HARMONY AUTO
和諧汽車

China Harmony Auto Holding Limited
中國和諧汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3836

2020 ANNUAL REPORT


LM

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. FENG Changge *(Chairman)*
Mr. LIU Fenglei *(President)*
Ms. MA Lintao *(Vice-president)*
Ms. FENG Guo *(Vice-president)*
Mr. HAN Yang *(Vice-president)*

Independent Non-executive Directors

Mr. WANG Nengguang
Mr. LAU Kwok Fan
Mr. CHAN Ying Lung (appointed on March 27, 2020)
Mr. LIU Zhangmin (resigned on March 27, 2020)
Mr. XUE Guoping (resigned on March 27, 2020)

AUDIT COMMITTEE

Mr. WANG Nengguang *(Chairman)*
Mr. LAU Kwok Fan (appointed on March 27, 2020)
Mr. CHAN Ying Lung (appointed on March 27, 2020)
Mr. LIU Zhangmin (resigned on March 27, 2020)
Mr. XUE Guoping (resigned on March 27, 2020)

REMUNERATION COMMITTEE

Mr. CHAN Ying Lung *(Chairman)*
(appointed on March 27, 2020)
Mr. LIU Fenglei
Mr. LAU Kwok Fan (appointed on March 27, 2020)
Mr. LIU Zhangmin (resigned on March 27, 2020)
Mr. XUE Guoping (resigned on March 27, 2020)

NOMINATION COMMITTEE

Mr. FENG Changge *(Chairman)*
Mr. WANG Nengguang
Mr. CHAN Ying Lung (appointed on March 27, 2020)
Mr. XUE Guoping (resigned on March 27, 2020)

COMPANY SECRETARY

Ms. WONG Wai Yee, Ella

AUTHORIZED REPRESENTATIVES

Mr. LIU Fenglei
Ms. WONG Wai Yee, Ella

LEGAL ADVISER

Morrison & Foerster
33/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

AUDITORS

ZHONGHUI ANDA CPA Limited
Unit 701-3 & 8
Citicorp Centre
18 Whitfield Road
Causeway Bay, Hong Kong

PRINCIPAL BANKS

China CITIC Bank, Zhengzhou Branch
Shanghai Pudong Development Bank, Zhengzhou Branch
China Everbright Bank, Zhengzhou Branch
Industrial Bank, Zhengzhou Branch
Industrial Bank, Hongkong Branch
Hang Seng Bank Limited

REGISTERED OFFICE

Second Floor, Century Yard
Cricket Square
P.O. Box 902
Grand Cayman, KY-1103
Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND HEADQUARTER IN THE PRC

15A, Tower A, World Trade Center Building
Shangwuneihuan Road
CBD Zhengdong New District
Zhengzhou, Henan Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

CAYMAN ISLANDS SHARE REGISTRAR

Tricor Services (Cayman Islands) Limited
Second Floor, Century Yard
Cricket Square
P.O. Box 902
Grand Cayman, KY-1103
Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY'S WEBSITE

www.hexieauto.com

STOCK CODE

3836

Chairman's Statement

Dear Shareholders,

I, on behalf of the board of directors of China Harmony Auto Holding Limited (the "**Company**" or "**We**", the "**Board**"), am pleased to present the 2020 annual report of the Company and its subsidiaries (the "**Group**").

2020 was an unusual year destined in human history. Facing the severe and complicated international politics and economic landscapes and the arduous reform and development drive in China, the Chinese government, despite the impact of the COVID-19 pandemic, with a sober mind of the international situation, launched the economic policy featuring big domestic circle, supplemented by the international circle, in the aim of expanding domestic demand and focus on the domestic market in China, making China the only major economy recording positive growth in GDP in 2020.

In the post-pandemic times, China's consumption upgrading is blooming, with accumulating drivers. Furthermore, stimulated by favorable policies, the Group will stay ready to embrace the rising consumption tide.

SUMMARY OF OPERATION

Confronting the tough test of the COVID-19 pandemic in 2020, the Group scored the best ever achievements, recording a moderately rapid growth in the core operation indicators.

(1) In terms of scale, the sales of new vehicles scored 36,573 units in 2020, representing an 11.5% year-on-year, outnumbering the industry average, with the total revenue standing at RMB15.09 billion (commissions inclusive), up 16.8% year on year.

(2) In terms of profits: the net profit (excluding of the non-recurring items) amounted to RMB506.3 million in 2020, representing a 31.3% year-on-year increase, showing rising operating efficiencies.

(3) In terms of stability: the net cash from the operating activities was RMB799.5 million, representing a 239.0% year-on-year increase.

(4) In terms of efficiency, the inventory turnover days reduced further to 32 days, a decrease of 5 days year on year.

