remain.

Xi’an, China – To Devote Every Effort to Hosting the 14th National Games and to Accelerating the Building of a National Center City

Xi’an is the provincial capital of Shaanxi Province, a major business location of the Group, and is also where the Group is headquartered. At present, Xi’an is embracing the period of historical convergence, golden opportunity and overlapping tasks for the construction of a national centre city and an international metropolis. As the only national center city in Northwest China, a “bridgehead” city in the “Belt and Road” Initiative and a key city in the new round of “Large-scale Development of the Western Region”, the Xi’an National Economy and Society Development of the Fourteenth Five-Year Plan and the Vision Target Outline for 2035 (Recommended Draft) (《西安市國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要(建議稿)》) was reviewed and approved at the 12th Plenary Session of the 13th Committee of the Communist Party of China in Xi’an, which proposed that in 2021, Xi’an shall keep a foothold in the new development stage to implement new development concepts, incorporate new development patterns, promote ten key tasks for new breakthroughs, spare no efforts to host the 14th National Games and accelerate the building of a national center city so as to ensure that the “14th Five-Year Plan” has a solid start, thereby endeavouring to write a new chapter on Xi’an’s striving for excellence in the new era and to achieve remarkable results to celebrate the 100th anniversary of the founding of the Party.

MANAGEMENT DISCUSSION AND ANALYSIS

According to information released on the official website of Xi'an Development and Reform Commission, Xi'an will initially arrange 740 municipal-level key projects in 2021, with a total investment of RMB2.5 trillion and an annual planned investment of RMB395 billion. Among the 473 municipal-level key extension and newly-launched projects, 109 involve advanced manufacturing and other industrial projects, with an annual planned investment of RMB75.13 billion. Such projects cover various sectors including transportation, medical education, ecological and environmental protection and urban construction. At the same time, in 2021, Xi'an will achieve a "leapfrog" improvement in business environment reform, and strive to be among China's top ten in the business environment evaluation.

Forecast for the Chinese Passenger Vehicle Market in 2021

With the steady recovery of the national economy, the recovery of consumer demand will be accelerated, and the overall potential of the Chinese automobile market remains huge. Taking into account various factors, the CAAM forecasts that the Chinese automobile market may have reached its bottom in 2020, and will achieve positive recovery growth in 2021. In 2021, China's total automobile sales may reach 26.30 million units, representing an increase of 4% year-on-year. Specifically, sales volume of passenger vehicles, commercial vehicles and new energy vehicles will amount to 21.70 million units, 4.60 million units and 1.80 million units, respectively, representing an increase of approximately 7.5%, a decrease of approximately 10%, and an increase of approximately 40% year-on-year, respectively. Luo Lei, deputy secretary-general of the China Automobile Dealers Association (中國汽車流通協會), forecasts that the number of used car transactions nationwide will reach 17.00 million units in 2021, representing an increase of approximately 15% year-on-year.

According to Chen Shihua, deputy secretary-general of the CAAM, under the vigorous promotion of the "New Energy Automotive Industry Development Plan (2021-2035)", new energy vehicles are expected to usher in a sustained and rapid growth in the future. In general, while we are optimistic about the future of China's automotive industry, we shall stay alert to the impact of changes in the external environment.

According to Fu Bingfeng, executive vice chairman and secretary-general of the CAAM, the overall potential of the Chinese automobile market remains huge. On one hand, the rigid demand for automobiles remains large due to the net population growth in the first, second and third-tier cities. On the other hand, the consumption potential of low-tier cities and rural areas is yet to be fully unleashed, and the consumption demand in this regard is yet to be tapped. At present, a new pattern of economic development with the domestic circulation as the main body and the domestic and international dual circulation as mutual promotion is gradually taking shape. The automotive industry is an important carrier for expanding domestic circulation and realizing domestic and international dual circulation. The domestic and international dual circulation is set to promote further growth in the automotive market.

MANAGEMENT DISCUSSION AND ANALYSIS

In the forthcoming “14th Five-Year Plan”, China’s automotive industry will embrace a period of transformation and upgrading, in which electrification, intelligence and networking will become the new growth drivers. China’s automobile market will exhibit a gradual growth trend in 2021, and the automobile market will also grow steadily in the coming five years. The sales volume of vehicles in China are expected to reach 30.00 million units in 2025.

At the same time, changes in the external environment, such as the obstacles encountered by emerging economies due to anti-globalization activities, the reshaping of the global industrial chain as a result of the COVID-19 outbreak and the emergence of hidden contradictions during the period of high growth as a result of changing economic growth rate, have also posed certain pressure to the automotive industry, which requires us to actively respond and gradually adapt. If we strive to consolidate, supplement and enhance the chain, pressure will be turning into a driving force. Over time, disadvantages will become opportunities to overcome and eventually advantages to enjoy.

In general, while we are optimistic about the future of China’s automotive industry, we shall stay alert to the impact of changes in the external environment.

To Accurately Improve Customer Experience and Continuously Enhance Overall Brand Influence

In order to further improve customer satisfaction and gain customer trust, the Group accurately launched a customer interview column in 2020. Through close interviews with customers, we have continuously explored customer needs and improved customer experience. As of the end of 2020, the Group successfully launched 10 issues, covering 9 luxury and ultra-luxury brands including Bentley, Porsche, Mercedes-Benz, BMW, Audi, Lexus, Cadillac, Hongqi and imported Volkswagen, which have gained unanimous praise from the brands and customers. In 2021, the Group will further develop the customer interview column by shifting interviewees from brand VIP car owners to industry KOLs, star customers, and KOLs. Meanwhile, we will reach out to stores nationwide with further optimized and diversified interview form and content, so as to achieve a word-of-mouth effect by capitalizing on the influence of star car owners as their capacity of representatives of their respective industry, and to further enhance the influence and reputation of the Group. In addition, the Group will further increase its efforts in maintaining relationships with customer and media. In 2020, the Group successfully organized test ride and test drive for media, which were fully recognised by the media. As affected by various factors including the COVID-19 pandemic, offline activities were restricted in the fourth quarter. The Group’s car owner club project originally scheduled to be launched will be postponed to 2021, where the Group will draw upon diversified car owner activities to carry out resource grafting, thereby further enhancing customer concentration and providing retained customers with high-quality service experience.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2021, the Group will also increase its joint cooperation with multi-brands across the industry to innovate the form and content of activities through acquisition of customer traffic, so as to further increase the enthusiasm and satisfaction of customers to participate in activities. Meanwhile, the Group will carry out various online activities, attach importance to the promotion by self-media such as Douyin, Xiaohongshu and bilibili, cultivate customer habits and highlight the advantages of collective branding.

Intelligent Membership Center to Fully Serve Customers

The Group employs high-tech tools to better serve its customers. Notably, Xi'an Sunfonda Automobile Technology Development Co., Ltd. ("**Tai ai Auto Technology**"), a subsidiary of the Group, has increased its efforts in independent research and development of software which can be applied in daily business activities. In 2020, it received the High-tech Enterprise Certificate jointly issued by the Department of Science and Technology of Shaanxi Province, the Department of Finance of Shaanxi Province and the Shaanxi Provincial Taxation Bureau of the State Administration of Taxation; the four software products it self-developed, namely the Application Management System for Model Details (《車型詳解應用管理系統》), the Automotive Service Management System for On-site Additions (《汽車服務現場增項管理系統》), the ERP Management System for the Automotive Industry (《汽車行業ERP管理系統》) and the Intelligent After-sales Service Follow-up System (《智能售後服務回訪系統》), have all been certified by the National Copyright Administration. All of these software products have been applied to the operating activities in the Group's stores in operation, which has substantially improved their operational efficiency and customer satisfaction.

As of the end of December 2020, the Group's self-developed "Sunfonda Group Membership Center" mini program has accumulated 0.18 million registered users, and features such as intelligent access, online model introduction, work hours-based appointment and automatic reminders have recorded accumulative push services of nearly one million person times. The Group has fully established its data center and is progressively launching data service production and operation activities. In 2021, the Group will focus on using the membership center to further improve its membership system-based marketing segment, and explore opportunities for used car sales and replacement business while retaining customers, which will greatly contribute to the improvement of its business scale and operational efficiency.

To Take Multiple Measures to Build a Professional and Efficient New Media Team, thus Achieving Systematic and Intelligent Management

As there have been growing signs of the development trend of new media, in order to reduce media operation and maintenance costs while further increasing differentiated promotion channels, the Group plans to build a dedicated and professional new media team in 2021 to optimize and establish an integrated media platform which combines a series of new media platforms including the WeChat official account, Douyin account, video account, live streaming account and Xiaohongshu and incorporates various functions such as content distribution, intelligent service, event promotion and platform linkage. In addition to brand building for the

MANAGEMENT DISCUSSION AND ANALYSIS

Group, the integrated media platform will attract and distribute customer traffic to the stores of different brands, optimize and provide guidance to their launch of new media and live-streaming promotion campaigns, thereby achieving efficient operation.

At the same time, the Group will continue to focus on intelligent system management. Since its realization of the systematic customer inbound management in the second half of 2020, the Group has given full play to this system to further strengthen the management and control of customer inbound data, and has made timely adjustment and continuous optimization. In 2021, the Group will further realize the visualized, systematic and intelligent monitoring of materials, gifts, offline activities, etc., in an effort to streamline processes and achieve precise adjustments and centralized management.

To Further Demonstrate Its Comprehensive Competitive Strengths by Continuously Optimizing and Improving the Industrial Structure

In 2020, the overall construction progress of our “FUN TIME LANE” automobile street zone project, which is located at the headquarters of the Group, experienced a slowdown due to the implementation of pandemic prevention and control measures and the local government’s policy on pollution control and haze reduction in autumn and winter in 2020. The Group will speed up the construction of the project in 2021. The project is expected to be completed and put into operation in 2022, and will be connected with Sunfonda Chanba Automobile Park on the south side of Ouya No. 1 Road to create automobile business aggregation effects by contiguously developing the street zone adjacent to Ouya Avenue and on the northeast side of Beichen Avenue. The “FUN TIME LANE” automobile street zone project will become the first model consumption upgrading project that integrates automobile themes with a small amount of retail, catering and other business formats in China, thereby further improving the economic effect of business operations and achieving economies of scale, consolidating the Group’s leading position in Northwestern China, and providing strong support for the development and enhancement of the principal business.

The business model of the “FUN TIME LANE” automobile street zone project has also been recognized and supported by all stakeholders, which will help continue to optimize and enhance the industrial structure and further demonstrate its comprehensive competitiveness. In addition to accelerating the construction of the Xi’an-based “FUN TIME LANE” automobile street zone project, the Group will also aggressively promote the deployment of such project in other parts of the country. Looking ahead, the Group will forge a more diversified industrial structure and further demonstrate its comprehensive competitive strengths.

BIOGRAPHIES OF DIRECTORS, SENIOR MANAGEMENT AND COMPANY SECRETARY

DIRECTORS

Executive Directors

Mr. Wu Tak Lam (胡德林), aged 59, was appointed as the Chairman of the Board and an executive director of the Company on 13 January 2011. He is also the Chairman of both the Nomination Committee and the Finance and Investment Committee under the Board of the Company. Mr. Wu founded the Group with Ms. Chiu Man in November 2000 and has been primarily responsible for the strategic management, planning and business development of the Group as well as the development and maintenance of relationship with automobile suppliers of the Group. Mr. Wu serves as the chairman of the board and a director of each of the subsidiaries of the Company, and he has also been a director of Sunfonda (Hong Kong) Limited since April 1997. Prior to the establishment of the Group, Mr. Wu worked at China National Automotive Industry Sales Corp. (中國汽車工業銷售總公司) from July 1986 to December 1992. From August 1993 to March 1997, Mr. Wu was the managing director of Sunfonda Limited (新豐泰有限公司), which conducted import and export trade business and was dissolved in September 2002. He graduated from Wuhan Institute of Technology (武漢工學院, currently known as Wuhan University of Technology (武漢理工大學)) in Wuhan, China, majoring in automobile and tractor studies and obtained a bachelor's degree in engineering in July 1986. He is also the sole shareholder and director of Golden Speed Enterprises Limited ("**Golden Speed**", a controlling shareholder of the Company), a director of Top Wheel Limited ("**Top Wheel**", a controlled corporation of Golden Speed and a controlling shareholder of the Company), and the husband of Ms. Chiu Man (the chief executive officer of the Group, an executive director and a controlling shareholder of the Company).

Ms. Chiu Man (趙敏), aged 57, was appointed as the chief executive officer of the Group and an executive director of the Company on 13 January 2011. She is also a member of the Finance and Investment Committee under the Board of the Company. Ms. Chiu founded the Group with Mr. Wu Tak Lam in November 2000 and has been primarily responsible for the overall management and financial control of the Group. Ms. Chiu serves as a director in each of the subsidiaries of the Company and has also been a director of Sunfonda (Hong Kong) Limited since April 1997. Ms. Chiu graduated from Wuhan Institute of Technology (currently known as Wuhan University of Technology) in Wuhan, China, majoring in automobile and tractor studies and obtained a bachelor's degree in engineering in July 1986. She is also the sole shareholder and director of Win Force Enterprises Limited ("**Win Force**", a controlling shareholder of the Company), a director of Top Wheel (a controlled corporation of Win Force and a controlling shareholder of the Company), and the wife of Mr. Wu Tak Lam (the Chairman of the Board, an executive director and a controlling shareholder of the Company).

BIOGRAPHIES OF DIRECTORS, SENIOR MANAGEMENT AND COMPANY SECRETARY

Mr. Gou Xinfeng (苟新峰), aged 47, was appointed as an executive director of the Company on 9 November 2016. Mr. Gou has over 22 years of experience in the operation and management of automobile brands, and he specializes in sales operation and overall store management. Mr. Gou joined the Group in July 2002, and successively served in the following positions in the subsidiaries of the Company: the sales deputy manager of Shaanxi Sunfonda Automobile Co., Ltd. (陝西新豐泰汽車有限責任公司) from July 2002 to February 2006 and the sales director of Xi'an Xinmingyang Toyota Automobile Sales Services Co., Ltd. (西安新銘洋豐田汽車銷售服務有限公司) from March 2006 to March 2009. Mr. Gou served as the general manager of Shaanxi Sunfonda Automobile Technology Development Co., Ltd. (陝西新豐泰汽車技術開發有限責任公司) from April 2009 to September 2014, during which the store and the team were awarded a number of honors from Volkswagen Group under his leadership, including World Diamond Dealers 2014 (2014年度全球鑽石經銷商), Five-starred Management Team Award 2014 (2014年度五星級管理團隊獎) and Sales Excellence Award 2014 (2014年度卓越銷售獎). From October 2014 to July 2017, he served as the general manager of Shaanxi Sunfonda Boao Automobile Co., Ltd. (陝西新豐泰博奧汽車有限責任公司) and is responsible for the sales operation and daily management of various brands under the Group. Mr. Gou served as the vice president of operations of the Group from August 2017 to November 2020. He has been the general manager of Shaanxi Sunfonda Automobile Co., Ltd. since November 2020. Mr. Gou has been a director of Grand Forever Enterprises Limited since July 2019. Mr. Gou graduated from Wuhan Automotive Industry University (武漢汽車工業大學) (currently known as Wuhan University of Technology) and obtained a bachelor's degree in automotive applied engineering in July 1998.

Ms. Chen Wei (陳瑋), aged 46, was appointed as an executive director of the Company on 23 November 2018. Ms. Chen was appointed as the financial controller of the Group since May 2015. Ms. Chen has over 21 years of experience in accounting and financial management. She joined the Group in March 2007, and successively served in the following positions in the subsidiaries of the Company: the finance manager of Shaanxi Sunfonda Automobile Technology Development Co., Ltd. and Shaanxi Kaisheng Automobile Sales Services Co., Ltd. (陝西凱盛汽車銷售服務有限公司) from March 2007 to February 2009; and the finance manager of Shaanxi Sunfonda Automobile Co., Ltd. from March 2009 to April 2015. Ms. Chen graduated from Shaanxi Institute of Finance and Economics (陝西財經學院, currently known as Xi'an Jiaotong University (西安交通大學)) in June 1996 with an associate degree in accounting.