(5) In terms of network extension, we increased as many as 10 new sites in 2020, of which, 5 for BMW, 3 for Bentley, 1 for Ferrari, and 1 for Lincoln, mainly concentrated on China's new first-tier and second-tier cities.

DEVELOPMENT STRATEGY

Great ideas make great business. The Group's long-term development strategy features one focus and two branches, which supplement each other.

One focus: namely, the focus on the operation of 4S stores of luxury and ultra-luxury brands and the brand advantage. In this segment, the Group recorded the best ever achievements, securing the increase in both quantities and profits and improving refinement. In Q4 of 2020, we introduced the full-cycle management model for customer's vehicles, which extended the value chain of the vehicles, and served as the pole star for our future development.

Two branches: several years ago, we started to secure presence in two segments of new energy vehicles and eyed at the establishment of an ecological system, covering the manufacturing and sale at the front terminal of the life cycle and the service maintenance at the rear terminal of the life cycle. Among them, in terms of new energy vehicles manufacturing, BYTON is committed to shaping an intelligent terminal, and the capacity of the factories enjoying the industrial intelligence 4.0 have an annual capacity of up to 150,000 units, which can be expanded to 300,000 units as required, and it will achieve mass production not later than Q1 of 2022. Furthermore, in terms of the sale and aftersales fields, Dangdang Auto Maintenance is dedicated to having in place a network for the sale and aftersales services of new energy vehicles. It has forged strategic cooperation relationships with 10 brands, including NIO, Tesla, Xpeng, Lixiang, and other six brands. At present, it has 50 sites nationwide. BYTON and Dangdang Auto Maintenance have been separated from the Group and they operate independently, and the Group takes the two business segments as financial investments.

Mutual supplement: after the launch of BYTON in the market, the Company will be responsible for the main sales channels, which will be served as strong support for our core business. The aftersales services for BYTON will also be mainly offered by Dangdang Auto Maintenance. The business of the three parties is independent of each and mutual supplement and support.

OPERATING PHILOSOPHY

In terms of corporate management and operating philosophy, we are committed to enriching and equipping us in the following four dimensions:

One standard, it means that we are committed to performance as the only standard for measuring work;

Two first, i.e. competence first and performance first;

Three reforms, i.e. horizontal organizational structure reform, budget target reform and performance and remuneration reform;

Four cultures, i.e. simplicity, efficiency, enjoying and all in.

Commitment to performance as the only standard for measuring work provides us with the criterion and base to judge matters related to our operations.

Competence first and performance first serve as the lifeline of the Group. To stretch our strengths for better performance and contributions to our shareholders, the Group, and the rest of the society are the foundation for our survival.

Chairman's Statement

Reform is always the lasting topic of the times. To change or to be forced to change represents an issue facing each of the managers of the Group. In 2021, the Group will seek changes by the in-depth reform in the following three levels:

(1) The Company's horizontal organizational structure reform will break the inherent model and focus on corporate high-efficiency operation management. That means we must stress efficiency against every single second so as to offer a mechanism guarantee for the Group in competitions.

(2) Budget target reform will return to the essence of the budget and set goals to stimulate our travel ahead. We must as much as possible forecast the operating condition of 2021 according to our actual business data. To make it happen, we will, starting with the internal driving force of stores, transfer from the attitude of "I am asked to work" to "I want to work". The change is about target focus and the great enhancement in the subjective initiative. We will launch the brands weekly and stores daily with the 6 major business indicators as the standard. Guided by the 6 major business indicators, we will improve the business progress examination system and have in place the target system of multiple indicators in phases. We will put the data withdrawal path under strict control, and be strict with the target timeliness and process control.

(3) Performance and remuneration reform. That means we will guide and encourage general managers to get rid of the misunderstanding "lower targets means greater benefits". For that, we will encourage those competent to work more for more gains for sure using the new proposal. This will allow 4S stores to return to meritocracy in the operation and to be committed to the operating philosophy of the Group "performance first and competence first" for stretching their potential and mobilizing all positive forces.

With the sound implementation of one standard, two first, and three reforms, the corporate culture of the Group featuring simplicity, high efficiency, enjoying and all in will be fully manifested, leading us to head forward.

CONCLUSIONS

The facts prove that the only path is to return to common sense and stick to general business. The Group will continue to provide customers with satisfactory products and services. Based on the extended value chain of customers' demand, we will maintain and expand customer groups for sustainable development.

2021 will come with opportunities and challenges. We will head forward with great practical efforts by stretching internal potential for high-growth performance. Also, I, on behalf of the Group, would like to thank all the Shareholders and partners of the Group, and let's join each other for better business performance!