BIOGRAPHIES OF DIRECTORS, SENIOR MANAGEMENT AND COMPANY SECRETARY

Independent Non-executive Directors

Mr. Liu Jie (劉傑), aged 58, was appointed as an independent non-executive director of the Company on 30 June 2012. He is also the Chairman of the Audit Committee, a member of the Nomination Committee, the Remuneration Committee and the Finance and Investment Committee under the Board of the Company. Since April 2016, Mr. Liu has been an independent director of each of the three companies listed on the Shenzhen Stock Exchange. He has served as an independent director of each of Tatwah Smartech Co., Ltd. (福州達華智能科技股份有限公司) (stock code: 002512) and Jiangsu Changbao Steeltube Co., Ltd. (江蘇常寶鋼管股份有限公司) (stock code: 002478) since April 2016, and an independent director of Dare Power Dekor Home Co., Ltd. (大亞聖象家居股份有限公司) (stock code: 000910) since May 2020. Mr. Liu has also served as an independent director of Milkyway Chemical Supply Chain Service Co., Ltd. (密爾克衛化工供應鏈服務股份有限公司), a company listed on the Shanghai Stock Exchange (stock code 603713) since September 2015. He has served as an independent director of Shanghai Zhuoyue Ruixin Digital Technology Co., Ltd. (上海卓越睿新數碼科技股份有限公司) since December 2020. Mr. Liu has been a professor and supervisor of Ph.D candidates at the School of Economics and Management of Tongji University (同濟大學) since July 2000, a professor and supervisor of Ph.D candidates at the School of Management of Fudan University (復旦大學) since April 2004, and a part-time professor and supervisor of Ph.D candidates at the School of Economics and Management of Tongji University since September 2005. Mr. Liu was an honorary professor in the Faculty of Business and Economics of the University of Hong Kong (香港大學) from September 2011 to March 2019.

From October 1995 to January 1998, Mr. Liu served as the deputy general manager of Shanghai Tongji Science & Technology Industrial Co., Ltd. (上海同濟科技實業股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600846). He served as a director of Shanghai Tongji Science & Technology Industrial Co., Ltd. from May 1997 to June 2005, an independent director of Shanghai Material Trading Co., Ltd. (上海物資貿易股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600822) from October 2001 to June 2007, an independent non-executive director of China Cyber Port (International) Company Limited (神州奧美網絡(國際)有限公司), currently known as Shentong Robot Education Group Company Limited and a company whose shares are listed on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") (stock code: 08206) from February 2007 to October 2008, and a director and the general manager of Shanghai Fuli Management Consulting Co., Ltd. (上海復理管理諮詢有限公司) from January 2015 to May 2019. Mr. Liu also served as a director of Shanghai Di'an Technology Co., Ltd. (上海締安科技股份有限公司), a company whose shares are quoted on the National Equities Exchange and Quotations (stock code: 834047) from May 2015 to June 2019, and an independent director of Goldcard Smart Group Co., Ltd. (金卡智能集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300349) from May 2017 to December 2019. Mr. Liu graduated from Tongji University in Shanghai, China, majoring in industrial automation, and obtained a bachelor's degree and a master's degree in engineering in July 1987 and December 1990, respectively. He graduated from the same university majoring in management science and engineering and obtained a doctoral degree in engineering in July 1995.

BIOGRAPHIES OF DIRECTORS, SENIOR MANAGEMENT AND COMPANY SECRETARY

Mr. Song Tao (宋濤), aged 43, was appointed as an independent non-executive director of the Company on 26 May 2017. He is also the Chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee under the Board of the Company. Mr. Song has 20 years of experience in the automobile dealership industry, and currently serves as the Deputy Secretary-general of China Automobile Dealers Association. Mr. Song served as the financial manager of Beijing Parts Branch of FAW Jilin Light Automobile (一汽吉輕北京零部件) in 2001. He served as the Operation Director of Automotive Channel of CCTV International Network (央視國際網絡汽車頻道) in 2004. He acted as the Deputy Director of the Import and Export Working Committee of Automobile and Parts (汽車及零部件進出口工作委員會) of China Automobile Dealers Association in 2006. Mr. Song has been the Executive Deputy Director of the Imported Automobile Working Committee (進口汽車工作委員會) of China Automobile Dealers Association and the Director of the Expert Committee (專家委員會) of China Automobile Dealers Association since 2008. Mr. Song was a director of the Membership Affairs Department in 2008. Mr. Song established the Top 100 Office of China's Automobile Dealership Groups (中國汽車經銷商集團百強工作辦公室) in 2009 and served as the director; and he has established Dealers Association for various brands such as Benz, Faw-Volkswagen, Porsche, BMW, Audi and Jaguar Land Rover and acted as the vice chairman and secretary-general since 2010. In 2014, Mr. Song established Branch Auto Finance (汽車金融分會) of China Automobile Dealers Association and served as the secretary-general. In 2019, Mr. Song prepared for the establishment of the Branch Motorcycle (摩托車分會) of China Automobile Dealers Association and served as the vice president and secretary-general. Mr. Song is also a member of Chinese Advisory Committee of American Society of Association Executives (ASAE). Mr. Song graduated from Beihua University (北華大學), majoring in accounting computerization.

Dr. Liu Xiaofeng (劉曉峰), aged 59, was appointed as an independent non-executive director of the Company on 26 May 2017. He is also a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee under the Board of the Company. Dr. Liu has over 27 years of experience in corporate finance and has worked with various international financial institutions since 1993, including NM Rothschild & Sons, NM Rothschild & Sons (Hong Kong) Limited, JP Morgan Chase, DBS Asia Capital Limited and China Resources Capital Holdings Company Limited (華潤金融控股有限公司). Dr. Liu served as an independent non-executive director of each of Haier Electronics Group Co., Ltd. (海爾電器集團有限公司) (stock code: 1169) from June 2007 to June 2014 and Hisense Kelon Electrical Holdings Company Limited (海信科龍電器股份有限公司) (currently known as Hisense Home Appliances Group Co., Ltd. (海信家電集團股份有限公司); stock code: 921) from September 2017 to August 2019, both of which are listed on the Hong Kong Stock Exchange. In addition, Dr. Liu is currently an independent director of each of Kunlun Energy Company Limited (昆侖能源有限公司) (stock code: 135) since April 2004, Honghua Group Limited (宏華集團有限公司) (stock code: 196) since January 2008, Cinda International Holdings Limited (信達國際控股有限公司) (stock code: 111) since July 2016 and AAG Energy Holdings Limited (亞美能源控股有限公司) (stock code: 2686) since August 2019, all of which are listed on the Hong Kong Stock Exchange. Dr. Liu is also currently an independent director of UBS Securities Co., Ltd. Dr. Liu obtained a master's degree and a Ph.D. from the Faculty of Economics, University of Cambridge in England in 1988 and 1994 respectively, a master's degree in development studies from the University of Bath, England, in 1987, and a bachelor of economics degree from Southwest University of Finance and Economics (西南財經大學) (previously known as Sichuan Institute of Finance and Economics (四川財經學院)) in 1983.

BIOGRAPHIES OF DIRECTORS, SENIOR MANAGEMENT AND COMPANY SECRETARY

SENIOR MANAGEMENT

Ms. Chiu Man (趙敏) was appointed as the chief executive officer of the Group on 13 January 2011. See “DIRECTORS” of this section for profile of Ms. Chiu Man.

Mr. Xiao Jie (肖傑), aged 48, has served as the vice president of operations of the Group from 27 November 2020, and is mainly responsible for the operation and management of the Group. Before joining the Group, Mr. Xiao served as the general manager of the FAW Toyota brand and the general manager of the North and West project teams of Zhongsheng Group Holdings Limited (中升集團控股有限公司) from October 2015 to April 2020. From December 1999 to September 2015, Mr. Xiao held management positions in several subsidiaries of Zhongsheng Group Holdings Limited, including Yihui (Dalian) Financial Leasing Co., Ltd. (易惠(大連)融資租賃有限公司), Dalian Zhongsheng Huidi Automobile Sales Service Co., Ltd. (大連中升匯迪汽車銷售服務有限公司), Chongqing Zhongsheng Lexus Automobile Sales Service Co., Ltd. (重慶中升雷克薩斯汽車銷售服務有限公司), Dongguan Zhongsheng Lexus Automobile Sales Service Co., Ltd. (東莞中升雷克薩斯汽車銷售服務有限公司), Guangzhou Zhongsheng Toyota Automobile Sales Service Co., Ltd. (廣州中升豐田汽車銷售服務有限公司) and Dalian Zhongsheng Toyota Automobile Sales Service Co., Ltd. (大連中升豐田汽車銷售服務有限公司). He served as the vice chairman of the FAW Toyota National Dealer Advisory Committee (一汽豐田全國經銷商諮詢委員會) from February 2016 to May 2019. Mr. Xiao obtained a master's degree in business administration from California Institute of Technology & Management, United States in January 2005.

COMPANY SECRETARY

Ms. Chan Sze Ting (陳詩婷) was appointed as the company secretary of the Company on 18 June 2019. Ms. Chan is a senior manager of the corporate services division of Tricor Services Limited, which is a global professional services supplier specializing in integrated business, corporate and investor services. Ms. Chan has over 14 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Chan is a Chartered Secretary (ACS), a Chartered Governance Professional (ACG) and an Associate of both The Hong Kong Institute of Chartered Secretaries (HKICS) and The Chartered Governance Institute (CGI) (formerly The Institute of Chartered Secretaries and Administrators (ICSA)) in the United Kingdom. Ms. Chan holds a bachelor of arts from Hong Kong Polytechnic University and a bachelor's degree in law from the University of London, Britain.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE OF THE COMPANY

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

The Board is of the view that the Company has complied with the code provisions set out in the CG Code during the period from 1 January 2020 to 31 December 2020 (the “**Reporting Period**”). The major corporate governance principles and practices of the Company are summarised as below.

BOARD

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

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

The Board as a whole is responsible for performing the corporate governance functions set out in the Code Provision D.3.1 of the CG Code. The Board has reviewed and monitored the Company's corporate governance policies and practices, the training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules and the employees' written guidelines, and the Company's compliance with the CG Code and disclosures in this Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION

The current Board composition of the Company are as follows:

Executive Directors:

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

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

Mr. Gou Xinfeng

Ms. Chen Wei

Independent Non-executive Directors:

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

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

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

The biographical details of the current directors and the relationship among them, if any, are set out on pages 30 to 33 of this annual report.

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

CORPORATE GOVERNANCE REPORT

BOARD MEETING

During the Reporting Period, the Board has convened 4 meetings. The Board has, by means of meetings and written resolutions, discussed and approved the overall strategies and policies of the Company, reviewed and approved the audited annual results of the Group for the year ended 31 December 2019, reviewed and approved the unaudited interim results of the Group for the six months ended 30 June 2020, discussed/approved the reporting and proposals of all Board committees, considered whether the continuing connected transactions for the year 2020 exceeded the annual caps set, reviewed the risk management and internal control systems of the Group, reviewed and approved the publication of the Company's Environmental, Social and Governance Report for the year ended 31 December 2019, etc. during the Reporting Period.

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

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

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

CORPORATE GOVERNANCE REPORT

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

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

Pursuant to the provisions of the Articles of Association, Gou Xinfeng, Chen Wei and Liu Jie shall retire at the 2021 annual general meeting of the Company (the "**2021 AGM**"). All of the above three directors are eligible for re-election at the 2021 AGM, and have indicated that they will offer themselves for re-election at the 2021 AGM. The Board and the Nomination Committee recommended the re-appointment of the said three retiring directors standing for re-election at the 2021 AGM. The Company's circular, to be despatched together with this annual report, contains detailed information of these three directors pursuant to the requirements of the Listing Rules.

Pursuant to the CG Code, serving more than 9 years could be relevant to the determination of a non-executive director's independence. If an independent non-executive director serves more than 9 years, his further appointment will be subject to a separate resolution to be approved by shareholders. The papers to shareholders accompanying that resolution shall include the reasons why the Board believes he is still independent and should be re-elected. It is noted that Mr. Liu Jie will serve as an independent non-executive director for 9 years in June 2021, and his re-election will be subject to a separate resolution to be reviewed and approved by the shareholders at the 2021 AGM. As an independent non-executive director with in-depth understanding of the Company's operations and business, Mr. Liu has expressed objective views and given independent guidance to the Company over the years, and he continues demonstrating a firm commitment to his role. The Board considers that the long service of Mr. Liu would not affect his exercise of independent judgment and is satisfied that Mr. Liu has the required character, integrity and experience to continue fulfilling the role of an independent non-executive director. The Board also considers the re-election of Mr. Liu as a director is in the interest of the Company and its shareholders as a whole.

CORPORATE GOVERNANCE REPORT

TRAINING FOR DIRECTORS

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

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

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

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2020. The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other financial disclosures required by the Listing Rules and other regulatory requirements. The senior management has provided such explanation and information to the Board as necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company in order to put forward such information to the Board for approval.

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

DIRECTORS' LIABILITY INSURANCE

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

BOARD DIVERSITY POLICY

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

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

CORPORATE GOVERNANCE REPORT

DIRECTOR NOMINATION POLICY

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

The Company established a “Director Nomination Policy” in March 2019 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 ensure the Board continuity and appropriate leadership at Board level.

In evaluating and selecting candidate for directorship, the following criteria should be considered:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company’s business and corporate strategy and diversity aspects under the Board Diversity Policy;
- Any measurable objectives adopted for achieving diversity on the Board;
- Requirement for the Board to have independent non-executive directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules; and
- Willingness and ability to devote adequate time to discharging duties as a member of the Board and/or Board committee(s) 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. The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

- Reviewed and discussed the annual financial statements, results announcement and report for the year ended 31 December 2019, relevant accounting principles and practices adopted by the Group and internal controls related matters, and the proposed re-appointment of the external auditors;
- Reviewed and discussed the interim financial statements, results announcement and interim report for the six months ended 30 June 2020, and relevant accounting principles and practices adopted by the Group;
- Reviewed the Group's continuing connected transactions;
- Reviewed and inspected the performance and effectiveness of risk management and internal control systems;
- Listened to and discussed the internal audit situation and proposed remedial measures of the Company reported by the internal audit department; and
- Reviewed the annual audit plan, including the nature and scope of audit, fees payable to the auditors, their reporting obligations and working plans.

REMUNERATION COMMITTEE

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

CORPORATE GOVERNANCE REPORT

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

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

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

- Generally reviewed and discussed the remuneration packages and benefits policies for the directors and senior management of the Group; and
- Reviewed the renewed service agreement of each of Mr. Wu Tak Lam and Ms. Chiu Man, each being an executive director, and Mr. Liu Jie, Dr. Liu Xiaofeng and Mr. Song Tao, each being an independent non-executive director of the Company.

Pursuant to Code Provision B.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2020 is set out below:

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

Details of the remuneration of all directors of the Company for the year ended 31 December 2020 are set out in Note 8 to the consolidated financial statements in this annual report.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

- Reviewed the structure, size, composition and diversity of the Board;
- Considered and made recommendation to the Board on the re-election of the retiring directors at the 2020 annual general meeting; and
- Assessed the independence of the independent non-executive directors.

The Nomination Committee believes that the composition of the Board is diversified. For example, there are two female directors, and there are also members with deep understanding of automotive dealers and members with extensive experience in corporate finance.

FINANCE AND INVESTMENT COMMITTEE

The Company has established the Finance and Investment Committee with written terms of reference. The Finance and Investment Committee currently consists of the Chairman of the Board (who is an executive director), an executive director and an independent non-executive director, namely Mr. Wu Tak Lam (Chairman of the Committee), Ms. Chiu Man and Mr. Liu Jie. The primary duties of the Finance and Investment Committee are to arrange, consider, review and approve the Group's bank financing and loans as well as the Company's guarantees and indemnities for its subsidiaries.

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

Members of the Finance and Investment Committee	Attendance/ No. of meeting held	Attendance rate (%)
Mr. Wu Tak Lam	1/1	100
Ms. Chiu Man	1/1	100
Mr. Liu Jie	1/1	100

During the Reporting Period, the Finance and Investment Committee had performed the following major duties:

- Reviewed the terms of reference and operation model of the Finance and Investment Committee, etc.

CORPORATE GOVERNANCE REPORT

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding the directors' dealings in the Company's securities. Specific enquiry has been made to all the directors of the Company and each director has confirmed that they have complied with the Model Code throughout the year ended 31 December 2020.

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

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

TRAINING FOR COMPANY SECRETARY

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

During the year ended 31 December 2020, Ms. Chan Sze Ting has received relevant professional trainings of no less than 15 hours.

CORPORATE GOVERNANCE REPORT

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on pages 86 to 91. The external auditors of the Company will be invited to attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, and auditors' independence.

The fees to Ernst & Young, the Company's auditors, in respect of audit services and non-audit services provided for the year ended 31 December 2020 are analysed below:

Types of service provided by the external auditors	Fees paid/payable
Audit services (RMB'000) – audit fee for the year ended 31 December 2020	2,200
Non-audit services (HK\$'000)	90

Non-audit services refer to Hong Kong company tax declaration service.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility towards risk management and internal control systems and that it is responsible for reviewing their effectiveness, to safeguard shareholders' investments and the Company's assets. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board reviews the effectiveness of the risk management and internal control systems as well as internal audit department on an annual basis through the Audit Committee under the Board. The internal audit department of the Group is under the leadership of the Board with independent monitoring authority. During the Reporting Period, the internal audit department has maintained internal control systems in compliance with the principles of comprehensiveness, importance and applicability as well as cost-effective. Thereby, it is able to carry out effective risk management and internal control through internal control measures including routine supervision, special supervision, prior approval, in-process control and post verification. Generally, the measures are as follows:

CORPORATE GOVERNANCE REPORT

1. Introducing the “Measures for Bidding and Tendering of the Group and Companies” (《集團公司招投標辦法》) to process tender management on the projects with qualified capital;
2. Developing appraisal rules of suppliers and carrying out management and control to admittance qualification of suppliers to maintain a strict standard of quality and price;
3. Optimizing assets management practices by thoroughly monitoring assets safety from approval of their purchases until their disposals;
4. Enhancing the management and auditing of operation system. During the year, the Group redeveloped and improved report extraction of the ERP, OA and EAS operation systems operated by the Group’s subsidiaries to ensure the accuracy, completeness and timeliness of corporate operation data; and
5. Controlling risks within a tolerable level by adopting a series of risk management measures, including property protection control, authorization and approval control, operation analysis control, performance appraisal control and budget control.

During the Reporting Period, the Board had conducted a review on the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2020. The review covered the financial, operational, compliance and risk management aspects of the Group.

According to the findings of the internal audit department, the conclusions made by the Board and the Audit Committee on risk management and internal control of the Group for the year ended 31 December 2020 are as follows: (i) the Group’s risk management and internal control systems have been highly efficient and adequate; (ii) the Group has necessary control system in place for monitoring and rectifying any non-compliance incidents; and (iii) the Group has complied with the requirements as set out in the CG Code in respect of risk management and internal control.

There were no major breaches in the risk management and internal control systems of the Group that may have had an impact on shareholders’ interests for the year ended 31 December 2020.

CORPORATE GOVERNANCE REPORT

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

The Group has established the “System for Information Insiders Management” in respect of the Group’s senior management and employees who are more likely to be familiar with inside information or other information unpublished by the Group in accordance with the “Guidelines on Disclosure of Inside Information”, which stipulates that confidential and inside information shall not be used without authorization.

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

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

CORPORATE GOVERNANCE REPORT

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

During the year ended 31 December 2020, the Company held one shareholders' general meeting, being the 2020 annual general meeting held on 5 June 2020. Details of individual attendance of each director at the aforesaid shareholders' general meeting are set out below:

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

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

Address: Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Contact: (852) 2862-8628

Fax: (852) 2865-0990, (852) 2529-6087

Website: www.computershare.com.hk

CORPORATE GOVERNANCE REPORT

RIGHTS OF SHAREHOLDERS

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

DIVIDEND POLICY

The Board adopted a dividend policy in March 2019. The Company aims at providing stable and sustainable returns to its shareholders. According to the dividend policy, the Company currently plans to pay dividends in amount of up to 30% of the distributable profit each fiscal year. In deciding whether to recommend the payment of a dividend and determining the amount of the dividend, the Board will consider the financial performance, cash flow status, business conditions and strategies, future operations and income, funding requirements and expenditure plans and shareholders' interests of the Group as well as any other factors. The Board will review the dividend policy from time to time. The Board may recommend and/or declare an interim dividend, a final dividend, a special dividend and any distribution of net profits as the Board considers appropriate for a financial year or period. Any final dividend is subject to approval by shareholders.

REPORT OF THE DIRECTORS

The Board is pleased to present this annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020 (the “**Financial Statements**”).

PRINCIPAL ACTIVITIES

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

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

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

BUSINESS REVIEW

Analysis on Results and Financial Key Performance Indicators

The Group's profits for the year ended 31 December 2020 and the financial position of the Company and the Group as at 31 December 2020 are set out in Financial Statements on pages 92 to 93 and pages 94 to 95 of this annual report.

A review of the Group's business during the year, which includes a discussion on the principal risks and uncertainties faced by the Group, an analysis on the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year, significant events after the financial year end date, important relationships with its employees, customers and suppliers, and an indication of likely future developments in the Group's business, can be found in this Report of the Directors and the Management Discussion and Analysis as set out on pages 9 to 29 of this annual report.

REPORT OF THE DIRECTORS

Environmental Policies and Performance

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

Please refer to the Environmental, Social and Governance Report as set out on pages 73 to 85 of this annual report for the details of environmental policies and performance of the Company.

Compliance with Laws and Regulations

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

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

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

For the year ended 31 December 2020, as far as the Board is aware, there was no material breach of the laws or regulations that have a significant impact on the Group's business and operation by the Group.

REPORT OF THE DIRECTORS

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The Company's 2021 AGM will be held on Tuesday, 25 May 2021. In order to determine shareholders' entitlement to attend and vote at the 2021 AGM, the register of members of the Company will be closed from Wednesday, 19 May 2021 to Tuesday, 25 May 2021 (both days inclusive). In order to be entitled to attend and vote at the 2021 AGM, unregistered holders of shares of the Company should ensure that all the share transfer documents together with the relevant share certificates are lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Tuesday, 18 May 2021.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to propose the distribution of a final dividend of HK\$0.08 (equivalent to approximately RMB0.07) per ordinary share for the year ended 31 December 2020 in an aggregate amount of RMB40.4 million. The proposed distribution of final dividend is subject to the consideration and approval of shareholders at the 2021 AGM of the Company.

Where the proposed distribution of final dividend is approved at the 2021 AGM, the dividend will be paid on Friday, 2 July 2021 to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 3 June 2021. Therefore, the register of members of the Company will be closed from Tuesday, 1 June 2021 to Thursday, 3 June 2021 (both days inclusive). In order to be entitled to the final dividend, unregistered holders of shares of the Company should ensure that the share transfer documents together with the relevant share certificates are lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Monday, 31 May 2021.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

REPORT OF THE DIRECTORS

RESERVES

Details of changes in the reserves of the Company and the Group during the year are set out in Notes 41 and 31 to the Financial Statements and in the consolidated statement of changes in equity, respectively. Of which, details of reserves available for distribution to shareholders are set out in Notes 41 and 31 to the Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the distributable reserves of the Company available for distribution, calculated based on the Companies Act of the Cayman Islands (as revised), amounted to RMB229.8 million in aggregate, of which RMB40.4 million has been proposed as final dividend for 2020.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

Transaction amounts with five largest customers of the Group for 2020 accounted for less than 30% of the operating income of the Company for 2020. None of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the year. The Group's business is of retail nature with customers being relatively dispersed.

The purchase attributable to the Group's five largest suppliers and the largest supplier accounted for approximately 65.8% and 23.0% respectively of the Group's total purchase for the year ended 31 December 2020. The Group has established long-term cooperation relationships with automobile suppliers. The Group believes that its strong performance record demonstrates its excellent capability and in-depth market knowledge of the automobile distribution business in Northwestern China. The Group is confident that its operating capability and professional knowledge is conducive for the automobile suppliers to gain market shares in China and win customer loyalty. Therefore, the automobile suppliers have maintained close communication with the Group and sought out recommendations in respect of their development strategies in Northwestern China and Jiangsu region.

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

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company and its subsidiaries as at 31 December 2020 are set out in Note 24 to the Financial Statements.

CHARITABLE DONATIONS

For the year ended 31 December 2020, the Group donated funds and supplies of approximately RMB100,000 in aggregate for charitable purposes.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Mr. Wu Tak Lam

Ms. Chiu Man

Mr. Gou Xinfeng

Ms. Chen Wei

Independent Non-executive Directors

Mr. Liu Jie

Mr. Song Tao

Dr. Liu Xiaofeng

Pursuant to Article 16.18 of the Articles of Association of the Company, Mr. Gou Xinfeng, Ms. Chen Wei and Mr. Liu Jie shall retire as directors of the Company by rotation at the 2021 AGM. All the three retiring directors mentioned above are eligible for re-election at the 2021 AGM.

BIOGRAPHIES OF THE DIRECTORS AND THE SENIOR MANAGEMENT

Biographical details of the directors and the senior management are set out on pages 30 to 34 of this annual report.

DIRECTORS' SERVICE CONTRACTS

The Company has entered into a service contract with each of the directors, the major particulars of which are as follows: (1) the renewed service contract entered into between Mr. Gou Xinfeng and the Company is for a term of three years starting from 9 November 2019; (2) the service contract entered into between Ms. Chen Wei and the Company is for a term of three years starting from 23 November 2018; (3) the renewed service contracts entered into between each of Mr. Song Tao and Dr. Liu Xiaofeng and the Company are for a term of three years starting from 24 May 2020; (4) the renewed service contracts entered into between each of Mr. Wu Tak Lam, Ms. Chiu Man and Mr. Liu Jie and the Company are for a term of three years starting from 15 May 2020; and (5) being terminable in accordance with the terms of the respective contracts.

REPORT OF THE DIRECTORS

None of the directors of the Company who are proposed for re-election at the 2021 AGM has entered into a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

REMUNERATION OF THE DIRECTORS

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

REMUNERATION OF THE FIVE HIGHEST PAID INDIVIDUALS

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

PERMITTED INDEMNITY PROVISION

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

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

PENSION SCHEME

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, or any of its subsidiaries or parent companies, or any subsidiaries of the parent companies of the Company was a party and in which any director of the Company or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2020.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2020, none of the directors of the Company nor their associates has competing interests in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Company.

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

As at 31 December 2020, the interests of the Company's directors in the shares of the Company or associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) which were required to be entered in the register referred to therein pursuant to Section 352 of the SFO, or as were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(A) Interests and short position in ordinary shares of the Company

Name of director	Capacity/Nature of interest	Notes	Number of shares	Approximate percentage* of shareholding in the Company
Mr. Wu Tak Lam	Interest held by controlled corporations	1	421,838,400 (L)	70.31%
		2	20,000,000 (S)	3.33%
Ms. Chiu Man	Interest held by controlled corporations	1	421,838,400 (L)	70.31%
		2	20,000,000 (S)	3.33%
Mr. Gou Xinfeng	Beneficiary of a trust Beneficial owner	3	60,000 (L)	0.01%
			140,000 (L)	0.02%
			200,000 (L)	0.03%
Ms. Chen Wei	Beneficiary of a trust Beneficial owner	4	54,000 (L)	0.01%
			110,000 (L)	0.02%
			164,000 (L)	0.03%

(L): Long position (S): Short position

REPORT OF THE DIRECTORS

Notes:

- (1) These shares are held as to 417,000,000 shares by Top Wheel and 4,838,400 shares by Westernrobust Company Limited ("**Westernrobust**").

The issued share capital of Top Wheel is owned as to 70% by Golden Speed, a corporation wholly-owned and controlled by Mr. Wu Tak Lam, and 30% by Win Force, a corporation wholly-owned and controlled by Ms. Chiu Man. As Top Wheel is a controlled corporation of Mr. Wu Tak Lam, Ms. Chiu Man, Golden Speed and Win Force, they are deemed to be interested in the 417,000,000 shares held by Top Wheel pursuant to Part XV of the SFO.

The entire issued share capital of Westernrobust is owned by a revocable discretionary trust (the "**Management Trust**") established for the purposes of recognizing and rewarding the contribution and performance of certain directors and senior management of the Group pursuant to the Pre-IPO Share Award Scheme adopted by the Company on 8 January 2014 (the "**Pre-IPO Share Award Scheme**"). Top Wheel is the settlor of the Management Trust and possesses all voting rights attached to the unawarded shares and awarded shares which have not been vested under the Management Trust. Thus, the Management Trust and Top Wheel are deemed to be interested in the 4,838,400 shares held by Westernrobust. As Top Wheel is a controlled corporation of Mr. Wu Tak Lam, Ms. Chiu Man, Golden Speed and Win Force, they are also deemed to be interested in the 4,838,400 shares of the Company held by Westernrobust pursuant to Part XV of the SFO.

- (2) On 19 November 2020, Top Wheel, a company wholly and beneficially owned by Mr. Wu Tak Lam and Ms. Chiu Man, entered into two option agreements with Asian Equity Special Opportunities Portfolio Master Fund Limited ("**AESOP**"), pursuant to which, Top Wheel has agreed to grant (i) a call option (the "**Option I**") to AESOP over an aggregate of 10,000,000 shares in the Company (the "**Option I Shares**") held by Top Wheel, with the exercise price of HK\$1.60 per Option I Share and exercise period of two years from the date of the grant of the Option I; and (ii) a call option (the "**Option II**") to AESOP over an aggregate of 10,000,000 shares in the Company (the "**Option II Shares**") held by Top Wheel, with the exercise price of HK\$2.98 per Option II Share and exercise period of three years from the date of the grant of the Option II. For details, please refer to the Company's announcement dated 19 November 2020.
- (3) Mr. Gou Xinfeng is deemed to be interested in these 60,000 awarded shares, which have been granted to him (but not yet vested) pursuant to the Pre-IPO Share Award Scheme.
- (4) Ms. Chen Wei is deemed to be interested in these 54,000 awarded shares, which have been granted to her (but not yet vested) pursuant to the Pre-IPO Share Award Scheme.
- * The percentage represents the number of ordinary shares involved divided by the number of the Company's issued shares as at 31 December 2020.

REPORT OF THE DIRECTORS

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

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

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

* The percentage represents the number of ordinary shares involved divided by the number of issued shares of the associated corporation as at 31 December 2020.

Save as disclosed above, as at 31 December 2020, none of the directors or chief executive of the Company had an interest or a short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

As at 31 December 2020, the following corporations had interests of 5% or more of the issued share capital of the Company which were required to be recorded in the register of interests required to be kept by the Company under Section 336 of the SFO:

Interests and short position in ordinary shares of the Company

Name of shareholder	Capacity/ Nature of interest	Notes	Number of shares	Approximate percentage* of shareholding in the Company
Top Wheel Limited	Beneficial owner	1	417,000,000 (L)	69.50%
			20,000,000 (S)	3.33%
	Founder of a discretionary trust	1	4,838,400 (L)	0.81%
Win Force Enterprises Limited	Interest held by a controlled corporation	1	421,838,400 (L)	70.31%
			20,000,000 (S)	3.33%
			20,000,000 (S)	3.33%
Golden Speed Enterprises Limited	Interest held by a controlled corporation	1	421,838,400 (L)	70.31%
			20,000,000 (S)	3.33%

(L): Long position (S): Short position

REPORT OF THE DIRECTORS

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

* The percentage represents the number of ordinary shares involved divided by the number of the Company’s issued shares as at 31 December 2020.

Save as disclosed above, as at 31 December 2020, no person, other than the directors whose interests are set out in the section headed “Directors’ and Chief Executive’s Interests and Short Positions in Shares, Underlying Shares and Debentures” above, had a registered interest or short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

MANAGEMENT CONTRACTS

During the year ended 31 December 2020, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed.