Management Discussion and Analysis

INDUSTRY OVERVIEW

China's automobile industry underwent a tough and challenging year of 2020. The outbreak of COVID-19 pandemic in the first quarter brought the production and sales activities to a standstill, thus resulting in a slump of retail sales volume of passenger cars in the first half of the year. With the successful control over the contagion of the pandemic, China's economy was quickly returned to normal since the second quarter. In a bid to regain the steam of economic growth in the post-pandemic era, the central government doubled down on boosting automobile consumption with an array of supporting policies, such as license plates limit relaxation in some tier-1 cities and subsidies for the automobile replacement in the countryside, which helped unleash the pent-up demand for passenger cars, leading to a robust recovery in the second half. According to the data from China Passenger Cars Association ("**CPCA**"), while China's passenger cars market extended the downturn in 2020 with the retail sales of 21 million units for the full year, representing a year-on-year contraction of 6.8%-the third year in a row of decline since 2018, the luxury brands segment underlined a bright spot where retail sales volume in 2020 was 2.5 million units, or a 14.7% growth from 2019, presenting a strong resilience.

Given the backdrop of COVID-19 pandemic in 2020 that wreaked havoc on the global automobile industry, China, again, represented a significant importance to the majority of luxury brands' global sales performance. For instance, BMW and Lexus posted a 7.2% and 6% sales volume decline respectively in 2020 for their global markets, whereas China was one of the few regions that contributed volume growth to the brands. The Group believe that China's on-going consumption upgrade trend in favor of our brands portfolio will remain intact, although the country's economy is still facing great uncertainties caused by the tight Sino-US relations. At present, the penetration of luxury brands in China was merely around 12%, far less than the rate in some matured markets, which implies there is still plenty of headroom for the growth of luxury brands in China in the foreseeable future. In addition, the increasing contribution from replacement demand taking place in tier-1 and tier-2 cities in China will also be a tailwind to the luxury brands consumption going forward.

Since China has made a great commitment to achieving carbon neutrality in the long run, new energy vehicles ("**NEV**"), due to their low carbon emission, will play a vital role in helping China reach this long-term goal. Data from CPCA revealed that electric vehicles ("**EV**"), the major type of NEV, saw a robust comeback in 2020 at 10% growth from 2019 for the retail sales volume, much faster than the tepid growth of 0.8% in 2019. The acceleration of EV sales this time was mainly demand-led, rather than policy-driven, which is healthier and more sustainable in the longer run. At the end of 2020, EV uptake in China was only about 6% of the new cars registration for the year, and thus it will see a huge upside potential in the near future as the 14th Five-Year Plan from the central government has set the target of 20% of EV penetration by the end of 2025. We believe that with the emergence of sought-after EV models, plus the increasing availability of charging facilities, more and more potential car buyers will turn their eyes to EV, which will help bring a tipping point to China's EV consumption and will also create a new eco-system for dealership.

Management Discussion and Analysis

BUSINESS OVERVIEW

Continuing to unleash the potential of our core business by investing more in self-operated outlets and conducting M&A strategies in the due course

As of the end of 2020, the Group has a total number of 75 authorized dealership outlets distributing 13 luxury and ultra-luxury brands, with the geographic coverage of 37 cities in 13 provinces across the country. The Group's brands portfolio consists of 9 luxury brands, namely BMW, Lexus, Volvo, Audi, Mini, Jaguar, Land Rover, Lincoln, and Alfa Romeo, and 4 ultra-luxury brands, namely Bentley, Rolls Royce, Ferrari, and Maserati.

There are currently some authorized outlets from BMW, Lexus, and Ferrari brands in the Group's pipeline, most of which will be operated in tier-1 and tier-2 cities in China. The strategic layout of the Group's outlets in the central parts of China will continue to play a vital role to sustain our business growth in the future. Meanwhile, the Group has been recently extending the business footprint into the western and eastern parts of China in a bid to tap the great potential of new cars and replacement demand over there. We believe our enduring effort to consolidate and expand our outlets coverage will help further grow our brand awareness and market presence in China.

The principal business will continue to play as a key driver for the Group's development. Through proactively optimizing the outlets portfolio, improving the personnel assessment indicators, and adopting more digitalization to facilitate our inventory management and customer relationship management, the Group will be dedicated to enhancing efficiency and profitability of outlets, thus delivering a better return on our core business.

The consumption upgrade in China is flourishing and gathering steam in the post-pandemic era. This will fuel the boom of luxury cars segment, which will be a tailwind to our core business. We believe we are capable to deliver a decent performance on a sustainable basis by leveraging our experience in distributing luxury cars for years and carrying out M&A plans in due course.