SHARE OPTION SCHEME

The Share Option Scheme (as defined in the Company’s prospectus) was conditionally adopted pursuant to a resolution of the shareholders of the Company on 18 January 2014 (the “**Adoption Date**”) and became effective from 15 May 2014 when dealings in the shares of the Company on the Stock Exchange commenced and, unless otherwise cancelled or amended, will remain in force for 10 years from the Adoption Date. As at the date of this annual report, the remaining term of the Share Option Scheme was approximately 3 years.

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

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

REPORT OF THE DIRECTORS

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

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

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

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

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

REPORT OF THE DIRECTORS

PRE-IPO SHARE AWARD SCHEME

The Pre-IPO Share Award Scheme was adopted by the Company on 8 January 2014. For the implementation of the Pre-IPO Share Award Scheme, the Management Trust was established on the same date for the benefit of certain employees with Cantrust (Far East) Limited acting as the trustee. 9,000,000 shares of the Company, representing 1.5% of the issued shares of the Company as at the approval date of this report, were transferred to the Management Trust for nil consideration on the same date pursuant to the Pre-IPO Share Award Scheme. As of 31 December 2020, a total of 5,638,400 shares of the Company had been awarded to the grantees in accordance with the Pre-IPO Share Award Scheme. Details of the Pre-IPO Share Award Scheme are disclosed in the Company's prospectus and Note 30 to the Financial Statements.

ISSUED DEBENTURES

During the year ended 31 December 2020, neither the Company nor any of its subsidiaries issued any debentures.

EQUITY-LINKED AGREEMENTS

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

CONTRACT OF SIGNIFICANCE

No contract of significance has been entered into between the Company, or any of its subsidiaries and the controlling shareholder or any of its subsidiaries during the year ended 31 December 2020.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

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

CORPORATE GOVERNANCE

Please refer to the Corporate Governance Report on pages 35 to 54 of this annual report for details.

REPORT OF THE DIRECTORS

PUBLIC FLOAT

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

MATERIAL LITIGATION

During the year ended 31 December 2020, the Group was neither involved in any material litigation or arbitration, nor may be brought up or accused of any pending material litigation or claims.

AUDIT COMMITTEE

The Audit Committee (consisting of the three independent non-executive directors of the Company) has reviewed the consolidated financial statements for the year ended 31 December 2020, and is of the view that the Group's consolidated financial statements for the year ended 31 December 2020 are prepared in accordance with the applicable accounting standards, laws and regulations, and appropriate disclosures have already been made.

CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

For the year ended 31 December 2020 and up to the date of this annual report, the controlling shareholders of the Company, namely Mr. Wu Tak Lam, Ms. Chiu Man, Golden Speed, Win Force and Top Wheel (collectively referred to as the **"Controlling Shareholders"**), have no interests in any business which competes with or is likely to compete with the businesses of the Group.

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

Based on the information and confirmations provided by or obtained from the Controlling Shareholders, the independent non-executive directors of the Company reviewed the compliance conditions in respect of the Deed of Non-Competition for the year ended 31 December 2020 and up to the date of this annual report, and believed that the Controlling Shareholders had fully complied with the Deed of Non-Competition.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

Among the related party transactions disclosed in Note 38 to the Financial Statements, the following transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and are required to be disclosed in this annual report in accordance with the requirements set out in Chapter 14A of the Listing Rules. Please see the below information disclosed in compliance with Chapter 14A of the Listing Rules.

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

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

REPORT OF THE DIRECTORS

In view of the expiry of the Original Automobile Sales Agreement and the Original MSP Framework Agreement on 31 December 2019 and in consideration of the benefits to the Group from the transaction thereunder, the Company entered into a new merchandise sale and purchase framework agreement (the “**MSP Framework Agreement**”) with Yangzhou Sunfonda on 9 December 2019, pursuant to which the Group may sell or purchase imported Volkswagen automobiles and related spare parts to or from Yangzhou Sunfonda from time to time. All transaction prices for the sale or purchase of imported Volkswagens automobiles and related spare parts between the Group and Yangzhou Sunfonda are equivalent to the transaction prices between the Group and Volkswagen Group Import (China) Co., Ltd., which is in line with the pricing policy of the transactions conducted by the Group with other independent automobile dealers. In the transactions under the MSP Framework Agreement, as the transaction prices are completely the same as those offered by or to Volkswagen Group Import (China) Co., Ltd. or other independent automobile dealers, neither the Group nor Yangzhou Sunfonda will profit from any price differentiation from the MSP Framework Agreement and transactions contemplated thereunder. The term of the MSP Framework Agreement is three years, commenced on 1 January 2020 and expiring on 31 December 2022. For details, please refer to the announcement of the Company dated 9 December 2019.

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

For the year ended 31 December 2020, the actual sales value and annual cap of sales of imported Volkswagen automobiles and related spare parts to Yangzhou Sunfonda by the Group under the the MSP Framework Agreement were RMB9.1024 million and RMB14.5000 million, respectively; the actual sales value and annual cap of purchase of imported Volkswagen automobiles and related spare parts from Yangzhou Sunfonda by the Group were RMB5.3532 million and RMB14.5000 million, respectively. For more information, please also see Note 38 to the Financial Statements.

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

REPORT OF THE DIRECTORS

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

AUDITORS

The consolidated financial statements have been audited by Ernst & Young who will retire and, being eligible, offer themselves for re-appointment at the 2021 AGM. A resolution for the re-appointment of Ernst & Young as the auditors of the Company is to be proposed at the 2021 AGM. The auditors of the Company have not been changed for the three years ended 31 December 2020.


SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR END DATE

There were no significant subsequent events that had occurred from 1 January 2021 to the date of this annual report.

Other parts, sections or notes of this annual report referred to in this section of the annual report (the Report of the Directors) constitute part of the Report of the Directors.

By order of the Board

Sunfonda Group Holdings Limited



Mr. Wu Tak Lam

Chairman

Hong Kong, 30 March 2021

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

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

Reporting Period

Unless otherwise indicated, this Report is an annual report for the period covering from 1 January 2020 to 31 December 2020 (the “**Reporting Period**”).

Reporting Scope

This Report focuses on the Group’s environmental, social and governance performance of the principal operations in the PRC, including the sales and after-sales services, automobile aftermarket business and supply chain of luxury and ultra-luxury brand automobiles as well as other mid-end brand automobiles during the Reporting Period.

Basis of Preparation

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDERS COMMUNICATION

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

1. ENVIRONMENT

1.1 Green Operation – Reducing Emissions

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

Day-to-day Operations:

- 1) Preferential use of energy efficient products;
- 2) Preferential use of local suppliers so as to reduce carbon emissions due to long-distance transport;
- 3) The car repair business operations will consider prioritising the use of environmentally friendly paint and related environmentally friendly materials;
- 4) Preferential use of water-efficient equipment and remind all employees and visitors to conserve water;

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- 5) Addition of air filters to the exhaust parts of the spray booths with the aim of reducing the impact on air quality;
- 6) For construction activities, reducing the use of plastic products;
- 7) Requiring suppliers that we cooperate with to adhere to relevant environmental protection standards and regulations, some of the suppliers have already obtained environmental protection certifications;
- 8) Actively cooperating with environmental authorities in organising various activities to educate staff on environmental protection practices in their daily life and at work.

Workplace:

- 1) Ban on smoking to reduce air pollution and improve indoor air quality;
- 2) Promotion of "Green Travel" to encourage the use of staff transport to replace the individual use of private cars;
- 3) Avoiding long distance face-to-face meetings and replacing such with telephone or video conferencing to reduce carbon emissions stemming from transport usage;
- 4) Giving priority to energy-efficient products, recycling reusable resources and reducing the use of disposable products. For example, the employees' canteen used reusable tableware to reduce waste;
- 5) Planting green plants in the workplace, and at the same time, growing a variety of green plants in the office to enhance air quality;
- 6) Preferential use of environmentally friendly equipment such as LED lights for the lighting system and requiring employees to turn off the lights when there is sufficient sunlight in daily operation;
- 7) Affixing a reminder on air conditioners at the switch so that employees are reminded that the temperature should be set at 25 degrees and turned off in spring and autumn and the operating time is from 10:00 to 17:00;
- 8) Reducing office waste during daily work, avoiding paper waste, re-using ink cartridges and collecting discarded or remaining metal parts and accessories for other production use.

The implementation of the above measures has helped the Group continue to achieve good results in fulfilling its social responsibility regarding environmental protection and emission reduction.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In order to strengthen the management of company cars and avoid long distance face-to-face meetings of the Group, employees are encouraged to communicate online through the Internet, video conferencing and other means to reduce offline communication and exchanges, especially during the pandemic. During the Reporting Period, the Group continued to manage and optimize the total number of kilometers travelled by vehicles and the employees' flight mileage. Specifically, the total number of kilometers travelled by vehicles was 3,537 thousand km, representing an increase of 9.24% year-on-year; the employees' flight mileage totalled 2,142 thousand km, representing an increase of 7.15% year-on-year, both of which were far below the growth rate of its principal business. As vehicle travel did not form part of its principal business in the scope of the Report, it has not been converted into individual pollutant emissions in the Report.

In the after-sales repair and maintenance of vehicles, a substantial amount of wastes have been inevitably generated. During the Reporting Period, the levels of waste discharged in the operation process are as follows:

Types of waste	Waste	Waste in 2020	Waste in 2019
Non-hazardous waste		1,005 (tonnes)	2,050 (tonnes)
Non-hazardous waste intensity (based on the number of employees)		0.31 tonnes/person	0.68 tonnes/person
Hazardous waste		453 (tonnes)	389 (tonnes)
Hazardous waste intensity (based on the number of employees)		0.14 tonnes/person	0.13 tonnes/person

We treat the wastes in strict compliance with the requirements of laws and regulations. We classify waste into two categories, i.e., hazardous and non-hazardous waste, which are collected at a designated place. For non-hazardous waste, we can recycle and reuse them or sell them for reuse. As the Group has increased efforts in the management of non-hazardous waste discharge, and the volume of non-hazardous waste discharge for the period was significantly reduced as compared with last year. Hazardous waste will be dealt with by qualified suppliers that are authorized by the bureau for environment protection with which we maintain long-term and stable co-operation. With the growth of the Group's business, the Group continues to step up efforts in the management of hazardous waste discharge. Although the discharge volume of hazardous waste increased for the period as compared with the corresponding period last year, its increase rate was lower than the growth rate of the Group's principal business.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, the levels of greenhouse gases (GHGs) emissions in the operation process are as follows:

Greenhouse Gases (GHGs) Emissions		
Greenhouse Gases (GHGs) Emissions (t CO ₂ -e)*	2020	2019
Total GHG emissions	13,707	14,788
Direct GHG emissions	1,764	2,156
Energy indirect GHG emissions	11,560	12,274
Other indirect GHG emissions	383	358
Intensity (t CO ₂ -e/employee)	4.26	4.91

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

Energy indirect emissions only refer to the emissions from purchased electricity

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

During the Reporting Period, the Group was committed to reducing carbon emissions. The total amount of greenhouse gas emissions during the Reporting Period decreased as compared with the corresponding period last year. The Group strictly complies with various environmental regulations of the PRC, including the Solid Waste Pollution Prevention Law as it relates to the Group's compliance in respect of waste treatment, and conducts annual environmental impact assessment and reporting to keep in line with the standards and there is no relevant non-compliance that may have a significant impact on the Group during the Reporting Period.

1.2 Use of Resources

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

We also use eco-friendly paint and eco-friendly materials in our vehicle repair business. When repairing a car, employees will adopt the principle of "saving electricity and water" to reduce environmental pollution and the use of resources.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, the levels of the Group's energy consumption are as follows:

Type of energy	Energy consumption Unit	2020	2019
Unleaded gasoline	litres	479,463 (equivalent to 4,187,456 kWh)	586,300 (equivalent to 5,120,532 kWh)
Diesel	litres	36,241 (equivalent to 356,382 kWh)	81,723 (equivalent to 803,636 kWh)
Gas	kJ	290 (equivalent to 0.08 kWh)	1,008 (equivalent to 0.28 kWh)
Natural gas	m ³	264,831 (equivalent to 2,863,927 kWh)	277,859 (equivalent to 3,004,814 kWh)
Electricity	kWh	12,728,658	13,546,763
Total	kWh	20,136,423	22,475,745

In order to save energy consumption and use more eco-friendly resources, during the Reporting Period, the Group's consumption of energy of all types decreased as compared with the corresponding period last year.

Type of energy	Energy consumption intensity Unit	2020	2019
Unleaded gasoline	kWh/employee	1,302	1,702
Diesel	kWh/employee	111	267
Towngas	kWh/employee	0	0
Natural gas	kWh/employee	890	999
Electricity	kWh/employee	3,957	4,504
Total	kWh/employee	6,259	7,472

During the Reporting Period, the level of the Group's water consumption is as follows:

	Water consumption Unit/Intensity	2020	2019
Water consumption	m ³	163,192	153,434
Water consumption per person	m ³ /employee/ year	51	51

In addition, no amount of product packaging materials used is disclosed in the Report as no additional product packaging was required for automobile sales and after-sales service.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1.3 Environment and Natural Resources

The Group is committed to reducing the adverse impact of operating activities on the environment and has been constantly improving environment management measures to reduce consumption of energy and other resources, minimize generation of wastes and increase recycle and reuse. Meanwhile, we have been constantly promoting and advocating environmental protection concepts by actively raising all staff's awareness on environmental protection, educating them to care for environment and to implement the concept of green office as well as encouraging them to cherish each unit of electricity, each drop of water, each sheet of paper and each litre of gasoline so as to make full use of natural resources. During the Reporting Period, the Group did not have any incidents which had a significant impact on the environment and natural resources.

2. PEOPLE ORIENTED – CHERISHING TALENT

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

2.1 Employment

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

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

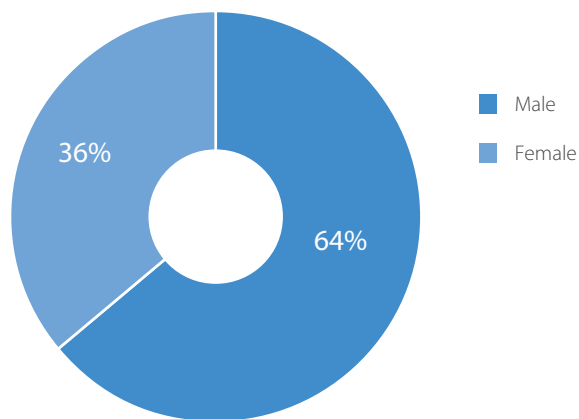
The Group has established a culture of equal opportunities, work-life balance, anti-discrimination and employee diversity to create a "Zero Discrimination and Happy Workplace" for its employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

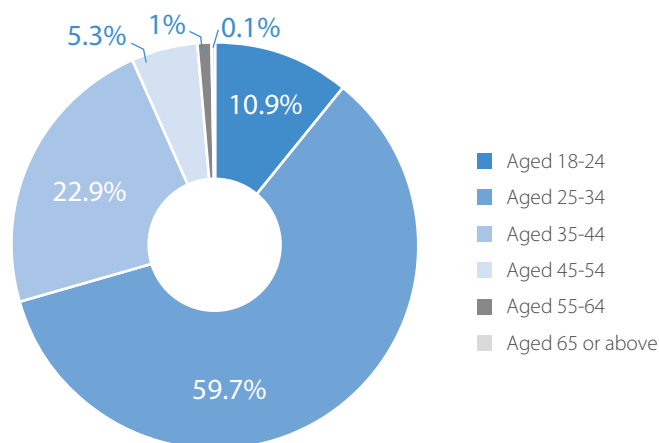
The Group also aims to be a good corporate citizen, complies with employment regulations including Labour Law as it relates to the Group's compliance in respect of recruitment of employees, and will not tolerate any violations of employment regulations. During the Reporting Period, there was no non-compliance.

As of 31 December 2020, the Group had a total of 3,217 employees of which 4 were from Hong Kong and the others were from Mainland China. The Group strives to maximize the benefits offered to employees. Save for the 7 temporary workers and the 66 apprentices or interns, all other employees of the Group are full-time staff. The following chart shows the number of all employees of the Group by gender and by age:

Number of Employees by Gender



Employee Age Distribution



Certain employees left the Group for own reasons. The Group continued to increase its efforts in employee promotion and care. During the Reporting Period, the employee turnover rate was 31.6%. Specifically, the employee turnover rates for male and female were 19.4% and 12.2%, respectively, both of which represented a substantial decrease as compared with that of last year. All of the employees that departed were from Mainland China.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.2 Health and Safety

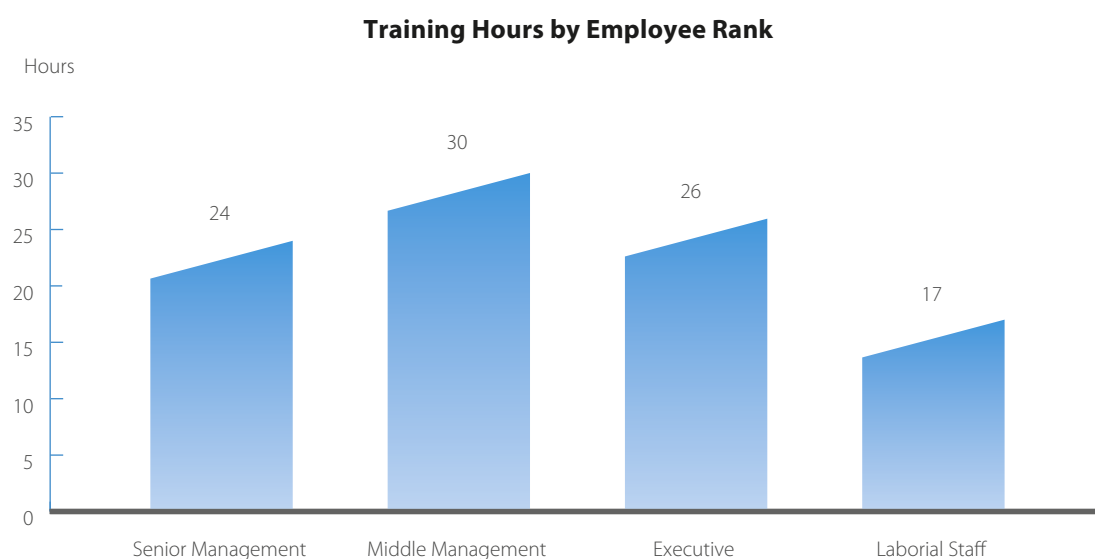
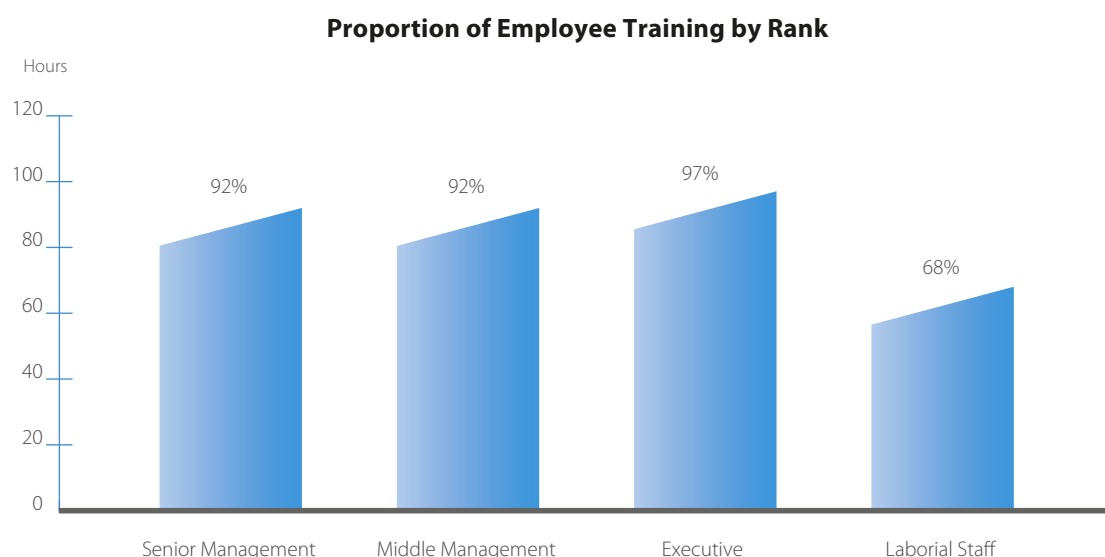
Talents are one of the most valuable assets of a corporation. As such, the Group always places the health and safety of the employees as its top priority and strives to provide a safe working environment for employees to ensure their safety and avoid occupational hazards. We strictly comply with the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

2.3 Development and Training

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, the percentage of employees of the Group who have received training increased by approximately 72% as compared with the corresponding period last year, of which 54% were male and 18% were female. The total hours of training received was 21 hours for men and 15 hours for women. The particulars of proportion of employee training by rank and training hours by employee rank are as follows:



As can be seen from the above graph, the proportion of the Group's employees who rank from executive and above and receive training was more than 92% during the Reporting Period. Both proportion of employee training and training hours by employee rank increased significantly as compared with the corresponding period of last year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.4 Labour Standards

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

3. SUPPLIER MANAGEMENT

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

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

During the Reporting Period, all suppliers of the Group were from Mainland China.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4. PRODUCT RESPONSIBILITY

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

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

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

The Group strictly complies with the Law of the People's Republic of China on Protection of Consumer Rights and Interests and other relevant regulations as they relate to the Group's compliance with the legal requirements of consumer rights in respect of the products sold and services rendered by the Group, and implements stringent confidentiality policies to protect customers' privacy. We have strengthened the management over customer information and formulated the corresponding system for the filing and access to customer information. During the Reporting Period, there was no significant event that constitutes a non-compliance with product responsibility regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5. INTEGRITY OPERATIONS

The Group has established sound corporate governance and integrity operation systems with zero tolerance to corruption of any form. In this regard, we have formulated various anti-corruption policies, including anti-bribery policies, conflict of interest reporting policies, anti-fraud policies, open bidding policies, confidential policies and independent auditing policies. Meanwhile, the Legal Department and the Internal Audit Department of the Group have been assigned to supervise and put an end to any form of corruption, including extortion and money laundering. In addition, an external auditor and other external bodies are engaged to supervise the Group's integrity operations from time to time. During the Reporting Period, the Group complies with the Criminal Law of the People's Republic of China as it ensures that the Group's operations are free from the risk of corruption and bribery, and the Group did not have any cases of corruption or any other cases related to breaches of integrity operations.

6. COMMUNITY CARE

Being part of the community, we see the support of local members as the driver of our success. Whilst pursuing business growth, we are devoted to giving back, so that the love and care in the community can benefit more people in need. To this end, the Group actively integrates into the community and maintains good communication and interaction therewith. For example, it has specially appointed the general administration department to be responsible for active response and involvement in community events, such as public welfare campaigns, study assistance, charitable donation, environmental protection events and fitness team building activities. During the Reporting Period, the Group formulated a special vehicle purchase policy for medical workers and their relatives, and continued to increase its donation to Xi'an Children's Welfare Institution to RMB100,000 for the caring of children and their development. We also continued to cooperate with the Party branch in the fundraising event for low-income households, where we dispatched over 10 volunteers and donated goods valued at more than RMB10,000.

PROSPECT

On top of actively expanding our business, the Group will remain devoted to the strict implementation of its management systems and conduct effective supervision and inspection. We aim to pay more attention to environmental protection, energy saving and emission reduction, while minimising the use of natural resources. Our staff is one of our key resources, hence the Group will continue to strengthen the health and safety management of employees and conduct training on professionalism and business skills on a scheduled and non-scheduled basis. We will also attach great importance to the long-term development of employees and offer them sustainable career paths. In terms of operations, the Group will have to enhance supplier management and monitoring on an ongoing basis, exercise reasonable control over operating costs and improve operational efficiency. More importantly, it will have to keep focusing on customer satisfaction, further identity demands from customers and spare no efforts to serve them well. The Group will foster better communication and interaction with stakeholders and provide them with better returns. In the course of development, it will stay true to its mission and keep on participating in community and public welfare activities, thereby continuously enhancing the sense of corporate social responsibility. The Group is confident that the above series of measures will improve our environmental, social and governance performance in 2021.

INDEPENDENT AUDITORS' REPORT



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To the shareholders of Sunfonda Group Holdings Limited

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

Opinion

We have audited the consolidated financial statements of Sunfonda Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 92 to 185, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

INDEPENDENT AUDITORS' REPORT

Key audit matters

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

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

Key audit matter

How our audit addressed the key audit matter

Vendor rebate receivables

The Group recognises volume-related vendor rebates on an accrual basis according to the terms of the supplier contracts. As at 31 December 2020, the rebate receivables recognised were RMB200,627,000. The balance of rebate receivables was significant and the process of accruing the rebates was complex.

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

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

Deferred tax assets

As at 31 December 2020, deferred tax assets recognised were RMB48,654,000. The deferred tax assets were recognised based on management's estimation of future taxable profits that would be available for utilising the deferred tax assets. As at 31 December 2020, deferred tax assets have not been recognised on accumulated tax losses of RMB82,065,000. The process of estimating the amount of the future taxable profits was complex, and involved estimates and judgements that would be affected by future actual operations, tax regulations, market or economic conditions.

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

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

INDEPENDENT AUDITORS' REPORT

Key audit matters *(Continued)*

Key audit matter

How our audit addressed the key audit matter

Impairment of non-current non-financial assets (other than goodwill)

As at 31 December 2020, the carrying amount of non-current non-financial assets (other than goodwill) amounted to RMB1,947,875,000, which was material to the consolidated financial statements. The management performed an impairment test, where an indication of impairment exists or when annual impairment testing for an asset is required. In assessing value in use, the discounted cash flow method was used with estimations and judgements.

Our audit procedures, among others, included an evaluation of the determination of the cash-generating units, the key assumptions used in the cash flow forecast and other data used by the Group. We also involved our valuation specialists to assist us in evaluating the associated growth rates and the discount rates applied.

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

The Group's disclosures about the impairment of non-financial assets are included in note 3 to the financial statements, which explains the major judgements and estimations that management made in the assessment.

Other information included in the Annual Report

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

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

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

INDEPENDENT AUDITORS' REPORT

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

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

INDEPENDENT AUDITORS' REPORT

Auditor's responsibilities for the audit of the consolidated financial statements

(Continued)

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

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

INDEPENDENT AUDITORS' REPORT

Auditor's responsibilities for the audit of the consolidated financial statements

(Continued)

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

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

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

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

Ernst & Young

Certified Public Accountants

Hong Kong

30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	5(a)	10,634,418	9,314,733
Cost of sales and services	6(b)	(9,885,623)	(8,660,514)
Gross profit		748,795	654,219
Other income and gains, net	5(b)	187,176	183,711
Selling and distribution expenses		(410,523)	(375,335)
Administrative expenses		(218,691)	(213,640)
Profit from operations		306,757	248,955
Finance costs	7	(103,022)	(107,859)
Profit before tax	6	203,735	141,096
Income tax expense	10	(58,546)	(21,167)
Profit for the year		145,189	119,929
Attributable to:			
Owners of the parent		145,189	119,929
Earnings per share attributable to ordinary equity holders of the parent	12		
Basic and diluted (RMB)		0.24	0.20

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2020

	2020 RMB'000	2019 RMB'000
Profit for the year	145,189	119,929
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	(1,596)	(1,724)
Other comprehensive loss for the year, net of tax	(1,596)	(1,724)
Total comprehensive income for the year	143,593	118,205
Attributable to:		
Owners of the parent	143,593	118,205

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,296,304	1,234,623
Right-of-use assets	14(a)	640,537	671,431
Intangible assets	15	11,034	11,232
Prepayments	16	28,420	27,782
Goodwill	17	10,284	10,284
Deferred tax assets	28	48,654	36,500
Total non-current assets		2,035,233	1,991,852
CURRENT ASSETS			
Inventories	18	900,432	1,169,308
Trade receivables	19	38,822	47,251
Prepayments, deposits and other receivables	20	841,069	800,154
Amount due from a related party	38(b)	7,890	11,869
Pledged bank deposits	21	378,523	383,205
Cash in transit	22	16,390	17,284
Short-term deposits	23	100,538	86,189
Cash and cash at banks	23	717,362	803,417
Total current assets		3,001,026	3,318,677
CURRENT LIABILITIES			
Bank loans and other borrowings	24	1,662,956	2,018,896
Trade and bills payables	25	596,764	682,341
Other payables and accruals	26	353,145	329,087
Lease liabilities	14(b)	7,277	12,280
Income tax payable		29,007	12,653
Total current liabilities		2,649,149	3,055,257
NET CURRENT ASSETS		351,877	263,420
TOTAL ASSETS LESS CURRENT LIABILITIES		2,387,110	2,255,272

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	24	197,376	189,507
Lease liabilities	14(b)	13,572	20,308
Deferred tax liabilities	28	17,874	10,265
Total non-current liabilities		228,822	220,080
NET ASSETS		2,158,288	2,035,192
EQUITY			
Equity attributable to owners of the parent			
Share capital	29	377	377
Reserves	31	2,157,911	2,034,815
Total equity		2,158,288	2,035,192

Director
Wu Tak Lam

Director
Chiu Man

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2020

	Attributable to owners of the parent								Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Merger reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	
At 1 January 2020	377	250,962	118,045	100,703	157,947	10,773	33,872	1,362,513	2,035,192
Profit for the year	-	-	-	-	-	-	-	145,189	145,189
Other comprehensive loss for the year:									
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(1,596)	-	(1,596)
Total comprehensive income for the year	-	-	-	-	-	-	(1,596)	145,189	143,593
Transfer from retained profits	-	-	-	20,303	-	-	-	(20,303)	-
Final 2019 dividend declared	-	(21,120)	-	-	-	-	-	-	(21,120)
Equity-settled share award expense (note 30)	-	-	-	-	-	623	-	-	623
At 31 December 2020	377	229,842*	118,045*	121,006*	157,947*	11,396*	32,276*	1,487,399*	2,158,288

* These reserve accounts comprise the consolidated reserves of RMB2,157,911,000* (2019: RMB2,034,815,000) in the consolidated statement of financial position.

	Attributable to owners of the parent								Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Merger reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	
At 1 January 2019	377	287,922	118,045	90,671	157,947	9,929	35,596	1,252,616	1,953,103
Profit for the year	-	-	-	-	-	-	-	119,929	119,929
Other comprehensive loss for the year:									
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(1,724)	-	(1,724)
Total comprehensive income for the year	-	-	-	-	-	-	(1,724)	119,929	118,205
Transfer from retained profits	-	-	-	10,032	-	-	-	(10,032)	-
Final 2018 dividend declared	-	(36,960)	-	-	-	-	-	-	(36,960)
Equity-settled share award expense (note 30)	-	-	-	-	-	844	-	-	844
At 31 December 2019	377	250,962*	118,045*	100,703*	157,947*	10,773*	33,872*	1,362,513*	2,035,192

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2020

	Notes	2020 RMB'000	2019 RMB'000
Operating activities			
Profit before tax		203,735	141,096
Adjustments for:			
Depreciation and impairment of items of property, plant and equipment	13	150,556	130,028
Depreciation of right-of-use assets	14	22,447	19,913
Amortisation of intangible assets	15	1,007	969
Interest income	5(b)	(8,299)	(8,954)
Net loss/(gain) on disposal of items of property, plant and equipment	5(b)	5,369	(2,942)
Net loss on disposal of intangible assets		–	4
Equity-settled share award expense	6(a)	623	844
Finance costs	7	103,022	107,859
Reversal of impairment of prepayments, deposits and other receivables	5(b)	–	(5,000)
Accrual/(Reversal) of impairment of inventories	6(c)	7,144	(6,774)
		485,604	377,043
Decrease/(Increase) in pledged bank deposits		4,682	(106,132)
Decrease in cash in transit		894	3,513
Decrease/(Increase) in trade receivables		8,429	(12,022)
Increase in prepayments, deposits and other receivables		(41,026)	(144,600)
Decrease in an amount due from a related party		3,979	431
Decrease/(Increase) in inventories		261,732	(216,949)
(Decrease)/Increase in trade and bills payables		(85,577)	258,754
Increase in other payables and accruals		25,940	12,709
Cash generated from operations		664,657	172,747
Tax paid		(46,738)	(42,205)
Net cash generated from operating activities		617,919	130,542

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2020

	Notes	2020 RMB'000	2019 RMB'000
Investing activities			
Purchase of items of property, plant and equipment		(304,055)	(322,206)
Proceeds from disposal of items of property, plant and equipment		94,018	91,050
Purchase of land use rights		–	(11,937)
Purchase of intangible assets		(809)	(200)
Interest received		8,299	8,954
Increase in time deposits with maturity over three months		(71,771)	(2,587)
Net cash used in investing activities		(274,318)	(236,926)
Financing activities			
Proceeds from bank loans and other borrowings		7,324,114	7,374,237
Repayment of bank loans and other borrowings		(7,667,120)	(7,113,924)
Principal portion of lease payments	14(b)	(10,942)	(15,498)
Interest paid for bank loans and other borrowings		(105,350)	(107,943)
Dividends paid		(21,120)	(36,960)
Net cash (used in)/generated from financing activities		(480,418)	99,912
Net decrease in cash and cash equivalents		(136,817)	(6,472)
Cash and cash equivalents at the beginning of year		887,019	890,624
Effect of foreign exchange rate changes, net		(6,660)	2,867
Cash and cash equivalents at the end of year	23	743,542	887,019
Analysis of balances of cash and cash equivalents			
Cash and bank balances		717,362	803,417
Short-term deposits with maturity less than three months		26,180	83,602
		743,542	887,019

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

1. CORPORATE AND GROUP INFORMATION

Sunfonda Group Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 13 January 2011 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The registered office address of the Company is Grand Pavilion, Hibiscus Way, 802 West Bay Road, P.O. Box 31119, KY1-1205, Cayman Islands. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 15 May 2014.