New cars sales volume maintained robust growth momentum despite the automotive demand hit hard by the COVID-19 pandemic

For the year ended December 31, 2020, the Group achieved the total sales volume of 36,573, or a 11.5% year-on-year increase from 2019 amid the hardship caused by the COVID-19 pandemic. As the largest dealer of BMW in the central and western regions of China and one of the leading dealers in the country, the Group sold 27,774 units under BWM brand (including Mini brand) in 2020, representing a year-on-year increase of 8.1%. The Group also gathered steam in selling Lexus, with the sales volume soaring by 17.8% from 3,821 units in 2019 to 4,502 units in 2020. For the ultra-luxury brands, we also made a great accomplishment during the Reporting Period. For instance, the Group's sales volume of Bentley saw a huge jump at 213.2% from 2019, which implied a huge growth potential for ultra-luxury brands segment in China.

Preparing the ground for the transition of dealership toward the future of NEV

2020 can be viewed as a remarkable year for the NEV development in China. Passenger NEV showed a strong rebound in the post-pandemic automobile consumption with the rise in uptake, due to the favorable policy support. In addition, the localization of Tesla's Model 3 and Y, coupled with the competition from the newcomers, such as Nio, Xpeng and Lixiang, will fuel the vehicles electrification in the domestic market. We have a faith that the transition toward NEV will bring both opportunities and challenges to the business of dealership. As a first mover among traditional dealers to embrace the electrification, the Group has extended its business footprint into the field of NEV, which includes our strategic investment in Byton — a premium brand focusing on "Automation, Connectivity, Electrification, and Shared mobility" (ACES), and Dangdang Car Repair — an O2O platform that specializes in the sales and aftersales services provision for NEV brands, such as Nio, Xpeng, and Lixiang.

Business outlook and development strategy

First and foremost, the Group will continue to dig out the potential of our principal business — the dealership of luxury and ultraluxury brands. We see that there has been much headroom for the potential growth in this racing path as the automobile consumption in China has been remarkably reversing to higher tier cities in the recent years, where the luxury brands will be highly sought-after due to stronger economic growth and greater disposal income of local citizens. With the advantage that our brand portfolio has captured some fast-growing luxury and ultraluxury brands in China, such as BMW, Lexus, Volvo, Rolls Royce, and Bentley, we believe that we are capable to further drive the profitability by concentrating on the improvement of operating efficiency, i.e., cash flow and inventory management, and by carrying out M&A strategies in due course to consolidate and expand our market presence.

In addition, as the used cars market, the niche segment that has been underdeveloped for years in China, is facing the policy tailwind, the Group will continue to grow our used cars business to further optimize our revenue source.

Transition toward NEV has been put to the strategic height of the Group. We will continue to make efforts to explore the new business model for traditional dealership in the world of electrification. The Group will nurture the investment in Byton and Dangdang Car Repair and seek to unlock their value in due course.

FINANCIAL OVERVIEW

Revenue

Revenue of the Group was RMB14,746.9 million for 2020, representing an increase of 16.8% as compared with RMB12,621.8 million for 2019. The growth of revenue in 2020 mainly due to (i) the increase in numbers of key brands stores and (ii) the recovery of the market in the second half of the year.

Revenue from sales of new vehicles amounted to RMB12,893.0 million, representing an increase of 18.2% from 2019. Revenue from after-sales and accessories business amounted to RMB1,818.2 million, accounting for 12.3% of the total revenue, and representing an increase of 7.9% as compared to the year ended 31 December 2019.

Cost of sales and services

Cost of sales and services of the Group for 2020 amounted to RMB13,448.1 million, representing an increase of 16.6% from 2019. Among them, the cost of new vehicles sales in 2020 was RMB12,444.5 million, representing an increase of 17.5% from RMB10,589.3 million recorded in the corresponding period in 2019. The cost of after-sales services in 2020 was RMB1,003.6 million, representing an increase of 6.1% from RMB945.5 million recorded in the corresponding period in 2019. The reason for the increase in costs this year is mainly due to the increase in business volume for both new vehicles sales and aftersales service business.

Gross profit and gross profit margin

Gross profit of the Group was RMB1,298.8 million for 2020, representing an increase of 19.5% as compared with RMB1,087.1 million in 2019. Among them, due to the market recovery after COVID-19 pandemic impact this year, the gross profit of new vehicle sales in 2020 was RMB448.5 million, representing an increase of 38.8% compared to 2019. The gross profit of after-sales service in 2020 was RMB814.5 million, representing an increase of 10.0% compared to 2019.

Gross profit margin of the Group in 2020 was 8.8%, representing an increase of 0.2% from 8.6% recorded in the corresponding period in 2019. Among them, the gross profit margin of the sales of new vehicles in 2020 was 3.5%, representing an increase of 0.5% compared to 2019. The gross profit margin of after-sales service in 2020 was 44.8%, representing an increase of 0.9% compared to 2019.

Selling & Administrative expenses

In 2020, selling and administrative expenses of the Group amounted to RMB888.3 million, representing an increase of 9.0% from RMB814.6 million in 2019 which was mainly due to the growth of volume in both new vehicle sales and after sales business.