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

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

Information about subsidiaries

Particulars of the Company’s principal subsidiaries as at 31 December 2020 are as follows:

Company name	Place and date of registration/ incorporation and place of business	Registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
新豐泰(香港)有限公司 (Sunfonda (Hong Kong) Limited)	Hong Kong, the PRC 1997	Issued capital of HK\$1,501,000	–	100%	Investment holding
Grand Forever Enterprises Limited	Tortola, the BVI 2011	Registered capital of US\$50,000 and paid-in capital of US\$2,001	100%	–	Investment holding
陝西新豐泰汽車有限責任公司* (Shaanxi Sunfonda Automobile Co., Ltd.)	Xi'an, the PRC 2000	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
陝西新豐泰汽車技術開發有限責任公司* (Shaanxi Sunfonda Automobile Technology Development Co., Ltd.)	Xi'an, the PRC 2001	Registered and paid-in capital of RMB531,284,500	–	100%	Sale and service of motor vehicles
西安新銘洋豐田汽車銷售服務有限公司* (Xi'an Xinmingyang Toyota Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2003	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
陝西凱盛汽車銷售服務有限公司* (Shaanxi Kaisheng Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2006	Registered and paid-in capital of RMB15,000,000	–	100%	Sale and service of motor vehicles

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2020 are as follows *(continued)*:

Company name	Place and date of registration/ incorporation and place of business	Registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
陝西信捷汽車有限責任公司* (Shaanxi Xinjie Automobile Co., Ltd.)	Xi'an, the PRC 2006	Registered and paid-in capital of RMB13,000,000	–	100%	Sale and service of motor vehicles
西安鈞盛雷克薩斯汽車銷售服務有限公司* (Xi'an Junsheng Lexus Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2006	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
山西盈捷汽車銷售服務有限公司* (Shanxi Yingjie Automobile Sales Services Co., Ltd.)	Taiyuan, the PRC 2009	Registered and paid-in capital of RMB13,204,500	–	100%	Sale and service of motor vehicles
鄂爾多斯市新豐泰信捷汽車有限責任公司* (Ordos Sunfonda Xinjie Automobile Co., Ltd.)	Ordos, the PRC 2010	Registered and paid-in capital of RMB26,846,750	–	100%	Sale and service of motor vehicles
陝西新豐泰博奧汽車有限責任公司* (Shaanxi Sunfonda Boao Automobile Co., Ltd.)	Xi'an, the PRC 2010	Registered and paid-in capital of RMB55,199,805	–	100%	Sale and service of motor vehicles
鄂爾多斯市新豐泰凱盛汽車有限責任公司* (Ordos Sunfonda Kaisheng Automobile Co., Ltd.)	Ordos, the PRC 2010	Registered and paid-in capital of RMB29,733,148	–	100%	Sale and service of motor vehicles
西安新豐泰之星汽車銷售服務有限公司*** (Xi'an Sunfonda Zhixing Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2009	Registered and paid-in capital of HK\$84,000,000	–	100%	Sale and service of motor vehicles
蘇州新豐泰汽車銷售服務有限公司** (Suzhou Sunfonda Automobile Sales Services Co., Ltd.)	Suzhou, the PRC 2011	Registered capital of HK\$52,000,000 and paid-in capital of HK\$45,000,000	–	100%	Sale and service of motor vehicles
蘭州新豐泰汽車銷售有限責任公司* (Lanzhou Sunfonda Automobile Sales Co., Ltd.)	Lanzhou, the PRC 2011	Registered and paid-in capital of RMB38,104,012	–	100%	Sale and service of motor vehicles

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2020 are as follows *(continued)*:

Company name	Place and date of registration/ incorporation and place of business	Registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
陝西新豐泰迎賓汽車銷售服務有限公司* (Shaanxi Sunfonda Yingbin Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2011	Registered and paid-in capital of RMB27,187,450	–	100%	Sale and service of motor vehicles
延安新豐泰博奧汽車有限責任公司* (Yan'an Sunfonda Boao Automobile Co., Ltd.)	Yan'an, the PRC 2011	Registered and paid-in capital of RMB36,408,200	–	100%	Sale and service of motor vehicles
陝西新豐泰駿美汽車銷售服務有限公司* (Shaanxi Sunfonda Junmei Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2012	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
無錫新豐泰汽車有限責任公司* (Wuxi Sunfonda Automobile Co., Ltd.)	Wuxi, the PRC 2013	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
揚州新豐泰博奧汽車銷售服務有限公司* (Yangzhou Sunfonda Boao Automobile Sales Services Co., Ltd.)	Yangzhou, the PRC 2013	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
西安新豐泰紅旗汽車銷售服務有限公司* (Xi'an Sunfonda Hongqi Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2013	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
寧夏新豐泰信捷汽車銷售服務有限公司** (Ningxia Sunfonda Xinjie Automobile Sales Services Co., Ltd.)	Yinchuan, the PRC 2013	Registered and paid-in capital of HK\$49,000,000	–	100%	Sale and service of motor vehicles
陝西新豐泰尚眾汽車銷售服務有限公司* (Shaanxi Sunfonda Shangzhong Automobile Sales Service Co., Ltd.)	Xi'an, the PRC 2013	Registered and paid-in capital of RMB26,000,000	–	100%	Sale and service of motor vehicles
北京新豐泰博奧汽車銷售服務有限公司* (Beijing Sunfonda Boao Automobile Sales Services Co., Ltd.)	Beijing, the PRC 2014	Registered and paid-in capital of RMB70,000,000	–	100%	Sale and service of motor vehicles

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2020 are as follows *(continued)*:

Company name	Place and date of registration/ incorporation and place of business	Registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
渭南新豐泰博奧汽車銷售服務有限公司* (Weinan Sunfonda Boao Automobile Sales Services Co., Ltd.)	Weinan, the PRC 2014	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
陝西新豐泰福生汽車銷售服務有限公司* (Shaanxi Sunfonda Fusheng Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2014	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
新豐泰(中國)投資有限公司** (Sunfonda (China) Investment Co., Ltd.)	Shanghai, the PRC 2015	Registered and paid-in capital of US\$89,232,599	–	100%	Investment holding
陝西新豐泰銘威汽車銷售服務有限公司* (Shaanxi Sunfonda Mingwei Automobile Sales Service Co., Ltd.)	Xi'an, the PRC 2014	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
銀川順馳路捷汽車銷售服務有限公司* (Yinchuan Shunchi Lujie Automobile Sales Service Co., Ltd.)	Yinchuan, the PRC 2014	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
延安新豐泰鈞盛雷克薩斯汽車銷售服務 有限公司* (Yan'an Sunfonda Junsheng Lexus Automobile Sales Service Co., Ltd.)	Yan'an, the PRC 2015	Registered and paid-in capital of RMB15,000,000	–	100%	Sale and service of motor vehicles
揚州新豐泰鈞盛雷克薩斯汽車銷售服務 有限公司* (Yangzhou Sunfonda Junsheng Lexus Automobile Sales Service Co., Ltd.)	Yangzhou, the PRC 2016	Registered and paid-in capital of RMB25,000,000	–	100%	Sale and service of motor vehicles
西安新豐泰涇河物流開發有限公司* (Xi'an Sunfonda Jinghe Logistics Development Co. Ltd.)	Xi'an, the PRC 2013	Registered and paid-in capital of RMB19,171,896	–	100%	Logistics service
陝西新豐泰金達實業開發有限公司* (Shaanxi Sunfonda Jinda Industrial Development Co. Ltd.)	Xi'an, the PRC 2014	Registered and paid-in RMB5,000,000	–	100%	Storage service

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Particulars of the Company's principal subsidiaries as at 31 December 2020 are as follows (continued):

Company name	Place and date of registration/ incorporation and place of business	Registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
西安新豐泰智威汽車銷售服務有限責任公司* (Xi'an Sunfonda Zhiwei Automobile Sales Service Co., Ltd.)	Xi'an, the PRC 2017	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
渭南市宗申寶泰汽車銷售服務有限公司* (Weinan Zongshen Baotai Automobile Sales & Service Co., Ltd.)	Weinan, the PRC 2012	Registered and paid-in capital of RMB63,000,000	–	100%	Sale and service of motor vehicles
蘇州新豐泰豐田汽車銷售服務有限公司* (Suzhou Sunfonda Fengtian Automobile Sales Services Co., Ltd.)	Suzhou, the PRC 2012	Registered and paid-in capital of RMB53,500,000	–	100%	Sale and service of motor vehicles
西安泰愛車網路技術開發銷售服務有限公司* (Xi'an Sunfonda Automobile Technology Development Co., Ltd.)	Xi'an, the PRC 2015	Registered and paid-in capital of RMB8,000,000	–	100%	Internet service and technology development
陝西新豐泰二手車交易市場有限公司* (Shaanxi Sunfonda Second-hand Car Transaction Market Co., Ltd.)	Xi'an, the PRC 2015	Registered and paid-in capital of RMB1,000,000	–	100%	Sale and service of second-hand cars
陝西新豐泰新能源汽車銷售服務有限公司* (Shaanxi Sunfonda New Energy Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2016	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
甘肅新豐泰汽車銷售服務有限公司* (Gansu Sunfonda Automobile Sales Services Co., Ltd.)	Qingyang, the PRC 2017	Registered and paid-in capital of RMB5,500,000	–	100%	Sale and service of motor vehicles
蘭州新豐泰華寶汽車銷售服務有限公司* (Lanzhou Sunfonda Huabao Automobile Sales Services Co., Ltd.)	Lanzhou, the PRC 2017	Registered and paid-in capital of RMB25,000,000	–	100%	Sale and service of motor vehicles
陝西新豐泰匯翔汽車銷售服務有限公司* (Shaanxi Sunfonda Huixiang Automobile Sales Service Co., Ltd.)	Xi'an, the PRC 2014	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2020 are as follows *(continued)*:

Company name	Place and date of registration/ incorporation and place of business	Registered/ paid-in/issued capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
西安新豐泰海寶汽車銷售服務有限公司* (Xi'an Sunfonda Haibao Automobile Sales Service Co., Ltd.)	Xi'an, the PRC 2019	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
西安鈞盛豐泰雷克薩斯汽車銷售服務有限公司* (Xi'an Junsheng Fun Time Lexus Automobile Sales Service Co., Ltd.)	Xi'an, the PRC 2020	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
西安新豐泰凱達汽車銷售有限公司* (Xi'an Sunfonda Kaida Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2020	Registered capital of RMB45,000,000 and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
銀川鈞盛雷克薩斯汽車銷售服務有限公司* (Yinchuan Junsheng Lexus Automobile Sales Service Co., Ltd.)	Yinchuan, the PRC 2019	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles

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

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

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

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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

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

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 below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) 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 has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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

- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before introduction of the alternative RFR. 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 did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.
- (d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. The rent recession does not have any material impact on the Group.

- (e) 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, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

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

⁴ No mandatory effective date yet determined but available for adoption

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

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

Fair value measurement

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

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

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

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

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

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

Category	Estimated useful life	Estimated residual value
Buildings	10-20 years	5%
Leasehold improvements	Over the shorter of the lease terms and 5 years	–
Plant and machinery	5-10 years	5%
Furniture and fixtures	3-5 years	5%
Motor vehicles	4-5 years	5%

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill) *(Continued)*

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

Software	5 to 10 years
Dealership agreements	40 years

Leases

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

Group as a lessee

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

(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:

Buildings and lands	3 to 11 years
Land use rights	36 to 66 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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Group as a lessee *(Continued)*

(b) Lease liabilities

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(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.

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Initial recognition and measurement *(Continued)*

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)*

Investments and other financial assets *(Continued)*

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement *(Continued)*

Financial assets at fair value through profit or loss

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

General approach

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Simplified approach

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities mainly include trade and bills payables, other payables and bank loans and other borrowings.

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

The Group provides for warranties in relation to the sale of certain industrial products and the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

Government grants

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

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.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers *(Continued)*

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

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

Revenue from other sources

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

Other income

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Other income *(Continued)*

Storage income is recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group.

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

Contract liabilities

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

Vendor rebates

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

Share-based payments

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. Further details of the fair value are given in note 30 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

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

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

Other employee benefits

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

Borrowing costs

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in note 11 to the financial statements.

Foreign currencies

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

The functional currency of the Company and certain overseas subsidiaries is the Hong Kong dollar. 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 are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets was RMB48,654,000 as at 31 December 2020 (2019: RMB36,500,000). The amount of unrecognised tax losses at 31 December 2020 was RMB82,065,000. (2019: RMB68,974,000). Further details are contained in note 28 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2020 was RMB10,284,000 (2019: RMB10,284,000). Further details are given in note 17.

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

Estimation uncertainty *(Continued)*

Impairment of non-financial assets (other than goodwill)

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

Useful lives of property, plant and equipment

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

Net realisable value of inventories

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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

Estimation uncertainty *(Continued)*

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the auto industry, 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. The information about the ECLs on the Group's trade receivables is disclosed in note 19 to the financial statements.

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).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

4. OPERATING SEGMENT INFORMATION

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

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

Information about geographical areas

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

Information about major customers

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year, no major customer information in accordance with HKFRS 8 *Operating Segments* is presented.

5. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue:

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

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers		
Disaggregated revenue information		
Types of goods or services		
Revenue from sale of motor vehicles	9,491,699	8,222,108
Revenue from after-sales service	1,142,719	1,092,625
Total revenue from contracts with customers	10,634,418	9,314,733
Timing of revenue recognition		
At a point in time	10,634,418	9,314,733

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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

(b) Other income and gains, net:

	2020 RMB'000	2019 RMB'000
Commission income	136,339	125,568
Logistics and storage income	26,381	32,520
Interest income	8,299	8,954
Advertisement support received from motor vehicle manufacturers	2,869	2,063
Net (loss)/gain on disposal of items of property, plant and equipment	(5,369)	2,942
Government grants*	12,471	653
Reversal of impairment of prepayments, deposits and other receivables	–	5,000
Others	6,186	6,011
	187,176	183,711

* Various government subsidies have been received to support group operation. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

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

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

	2020 RMB'000	2019 RMB'000
Wages and salaries	200,628	188,943
Equity-settled share award expense	623	844
Other welfare	25,552	36,489
	226,803	226,276

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

6. PROFIT BEFORE TAX *(Continued)*

(b) Cost of sales and services

	2020 RMB'000	2019 RMB'000
Cost of sales of motor vehicles	9,234,839	8,050,929
Others*	650,784	609,585
	9,885,623	8,660,514

* Employee benefit expenses of RMB61,647,000 (2019: RMB58,234,000) were included in the cost of sales and services.

(c) Other items

	2020 RMB'000	2019 RMB'000
Depreciation of items of property, plant and equipment	150,556	130,028
Depreciation of right-of-use assets	22,447	19,913
Amortisation of intangible assets	1,007	969
Auditors' remuneration		
– statutory audit service	2,200	2,200
Advertising and business promotion expenses	73,855	71,323
Lease expense	3,880	2,054
Bank charges	4,978	6,776
Reversal of impairment of prepayments, deposits and other receivables	–	(5,000)
Accrual/(Reversal) of impairment of inventories	7,144	(6,774)
Net loss/(gain) on disposal of items of property, plant and equipment	5,369	(2,942)

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

7. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest on bank borrowings and other borrowings	101,422	105,905
Interest expense on lease liabilities	1,600	1,954
	103,022	107,859

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Year ended 31 December 2020				
	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Equity- settled share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:					
– Mr. Wu Tak Lam	–	1,500	–	10	1,510
– Ms. Chiu Man ⁽ⁱ⁾	–	800	–	10	810
– Mr. Gou Xinfeng	–	706	25	1	732
– Ms. Chen Wei	–	462	25	1	488
	–	3,468	50	22	3,540
Independent non-executive directors					
– Mr. Liu Jie	187	–	–	–	187
– Mr. Song Tao	186	–	–	–	186
– Dr. Liu Xiaofeng	224	–	–	–	224
	597	–	–	–	597
	597	3,468	50	22	4,137

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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

	Year ended 31 December 2019				
	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Equity- settled share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:					
– Mr. Wu Tak Lam	–	1,500	–	10	1,510
– Ms. Chiu Man ⁽ⁱ⁾	–	800	–	10	810
– Mr. Gou Xinfeng	–	807	48	30	885
– Ms. Chen Wei	–	357	43	30	430
	–	3,464	91	80	3,635
Independent non-executive directors					
– Mr. Liu Jie	170	–	–	–	170
– Mr. Song Tao	170	–	–	–	170
– Dr. Liu Xiaofeng	224	–	–	–	224
	564	–	–	–	564
	564	3,464	91	80	4,199

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

During the year ended 31 December 2020, no share awards were granted. Details of the share award scheme are set out in note 30 to the financial statements. The fair value of these share awards, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

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

No emoluments were paid to the non-executive directors of the Company during the year (2019: Nil).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals during the year included two directors (2019: three), details of whose remuneration are disclosed in note 8 above. Details of the remuneration for the year of the remaining three (2019: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	2,515	1,356
Pension scheme contributions	6	79
	2,521	1,435

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

	Number of employees	
	2020	2019
HK\$500,001 to HK\$1,000,000	3	2

During the year ended 31 December 2020, no share awards were granted. Details of the share award scheme are included in the disclosures in note 30 to the financial statements. The fair value of such share awards, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

10. INCOME TAX

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

	2020 RMB'000	2019 RMB'000
Current Mainland China corporate income tax	63,092	42,712
Deferred tax (note 28)	(4,546)	(21,545)
	58,546	21,167

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

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

The subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year.

According to the Corporate Income Tax Law of the People's Republic of China (the "CIT Law"), the income tax rate for the Mainland China subsidiaries is 25% from 1 January 2008.

Certain subsidiaries of the Group enjoyed preferential CIT rates which were lower than 25% during the reporting period as approved by the relevant tax authorities or operated in designated areas with preferential CIT policies in the PRC.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

10. INCOME TAX *(Continued)*

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

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

	2020 RMB'000	2019 RMB'000
Profit before tax	203,735	141,096
Tax at the applicable tax rate (25%)	50,934	35,274
Preferential tax rate reduction	(2,199)	(3,179)
Adjustment in respect of current tax of previous periods	1,588	(1,043)
Expenses not deductible for tax	3,122	2,758
Tax losses utilised from previous periods	(1,373)	(3,051)
Tax losses recognised from previous periods	(3,878)	(16,281)
Tax losses not recognised	7,752	6,689
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	2,600	–
Tax Charges	58,546	21,167

11. DIVIDENDS

	2020 RMB'000	2019 RMB'000
Proposed final – HK8.0 cents (2019: HK4.0 cents) per ordinary share	40,399	21,499

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 600,000,000 (2019: 600,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2020.

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

	2020 RMB'000	2019 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	145,189	119,929
	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the year	600,000,000	600,000,000
Earnings per share		
Basic and diluted (RMB)	0.24	0.20

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2020							
At 31 December 2019 and at 1 January 2020: Cost	1,142,742	68,116	170,873	98,365	189,817	128,503	1,798,416
Accumulated depreciation and impairment	(300,491)	(32,590)	(108,767)	(72,211)	(49,734)	-	(563,793)
Net carrying amount	842,251	35,526	62,106	26,154	140,083	128,503	1,234,623
At 1 January 2020, net of accumulated depreciation	842,251	35,526	62,106	26,154	140,083	128,503	1,234,623
Additions	3,187	12,046	9,598	7,569	140,270	138,954	311,624
Disposals	(16,363)	-	(879)	(845)	(81,300)	-	(99,387)
Depreciation provided during the year	(80,029)	(5,388)	(13,879)	(8,283)	(42,977)	-	(150,556)
Transfer	3,016	-	2,456	-	-	(5,472)	-
At 31 December 2020, net of accumulated depreciation	752,062	42,184	59,402	24,595	156,076	261,985	1,296,304
At 31 December 2020: Cost	1,126,334	80,162	180,295	101,741	210,723	261,985	1,961,240
Accumulated depreciation and impairment	(374,272)	(37,978)	(120,893)	(77,146)	(54,647)	-	(664,936)
Net carrying amount	752,062	42,184	59,402	24,595	156,076	261,985	1,296,304

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019							
At 31 December 2018 and at 1 January 2019:							
Cost	1,082,521	63,807	155,002	93,492	175,407	36,885	1,607,114
Accumulated depreciation and impairment	(243,316)	(33,119)	(95,429)	(66,495)	(46,885)	–	(485,244)
Net carrying amount	839,205	30,688	59,573	26,997	128,522	36,885	1,121,870
At 1 January 2019, net of accumulated depreciation	839,205	30,688	59,573	26,997	128,522	36,885	1,121,870
Additions	39,664	4,968	16,339	7,706	137,598	124,614	330,889
Disposals	(977)	–	(272)	(181)	(86,678)	–	(88,108)
Depreciation provided during the year	(59,700)	(7,370)	(15,231)	(8,368)	(39,359)	–	(130,028)
Transfer	24,059	7,240	1,697	–	–	(32,996)	–
At 31 December 2019, net of accumulated depreciation	842,251	35,526	62,106	26,154	140,083	128,503	1,234,623
At 31 December 2019:							
Cost	1,142,742	68,116	170,873	98,365	189,817	128,503	1,798,416
Accumulated depreciation and impairment	(300,491)	(32,590)	(108,767)	(72,211)	(49,734)	–	(563,793)
Net carrying amount	842,251	35,526	62,106	26,154	140,083	128,503	1,234,623

As at 31 December 2020, the application for the property ownership certificates of certain buildings with an aggregate net book value of approximately RMB235,765,000 (2019: RMB278,896,000) was still in progress.

At 31 December 2020, certain of the Group's buildings with an aggregate net book value of approximately RMB415,357,000 (2019: RMB435,512,000) were pledged as security for the Group's bank borrowings (note 24(a)).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of buildings and lands used in its operations. Leases of buildings and lands generally have lease terms between 3 and 15 years. The rest of the leases have lease terms of 12 months or less and/or is individually of low value. 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:

	Buildings and lands RMB'000	Land use rights RMB'000	Total RMB'000
As at 1 January 2019	45,855	599,340	645,195
Addition	2,117	52,750	54,867
Depreciation charge	(11,598)	(17,033)	(28,631)
As at 31 December 2019 and 1 January 2020	36,374	635,057	671,431
Depreciation charge	(11,459)	(17,150)	(28,609)
Including: amount capitalised	–	(6,162)	(6,162)
Revision of a lease term arising from a change in the non-cancellable period of a lease	(2,285)	–	(2,285)
At 31 December 2020	22,630	617,907	640,537

The land use rights of the Group represent the cost of the Group's land use rights in respect of land located in Mainland China. The remaining periods of the land use rights of the Group range from 21 to 60 years.

At 31 December 2020, certain of the Group's land use rights with an aggregate net book value of approximately RMB228,281,000 (2019: RMB235,284,000) were pledged as security for the Group's bank borrowings (note 24(a)).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

14. LEASES (Continued)

(b) Lease liabilities

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

	2020 Lease liabilities RMB'000
Carrying amount at 1 January	32,588
Accretion of interest recognised during the year	1,600
Payments	(10,942)
Revision of a lease term arising from a change in the non-cancellable period of a lease	(2,397)
Carrying amount at 31 December	20,849
Analysed into:	
Current portion	7,277
Non-current portion	13,572

The maturity analysis of lease liabilities is disclosed in note 39 to the financial statements.

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

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

	2020 RMB'000
Interest on lease liabilities	1,600
Depreciation charge of right-of-use assets	22,447
Expense relating to leases of short-term or low-value assets (included in selling and distribution expenses, administrative expenses)	3,880
Total amount recognised in profit or loss	27,927

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

15. INTANGIBLE ASSETS

31 December 2020

	Software RMB'000	Dealership RMB'000	Total RMB'000
Cost at 1 January 2020, net of accumulated amortisation	3,021	8,211	11,232
Addition	809	–	809
Amortisation provided during the year	(791)	(216)	(1,007)
At 31 December 2020	3,039	7,995	11,034
At 31 December 2020			
Cost	9,976	8,643	18,619
Accumulated amortisation	(6,937)	(648)	(7,585)
Net carrying amount	3,039	7,995	11,034

31 December 2019

	Software RMB'000	Dealership RMB'000	Total RMB'000
Cost at 1 January 2019, net of accumulated amortisation	3,578	8,427	12,005
Addition	200	–	200
Disposals	(4)	–	(4)
Amortisation provided during the year	(753)	(216)	(969)
At 31 December 2019	3,021	8,211	11,232
At 31 December 2019			
Cost	9,167	8,643	17,810
Accumulated amortisation	(6,146)	(432)	(6,578)
Net carrying amount	3,021	8,211	11,232

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

16. PREPAYMENTS

	2020 RMB'000	2019 RMB'000
Prepaid lease payments for buildings and land use rights	256	1,952
Prepayments for purchase of land use rights	15,700	15,887
Prepayments for purchase of items of property, plant and equipment	12,464	9,943
	28,420	27,782

17. GOODWILL

	RMB'000
At 1 January 2019	
Cost	10,794
Accumulated impairment	(510)
Net carrying amount	10,284
Cost at 1 January 2019, net of accumulated impairment	10,794
Accumulated impairment	(510)
At 31 December 2019	10,284
At 31 December 2019:	
Cost	10,794
Accumulated impairment	(510)
Net carrying amount	10,284
Cost at 1 January 2020, net of accumulated impairment	10,794
Accumulated impairment	(510)
Cost and net carrying amount at 31 December 2020	10,284
At 31 December 2020	
Cost	10,794
Accumulated impairment	(510)
Net carrying amount	10,284

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

17. GOODWILL *(Continued)*

Impairment testing of goodwill

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

Goodwill acquired through business combinations has been allocated to the relevant 4S dealership business from which the goodwill was resulted. The individual 4S dealership business is treated as a cash-generating unit for impairment testing.

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The growth rate used to extrapolate the cash flows of the cash-generating unit beyond the five-year period from the end of the reporting period is 3% (2019: 3%) for all years. The pre-tax discount rate applied to the cash flow projections beyond the one-year period is 12% (2019: 12%).

Assumptions used in the value in use calculation

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

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

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

Sensitivity to changes in assumptions

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

18. INVENTORIES

	2020 RMB'000	2019 RMB'000
Motor vehicles (at cost or at net realisable value)	823,353	1,092,947
Spare parts (at cost)	77,079	76,361
	900,432	1,169,308

At 31 December 2020, certain of the Group's inventories with an aggregate carrying amount of approximately RMB548,393,000 (2019: RMB606,527,000) were pledged as security for the Group's bank loans and other borrowings (note 24(a)).

At 31 December 2020, certain of the Group's inventories with an aggregate carrying amount of approximately RMB248,717,000 (2019: RMB290,458,000) were pledged as security for the Group's bills payable (note 25).

19. TRADE RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	38,822	47,251

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over the trade receivable balances. Trade receivables are non-interest-bearing.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

19. TRADE RECEIVABLES *(Continued)*

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

	2020 RMB'000	2019 RMB'000
Within 3 months	33,987	44,093
More than 3 months but less than 1 year	3,475	2,193
Over 1 year	1,360	965
	38,822	47,251

As at 31 December 2020, no provision for impairment of trade receivables was accrued.

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

The information about the credit risk exposure on the Group's trade receivables using a provision matrix is disclosed in note 39 to the financial statements.

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

	2020 RMB'000	2019 RMB'000
Neither past due nor impaired	37,462	46,286
Over 1 year past due but not impaired	1,360	965
	38,822	47,251

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Prepayments and deposits to suppliers	481,322	479,425
Vendor rebate receivables	200,627	195,055
VAT receivables (i)	23,916	52,184
Others	135,204	73,490
	841,069	800,154

Note:

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

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

	2020 RMB'000	2019 RMB'000
Prepayments, other receivables, and other assets	335,831	268,545

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

21. PLEDGED BANK DEPOSITS

	2020 RMB'000	2019 RMB'000
Deposits pledged with banks as collateral against credit facilities granted by the banks and bills payable	378,523	383,205

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

As at 31 December 2020, certain of the Group's pledged bank deposits with an aggregate carrying amount of approximately RMB313,970,000 (2019: RMB298,006,000) were pledged as security for the Group's bills payable (note 25).

As at 31 December 2020, certain of the Group's pledged bank deposits with aggregate carrying amounts of approximately HK\$4,800,000 (equivalent to RMB4,040,000) (2019: HK\$27,900,000 (equivalent to RMB24,992,000)) and US\$8,630,000 (equivalent to RMB56,313,000) (2019: US\$8,630,000 (equivalent to RMB60,207,000)) were pledged as security for the Group's bank loans and other borrowings (note 24(a)).

22. CASH IN TRANSIT

	2020 RMB'000	2019 RMB'000
Cash in transit	16,390	17,284

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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

	2020 RMB'000	2019 RMB'000
Cash and cash at banks	717,362	803,417
Short-term deposits	100,538	86,189
	817,900	889,606
Time deposits with maturity over three months	74,358	2,587
Cash and cash equivalents	743,542	887,019

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

As at 31 December 2020, the cash and cash at banks and short term deposits of the Group denominated in RMB amounted to RMB644,300,000 (2019: RMB775,017,000) in Mainland China. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

24. BANK LOANS AND OTHER BORROWINGS

	2020		2019	
	Effective interest rate (%)	Amount RMB'000	Effective interest rate (%)	Amount RMB'000
CURRENT:				
Bank loans	3.3-6.7	1,256,945	3.3-6.7	1,691,680
Other borrowings	3.0-8.6	406,011	3.9-8.5	327,216
		1,662,956		2,018,896
NON-CURRENT:				
Bank loans	3.5-6.7	192,626	3.3-6.7	189,507
Other borrowings	4.5	4,750		–
		197,376		189,507
		1,860,332		2,208,403
Bank loans and other borrowings represent:				
– secured loans (a)		1,662,610		1,866,543
– unsecured loans		197,722		341,860
		1,860,332		2,208,403

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

24. BANK LOANS AND OTHER BORROWINGS (Continued)

	2020 RMB'000	2019 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	1,256,945	1,691,680
In the second year	75,522	29,146
In the third to fifth years, inclusive	84,145	80,457
Over five years	32,959	79,904
	1,449,571	1,881,187
Other borrowings repayable:		
Within one year	406,011	327,216
In the second year	4,750	–
	410,761	327,216
	1,860,332	2,208,403

Notes:

- (a) As at 31 December 2020, certain of the Group's bank loans and other borrowings are secured by:
- (i) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying value of approximately RMB228,281,000 (2019: RMB235,284,000) (note 14);
 - (ii) mortgages over the Group's buildings, which had a net carrying value of approximately RMB415,357,000 (2019: RMB435,512,000) (note 13);
 - (iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB548,393,000 (2019: RMB606,527,000) (note 18);
 - (iv) mortgages over the Group's bank deposits, which had an aggregate carrying value of approximately HK\$4,800,000 (equivalent to RMB4,040,000) (2019: HK\$27,900,000 (equivalent to RMB24,992,000)) and US\$8,630,000 (equivalent to RMB56,313,000) (2019: US\$8,630,000 (equivalent to RMB60,207,000)) (note 21).
 - (v) deposit which had an aggregate carrying value of approximately RMB2,257,500 (2019: Nil)
- (b) Except for the secured bank loan amounting to HK\$224,700,000 (equivalent to RMB189,117,000) (2019: HK\$280,000,000 (equivalent to RMB250,818,000)) which is denominated in Hong Kong dollars, all borrowings are in Renminbi.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

25. TRADE AND BILLS PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables	105,474	105,930
Bills payable	491,290	576,411
Trade and bills payables	596,764	682,341

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

	2020 RMB'000	2019 RMB'000
Within 3 months	508,336	667,788
3 to 6 months	72,123	10,102
6 to 12 months	11,986	2,418
Over 12 months	4,319	2,033
	596,764	682,341

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

As at 31 December 2020, the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB248,717,000 (2019: RMB290,458,000) (note 18).