Other income and gains, net

Other income and gains, net of the Group amounted to RMB339.5 million in 2020. Compared to RMB530.6 million in 2019, the decrease in 2020 was mainly resulted from the fair value change of Future Mobility Corporation Limited Cayman ("**FMC**").

Other income and gains mainly comprises the commission income (from insurance agency and vehicle financing agency service), gains on trading of second-hand vehicles, income from advertisement support from automobile manufacturers, interest income, gain on disposal of assets as well as fair value gain on financial assets at fair value through profit or loss.

Finance costs

The Group's finance costs for 2020 was RMB134.1 million, representing an increase of 21.9% from RMB110.0 million for 2019. This was mainly due to the increase in average borrowing caused by the opening of several new stores by the Group in 2020 and the overall growth of business volume.

Profit for the year attributable to the owners of the Company

The Group's profit for the year attributable to owners of the Company for 2020 was RMB410.7 million. Among which, excluding the impact of non-recurring items, profit for the year attributable to owners of the Company for 2020 amounted to RMB494.9 million, representing a growth of 32.7% as compared to the corresponding period of 2019.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

The Group's primary uses of cash are to pay for the purchases of passenger vehicles, spare parts and automobile accessories, to establish new dealership outlets and to fund our working capital and operating expenses. The Group's liquidity needs were mainly financed through a combination of short-term bank loans and cash flows generated from its operating activities.

As at December 31, 2020, cash and bank balances of the Group totaled RMB1,714.3 million (2019: RMB 1,362.1 million).

In 2020, our net cash generated from operating activities was RMB799.5 million, net cash used in investing activities was RMB230.3 million, and net cash used in financing activities was RMB208.5 million.

Considering the Group's existing cash and cash equivalents, anticipated cash flow from the operating activities, available bank facilities and other borrowings, the Board believes that the Group's liquidity needs can be satisfied.

Net current assets

As at December 31, 2020, the Group had net current assets of RMB1,954.7 million, decreased by 3.0% as compared to RMB2,014.7 million as at December 31, 2019, which was mainly due to the impairment of FMC.

Capital expenditure

In 2020, the Group's capital expenditure was RMB404.6 million, which was primarily used for the expenditure and prepayment for purchase of items of property, plant and equipment in connection with the establishment of new outlets as well as the acquisition of subsidiaries.

Inventories

The Group's inventories primarily consist of new passenger vehicles, spare parts and automobile accessories. Inventories decreased by 13.3% from RMB1,261.9 million as at December 31, 2019 to RMB1,093.6 million as at December 31, 2020.

The Group's average inventory turnover days for 2020 were 32 days, decreased by 5 days as compared to 2019. The decrease in inventory and inventory turnover days was mainly due to the effective inventory management.

Bank loans and other borrowings

As at December 31, 2020, the Group had bank loans and other borrowings in the aggregate amount of RMB2,604.4 million, representing a year-on-year increase of 4.4% as compared to RMB2,493.7 million as at December 31, 2019.

	2020 **RMB'000**	2019 RMB'000
Bank loans repayable:		
Within one year	**1,826,745**	1,486,503
Other borrowings repayable:		
Within one year	**777,665**	1,007,196
	2,604,410	2,493,699

As at December 31, 2020, the gearing ratio of the Group, calculated by total liabilities divided by total assets, was 38.9%, representing an increase of 3.0% as compared with that of December 31, 2019.

As at December 31, 2020, certain of the Group's bank loans and other borrowings were secured by mortgages or pledges over the Company's assets. The Company's assets which were subject to these mortgages or pledges as at December 31, 2020, mainly consisted of (i) inventories in the amount of RMB431.0 million; (ii) property, plant and equipment in the amount of RMB11.1 million, and (iii) land use rights in the amount of RMB5.1 million. In addition, certain of the Group's bank loans and other borrowings were mainly guaranteed by certain Directors of the Company, the Group's subsidiaries or legal representative of certain subsidiaries of the Company as at December 31, 2020.

Contingent liabilities

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

Interest rate risk and foreign exchange risk

The Group is exposed to interest rate risk resulting from fluctuations in interest rate on the debt. Increases in interest rate could result in an increase in the Group's cost of borrowing. If this occurs, it could adversely affect the Group's finance costs, profit and the Group's financial condition. The interest rates on bank loans and overdrafts in China depend on the benchmark lending rates published by the People's Bank of China. The Group does not currently use any derivative instruments to manage its interest rate risk.

All of the Group's revenue, cost of revenue and expenses are denominated in Renminbi. The Group also uses Renminbi as its reporting currency. The Group is of the view that its operations are currently not subject to any significant direct foreign exchange risk and has not used any derivative financial instruments to hedge its exposure to risks.

Employees and remuneration policies

As at December 31, 2020, the Group had a total of 4,206 employees (2019: 3,589). The increase in the number of employees is mainly due to the expansion of the Company's business.

Relevant staff cost for 2020 was approximately RMB352.8 million (including employee share incentive of RMB26.2 million), while the staff cost was approximately RMB380.2 million for 2019 (including employee share incentive of RMB85.6 million). The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to success of the Group's operations. Eligible participants of the share option scheme include employees of the Company and its subsidiaries. The share option scheme became effective on June 26, 2015, and unless otherwise cancelled or amended, will remain in force for ten years from that date. As at December 31, 2020, the Company had 44,691,000 share options outstanding under the share option scheme, which represented approximately 2.8% of the Company's share in issue as at that date.

The Group will regularly review its compensation policies and employee benefits with reference to market practices and individual performance.

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended December 31, 2020.

CORPORATE GOVERNANCE PRACTICES

The Board has committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Company to formulate its business strategies and policies, and to enhance its transparency and accountability.

For the year ended December 31, 2020, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**" or "**Hong Kong Stock Exchange**").

The Board will continue to review and monitor the corporate governance practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions.

All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code for the year ended December 31, 2020.

Corporate Governance Report

BOARD OF DIRECTORS

As at the date of this report, the Board of the Company comprises the following directors:

Executive Directors:
Mr. FENG Changge *(Chairman)*
Mr. LIU Fenglei *(President)*
Ms. MA Lintao *(Vice-president)*
Ms. FENG Guo *(Vice-president)*
Mr. HAN Yang *(Vice-president)*

Independent Non-executive Directors:
Mr. WANG Nengguang
Mr. LAU Kwok Fan
Mr. CHAN Ying Lung

The biographical details of the Directors are set out in the section headed "Directors and Senior Management" of this annual report. The relationships between the members of the Board are also disclosed under that section.

Chairman and President

The position of Chairman is held by Mr. FENG Changge and that of President, is held by Mr. LIU Fenglei. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The President focuses on the Company's business development and daily management and operations generally.

Independent Non-executive Directors

During the year ended December 31, 2020, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Directors' Appointment and Re-election

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the Directors of the Company has entered into either a service agreement or a letter of appointment with the Company for a term of three years subject to retirement by rotation in accordance with the articles of association (the "**Articles of Association**") of the Company.

In accordance with the Articles of Association, all Directors are subject to retirement by rotation and re-election at an annual general meeting at least once every three years and any Director appointed to fill a casual vacancy shall hold office until the first general meeting and any Director appointed as an addition to the Board shall hold office only until the next annual general meeting and shall then be eligible for re-election at that meeting.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board shall take decisions objectively in the interests of the Company.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company. The Directors may, upon request, seek independent professional advice in appropriate circumstances for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors shall keep abreast of their responsibilities as a Director and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of a Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and appropriate.

The Company had from time to time provided relevant reading materials including industry updates and corporate governance to all Directors for their reference and studying. This is to ensure that all the Directors are sufficiently aware of their responsibilities under the Listing Rules and other relevant regulatory requirements.

In addition, all the Directors of the Company had participated in various trainings and/or read materials of relevant topics, including:

– Corporate strategic management/Corporate operational management

– Financial strategic management

– Investment strategies

– Research on audit development strategies

The Company understands that the Directors should participate in appropriate continuous professional development programs to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

BOARD COMMITTEES

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

The majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

Audit Committee

The Company established the Audit Committee on May 20, 2013 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and code provision C.3.3 of the CG Code and terms of reference amended on August 31, 2016 and March 29, 2019.

The Audit Committee consists of three members, namely Mr. Wang Nengguang (chairman), Mr. Lau Kwok Fan and Mr. Chan Ying Lung, all of whom are independent non-executive Directors of the Company (including one independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control and risk management systems, audit plan and relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee held 4 meetings to review interim and annual financial results and reports during the year ended December 31, 2020 and significant issues on changes related to the financial reporting and compliance procedures, internal control and risk management systems, the effectiveness of the internal audit function, scope of work and engagement of external auditors.

The Audit Committee also met the external auditors once without the presence of the executive Directors.

Remuneration Committee

The Company established the Remuneration Committee on May 20, 2013 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and code provision B.1.2 of the CG Code.

The Remuneration Committee consists of three members, namely Mr. Chan Ying Lung (chairman) and Mr. Lau Kwok Fan, both being independent non-executive Directors; and Mr. Liu Fenglei, an executive Director.

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee held 2 meetings during the year ended December 31, 2020. During the meetings, the Remuneration Committee reviewed and advised on the remuneration packages of the executive Directors and senior management and proposed new independent non-executive director and grant of share awards and made recommendations to the Board.

Nomination Committee

The Company established the Nomination Committee on May 20, 2013 with written terms of reference in compliance with code provisions A.5.1 and A.5.2 of the CG Code.