As at 31 December 2020, the Group's bills payable are secured by mortgages over the Group's pledged bank deposits, which had an aggregate carrying value of approximately RMB313,970,000 (2019: RMB298,006,000) (note 21).

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

26. OTHER PAYABLES AND ACCRUALS

	2020 RMB'000	2019 RMB'000
Payables for purchase of items of property, plant and equipment	60,505	61,384
Contract liabilities (a)	183,801	165,995
Staff payroll and welfare payables	61,617	53,940
Tax payable (other than income tax)	9,863	9,091
Others	37,359	38,677
	353,145	329,087

(a) Details of contract liabilities are as follows:

	31 December 2020 RMB'000	31 December 2019 RMB'000	1 January 2019 RMB'000
<i>Short-term advances received from customers</i>			
Sale of motor vehicles	135,761	116,002	106,558
After-sales services	48,040	49,993	49,512
Total contract liabilities	183,801	165,995	156,070

Contract liabilities include short-term advances received to deliver new automobiles. The increase in contract liabilities in 2020 was mainly due to the increase in short-term advances received from customers in relation to the sales of new automobiles at the end of the year.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

27. EMPLOYEE RETIREMENT BENEFITS

Under the People's Republic of China (the "PRC") state regulations, the employees of the Group's subsidiaries in Mainland China are required to participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The subsidiaries in Mainland China are required to make contributions to the local social security bureau at 10% to 22% of the previous year's average basic salary amount of the geographical area where the employees are under employment with the subsidiaries in Mainland China.

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

28. DEFERRED TAX

Deferred tax assets

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

	Losses available for future taxable profits RMB'000	Inventory impairment RMB'000	Accrued payroll and social welfare RMB'000	Timing difference under HKFRS 16 RMB'000	Total RMB'000
At 1 January 2019	7,341	2,404	2,572	–	12,317
Deferred tax charged to the consolidated statement of profit or loss during the year (note 10(a))	20,905	218	2,816	244	24,183
At 31 December 2019	28,246	2,622	5,388	244	36,500
Deferred tax charged to the consolidated statement of profit or loss during the year (note 10(a))	8,538	2,450	1,222	(56)	12,155
At 31 December 2020	36,784	5,072	6,610	188	48,654

As at 31 December 2020, deferred tax assets have not been recognised in respect of tax losses arising in Mainland China of RMB82,065,000 (2019: RMB68,974,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised. These tax losses will expire in one to five years.

28. DEFERRED TAX *(Continued)*

Deferred tax liabilities

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

	Fair value adjustment arising from acquisition of a subsidiary RMB'000	Depreciation charges in less than depreciation allowances RMB'000	Capitalisation of interest expense and others RMB'000	Withholding Tax RMB'000	Total RMB'000
At 1 January 2019	2,502	5,125	–	–	7,627
Deferred tax recognised in the consolidated statement of profit or loss during the year	(79)	2,208	509	–	2,638
At 31 December 2019	2,423	7,333	509	–	10,265
Deferred tax recognised in the consolidated statement of profit or loss during the year	(79)	4,105	983	2,600	7,609
At 31 December 2020	2,344	11,438	1,492	2,600	17,874

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

The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,705,420,000 and RMB1,575,635,000 at 31 December 2020 and 2019, respectively.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

29. SHARE CAPITAL

Authorised

	2020 No. of shares of US\$0.0001 each	2019 No. of shares of US\$0.0001 each
Ordinary shares	1,000,000,000	1,000,000,000

Shares

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

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares US\$'000	Equivalent nominal value of ordinary shares RMB'000
As at 1 January 2019 and 31 December 2019	600,000,000	60	377
As at 1 January 2020 and 31 December 2020	600,000,000	60	377

30. SHARE-BASED PAYMENTS

(a) Pre-IPO share award scheme

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

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

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

	2020 Number of awarded shares '000	2019 Number of awarded shares '000
At 1 January	2,299	3,574
Forfeited during the year	(118)	(292)
Vested during the year	(705)	(983)
At 31 December	1,476	2,299

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

30. SHARE-BASED PAYMENTS *(Continued)*

(a) Pre-IPO share award scheme *(Continued)*

Particulars of the awarded shares as at 31 December 2020 and 2019 are as follows:

Vesting period	Dates of grant	Market price at grant dates HK\$/share	Number of outstanding shares as at 31 December	
			2020 '000	2019 '000
5 years	15 May 2014	3.76	–	–
5 years	2 July 2015	2.95	–	71
5 years	6 February 2016	2.54	90	188
5 years	23 January 2017	2.19	512	834
5 years	8 February 2018	1.23	394	606
5 years	28 December 2018	1.00	480	600
			1,476	2,299

No share awards were granted for the year ended 31 December 2020.

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

The Group recognised a share award expense of RMB623,000 (2019: RMB844,000) during the year ended 31 December 2020.

At the end of the reporting period, the Company had 1,476,000 (2019: 2,299,000) awarded shares outstanding under the Pre-IPO Share Award Scheme.

30. SHARE-BASED PAYMENTS *(Continued)*

(b) Share option scheme

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

No share options were granted under the Share Option Scheme during the years ended 31 December 2020 and 2019.

31. RESERVES

(i) Statutory reserve

Pursuant to the relevant PRC rules and regulations, these PRC subsidiaries which are domestic enterprises in the PRC as mentioned in note 1 to the financial statements are required to transfer no less than 10% of their profits after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

(ii) Merger reserve

The merger reserve of the Group represents the capital contributions from the equity holders of the Company.

(iii) Exchange fluctuation reserve

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

(iv) Capital reserve

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group did not enter into any material non-cash transaction (2019: Nil).

(b) Changes in liabilities arising from financing activities

2020

	Bank and other loans RMB'000	Dividends payable RMB'000
At 1 January 2020	2,208,403	–
Changes from financing cash flows	(343,006)	(21,120)
Foreign exchange movement	(5,065)	–
Final 2019 dividend declared	–	21,120
At 31 December 2020	1,860,332	–

2019

	Bank and other loans RMB'000	Dividends payable RMB'000
At 1 January 2019	1,943,500	–
Changes from financing cash flows	260,313	(36,960)
Foreign exchange movement	4,590	–
Final 2018 dividend declared	–	36,960
At 31 December 2019	2,208,403	–

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

33. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

	Financial assets at amortised cost	
	2020 RMB'000	2019 RMB'000
Trade receivables	38,822	47,251
Financial assets included in prepayments, deposits and other receivables	351,531	284,432
Amount due from a related party	7,890	11,869
Pledged bank deposits	378,523	383,205
Cash in transit	16,390	17,284
Cash and cash at banks and short-term deposits	817,900	889,606
	1,611,056	1,633,647

Financial liabilities

	Financial liabilities at amortised cost	
	2020 RMB'000	2019 RMB'000
Trade and bills payables	596,764	682,341
Financial liabilities included in other payables and accruals	97,864	100,061
Lease liabilities	20,849	32,588
Bank loans and other borrowings	1,860,332	2,208,403
	2,575,809	3,023,393

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

34. CONTINGENT LIABILITIES

As at 31 December 2020 and 2019, the Group did not have any significant contingent liabilities.

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

The fair values of bank loans and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, which approximate to their carrying amounts. The Group's own non-performance risk for bank loans and other borrowings as at 31 December 2020 was assessed to be insignificant.

36. COMMITMENTS

(a) Capital commitments

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

	2020 RMB'000	2019 RMB'000
Contracted, but not provided for: Buildings	176,055	159,261

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

37. PLEDGE OF ASSETS

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

38. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

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

(a) Transactions with a related party

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

	2020 RMB'000	2019 RMB'000
(i) Sales of motor vehicles and spare parts		
Yangzhou Sunfonda Automobile Co., Ltd.*	9,102	8,537
(ii) Purchase of motor vehicles and spare parts		
Yangzhou Sunfonda Automobile Co., Ltd. *	5,353	2,366

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

38. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

The Group had the following transactions with related parties during the year: *(continued)*

(b) Balance with a related party

Due from a related party:

	2020 RMB'000	2019 RMB'000
Trade related Yangzhou Sunfonda Automobile Co., Ltd.	7,890	11,869

(c) Compensation of key management personnel of the Group

	2020 RMB'000	2019 RMB'000
Short term employee benefits	4,301	5,324
Equity-settled share award expense	22	91
Post-employment benefits	50	159
Total compensation paid to key management personnel	4,373	5,574

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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

Interest rate risk

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

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

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

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

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
Year ended 31 December 2020		
RMB	50	(79)
HKD	50	(776)
RMB	(50)	79
HKD	(50)	776
Year ended 31 December 2019		
RMB	50	(49)
HKD	50	(871)
RMB	(50)	49
HKD	(50)	871

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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

Foreign currency risk

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

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

Credit risk

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

Maximum exposure and year-end staging

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

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

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2020

	12-month ECLs	Lifetime ECLs	
	Stage 1	Simplified	Total
	RMB'000	approach	RMB'000
		RMB'000	
Trade receivables	–	38,822	38,822
Financial assets included in prepayments, other receivables and other assets	351,531	–	351,531
	351,531	38,822	390,353

As at 31 December 2019

	12-month ECLs	Lifetime ECLs	
	Stage 1	Simplified	Total
	RMB'000	approach	RMB'000
		RMB'000	
Trade receivables	–	47,251	47,251
Financial assets included in prepayments, other receivables and other assets	284,432	–	284,432
	284,432	47,251	331,683

For trade receivables to which the Group applies the simplified approach for impairment. For the financial assets included in prepayments, other receivables and other assets to which the Group applies the general approach for impairment, there was no recent history of default. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. No loss allowance was provided because management estimated that the expected credit loss rate was less than 1‰ and the expected credit losses as at 31 December 2020 were not significant.

As at 31 December 2020, all pledged bank deposits, short-term deposits, and cash and cash at banks were deposited in reputable financial institutions without significant credit risk.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

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

	As at 31 December 2020					
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Bank loans and other borrowings	–	464,729	1,275,689	186,648	40,829	1,967,895
Lease liabilities	–	3,213	5,101	11,856	3,282	23,452
Trade and bills payables	105,474	430,541	60,749	–	–	596,764
Financial liabilities included in other payables and accruals	37,359	15,126	45,379	–	–	97,864
	142,833	913,609	1,386,918	198,504	44,111	2,685,975

	As at 31 December 2019					
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Bank loans and other borrowings	–	379,696	1,707,636	134,185	88,293	2,309,810
Lease liabilities	–	3,379	9,959	20,169	3,282	36,789
Trade and bills payables	105,930	575,631	780	–	–	682,341
Financial liabilities included in other payables and accruals	38,677	15,346	46,038	–	–	100,061
	144,607	974,052	1,764,413	154,354	91,575	3,129,001

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2020.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. Net debt includes bank loans and other borrowings (other than convertible bonds), trade and bills payables and certain other payables and accruals, less cash and cash at banks, short-term deposits, cash in transit and pledged bank deposits. The gearing ratios as at the reporting dates were as follows:

	2020 RMB'000	2019 RMB'000
Bank loans and other borrowings	1,860,332	2,208,403
Trade and bills payables	596,764	682,341
Other payables and accruals	353,145	329,087
Less: Pledged bank deposits	(378,523)	(383,205)
Cash in transit	(16,390)	(17,284)
Short-term deposits	(100,538)	(86,189)
Cash and cash at banks	(717,362)	(803,417)
Net debt	1,597,428	1,929,736
Total equity	2,158,288	2,035,192
Total equity and net debt	3,755,716	3,964,928
Gearing ratio	42.5%	48.7%

40. EVENTS AFTER THE REPORTING PERIOD

There was no significant subsequent event undertaken by the Group after 31 December 2020.

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

41. 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:

	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS		
Interests in subsidiaries	701,003	722,774
CURRENT ASSETS		
Prepayments, deposits and other receivables	85	113
Pledged bank deposits	–	15,318
Cash and cash equivalents	27,785	65,080
Total current assets	27,870	80,511
CURRENT LIABILITIES		
Bank loans and other borrowings	20,200	51,060
Total current liabilities	20,200	51,060
NET CURRENT ASSETS	7,670	29,451
TOTAL ASSETS LESS CURRENT LIABILITIES	708,673	752,225
NON-CURRENT LIABILITIES		
Bank loans and other borrowings	168,917	199,759
NET ASSETS	539,756	552,466
EQUITY		
Share capital	377	377
Reserves (note)	539,379	552,089
Total equity	539,756	552,466

NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2020

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

Note:

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

	Share premium RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2019	287,922	320,214	(5,258)	(6,648)	596,230
Total comprehensive loss for the year	–	–	(3,541)	(3,640)	(7,181)
Final 2018 dividend declared	(36,960)	–	–	–	(36,960)
At 31 December 2019 and 1 January 2020	250,962	320,214	(8,799)	(10,288)	552,089
Total comprehensive income for the year	–	–	10,427	(2,017)	8,410
Final 2019 dividend declared	(21,120)	–	–	–	(21,120)
At 31 December 2020	229,842	320,214	1,628	(12,305)	539,379

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2021.

FINANCIAL SUMMARY

31 DECEMBER 2020

	2020 RMB'000	Year ended 31 December			
		2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
REVENUE	10,634,418	9,314,733	8,948,414	7,687,005	7,685,994
Cost of sales and services	(9,885,623)	(8,660,514)	(8,280,456)	(7,091,568)	(7,215,366)
Gross profit	748,795	654,219	667,958	595,437	470,628
Other income and gains, net	187,176	183,711	342,043	206,459	150,455
Selling and distribution expenses	(410,523)	(375,335)	(385,947)	(320,777)	(258,890)
Administrative expenses	(218,691)	(213,640)	(245,987)	(179,861)	(182,678)
Profit from operations	306,757	248,955	378,067	301,258	179,515
Finance costs	(103,022)	(107,859)	(102,723)	(73,517)	(87,482)
Profit before tax	203,735	141,096	275,344	227,741	92,033
Income tax expense	(58,546)	(21,167)	(61,982)	(80,565)	(45,624)
Profit for the year	145,189	119,929	213,362	147,176	46,409
Attributable to:					
Owners of the parent	145,189	119,929	213,162	147,315	46,863
Non-controlling interests	–	–	200	(139)	(454)
	145,189	119,929	213,362	147,176	46,409
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS	2020 RMB'000	Year ended 31 December			
		2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Total assets	5,036,259	5,310,529	4,663,266	4,030,632	3,698,280
Total liabilities	2,877,971	3,275,337	2,710,163	2,233,611	2,035,243
Non-controlling interests	–	–	–	3,148	4,094
Equity attributable to owners of the parent	2,158,288	2,035,192	1,953,103	1,793,873	1,658,943