The Nomination Committee consists of three members, namely Mr. Feng Changge (chairman), an executive Director, and Mr. Wang Nengguang and Mr. Chan Ying Lung, both being independent non-executive Directors.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

The Company firmly believes that the increasing diversity at the board level is one of essential elements in supporting the attainment of its strategic objectives and its sustainable development, therefore, the Company has adopted a Board Diversity Policy in accordance with the requirement set out in the CG Code.

Various factors in relation to diversity of the members of the Board, including but not limited to: gender, age, culture and education background, professional experience, skills, knowledge and industry and region experience and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate. After the review and assessment, the Nomination Committee will make recommendation to the Board. The Nomination Committee also discusses and makes decision (if required) to attain the measurable targets of diversity of the members of the Board, and propose relevant recommendations to the Board.

In evaluating and selecting any candidate for directorship, the Nomination Committee and/or the Board shall consider the following criteria, including, but not limited to, character and integrity, qualifications including professional qualifications, skills, knowledge and experience relevant to the Company's business and strategy, and diversity elements mentioned in the Board Diversity Policy, any measurable targets adopted for attaining diversity of the members of the Board and willingness and ability to devote adequate time to discharge duties as a member of the Board and committees under the Board.

Nomination process of directors of the Company is as follows: -

(a) Appointment of new directors

(i) The Nomination Committee and/or the Board may select candidates for directors from various channels, including but not limited to internal promotion, re-designation, referral by other members of the management and external recruitment agents.

(ii) The Nomination Committee and/or the Board shall, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

(iii) If the process yields one or more desirable candidates, the Nomination Committee and/or the Board shall rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

(iv) The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.

(v) For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the Nomination Committee and/or the Board shall evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Where appropriate, the Nomination Committee and/or the Board shall make recommendation to shareholders in respect of the proposed election of directors at the general meeting.

(b) Re-election of director at general meeting

(i) The Nomination Committee and/or the Board shall review the overall contribution and service to the Company of the retiring director and the level of participation and performance on the Board.

(ii) The Nomination Committee and/or the Board should also review and determine whether the retiring director continues to meet the criteria as set out above.

(iii) The Nomination Committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

The Nomination Committee held 1 meeting during the year ended December 31, 2020 to review the structure, size and composition of the Board, the independence of the independent non-executive Directors, to consider the qualification of the retiring Directors standing for re-election at the Annual General Meeting, and recommended the retiring Directors and the appointment of a new director to the Board .

Corporate Governance Functions

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

The Board reviewed the Company's corporate governance policies and practices, 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 of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Attendance Record of Directors and Board Committee Members

The attendance record of each Director at the Board meetings and Board committee meetings of the Company held during the year ended December 31, 2020, is set out in the table below:

Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Mr. FENG Changge	10/10	—	—	1/1	1/1
Mr. LIU Fenglei	10/10	—	2/2	—	1/1
Ms. MA Lintao	7/10	—	—	—	1/1
Ms. FENG Guo	7/10	—	—	—	1/1
Mr. HAN Yang	7/10	—	—	—	1/1
Mr. WANG Nengguang	5/10	4/4	—	1/1	1/1
Mr. LAU Kwok Fan	5/10	2/2	—	—	1/1
Mr. CHAN Ying Lung (appointed on March 27, 2020)	2/7	2/2	—	—	0/1
Mr. LIU Zhangmin (resigned on March 27, 2020)	2/3	2/2	2/2	—	—
Mr. XUE Guoping (resigned on March 27, 2020)	2/3	2/2	2/2	1/1	—

Apart from regular Board meetings, the Chairman also held a meeting with the independent non-executive Directors without the presence of executive Directors during the year ended December 31, 2020.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group for the year ended December 31, 2020.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

AUDITOR'S REMUNERATION

An analysis of the remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended December 31, 2020 is set out below:

Service Category	Fees Paid/ Payable *RMB'000*
ZHONGHUI ANDA CPA Limited	
Audit Services	
— Current year	5,300
— Under provision in prior year	650
Non-audit Services	560
Deloitte Touche Tohmatsu	
Remuneration paid to ex-auditor	1,580
Total	8,090

RISK MANAGEMENT AND INTERNAL CONTROL

During the year under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control systems of the Company, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. In response to the advice from the legal counsel of the Independent Board Committee, the Company has hired an independent Internal Control Consultant to review the Company's internal control process. The Directors consider that the Group's existing risk management and internal control systems are overall effective and adequate, and they also accepted the improvement suggestions put forward by the Internal Control Consultant.

The Group's internal audit department plays an important role in monitoring the internal governance of the Company. The major duties of internal audit department are to regulate and review the internal control and compliance related matters of the Company and conduct comprehensive audits of all branches and subsidiaries of the Company on a regular basis. The Group's internal audit department performs regular evaluation on the effectiveness of risk control measures taken by each operating department and issues an appraisal report which shall be submitted to our Audit Committee for approval.

The Company has established a risk management process, pursuant to which each operating department is required to identify any significant risks associated with their work and corporate strategies of the Company. Based on the assessment of the identified risks in terms of their likelihood and potential impact, the Company prioritizes and pairs each risk with a mitigation plan. Furthermore, any emergencies are required to be reported, evaluated and managed in time to mitigate the impact.

The Group has established a three-tier risk control corporate structure in implementing our internal control and risk management policies and procedures. First, the Board and the senior management oversee and manage the overall risks associated with our business operations. Second, the Audit Committee provides the Directors with an independent review of the effectiveness of the financial reporting process, internal controls, and risk management system of the Group. Third, the Group's internal audit department supervises the implementation of our risk management policy at the corporate level and organizes an annual audit progress for regularly evaluating the effectiveness of the risk management and internal control measures taken by each operating department and issues an appraisal report which shall be submitted to the Audit Committee for approval.

The Board is responsible for the management of inside information. Without the approval of the Board, the Company prohibits any inside information from being disclosed to the public.

COMPANY SECRETARY

Ms. WONG Wai Yee, Ella of Tricor Services Limited, an external service provider, was engaged by the Company as its company secretary on January 24, 2018. She has taken no less than 15 hours of relevant professional training during the year ended December 31, 2020 in compliance with the relevant requirements on training of Rule 3.29 of the Listing Rules.

The primary contact person of the Company is Ms. CHEN Ran, the Board Secretary of the Company.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions proposed at general meetings will be voted by poll pursuant to the Listing Rules, unless otherwise required by the Listing Rules and poll voting results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting and Proposing Resolutions at Extraordinary General Meetings by Shareholders

Pursuant to Article 58 of the Articles of Association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If, within twenty-one days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Shareholders should follow the requirements and procedures as set out above for proposing resolutions at extraordinary general meetings of the Company.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company normally does not deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Suites 1001-1004 on level 10, One Pacific Place, 88 Queensway, Admiralty, Hong Kong
Tel: (852) 2251 1830
Fax: (852) 2251 1823
Email: hk@hexieauto.com

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor's understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings ("**AGM**") and other general meetings.

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 chairmen of the Nomination Committee, Remuneration Committee and Audit Committee (or their delegates) will make themselves available at the AGM to meet shareholders and answer their enquiries.

The notice of AGM will be despatched to shareholders at least 21 clear days and 20 clear business days before the AGM in accordance with the Articles of Association of the Company and the CG Code.

To promote effective communication, the Company maintains a website at www.hexieauto.com where up-to-date information and updates on the Company's financial information, corporate governance and other information are posted.

During the year ended December 31, 2020, the Company has not made any changes to its Articles of Association. An up-to-date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

The company has adopted a dividend policy for the payment of dividends. The company does not preset dividend payment ratio. Based on the financial situation of the Group and other conditions and factors stipulated in the dividend policy, the Directors may propose and/or declare dividends during the financial year, but the final dividend of the year must be approved by the Company.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

FENG Changge ("Mr. FENG"), aged 50, is an executive Director, the Chairman of the Board, the Chairman of the Nomination Committee, and a director of Eagle Seeker Company Limited, a substantial shareholder of the Company. Mr. FENG was appointed as an executive Director of the Company on September 24, 2012 and is responsible for the overall strategic and business direction of the Group. He is the founder of the Group, and has been in the automobile industry since 2005 when he founded Henan Zhongdebao Automobile Sales & Services Co., Ltd ("**Zhongdebao**"). Zhongdebao is a wholly-owned subsidiary of the Company and the first BMW dealership outlet in Henan Province. Mr. FENG graduated with a bachelor's degree in economic law from Central South Institute of Law (中南政法學院) (now known as Zhongnan University of Economics and Law (中南財經政法大學)) in 1992 and received a master's degree in law from the same institution in 2001. After graduation in 1992, Mr. FENG entered the judiciary in Henan Province, serving as assistant judge and judge of the Higher People's Court of Henan Province (河南省高級人民法院). In 2002, Mr. FENG left the judicial system and established a law firm, while at the same time starting various business enterprises. He became involved in real estate investment through his vehicle, Yuanda Investment, and was also involved in the auction and valuation businesses. He is also the controlling shareholder of Hexie Industrial Group, a privately owned group headquartered in Zhengzhou Henan Province, China, with business interests focusing on branded and luxury lifestyle goods and services, including property development, golf courses and automobile sales. Over the past three years, Mr. FENG has not been a director of any other listed companies. Mr. FENG is the husband of Ms. MA Lintao and the uncle of Ms. FENG Guo.

LIU Fenglei ("Mr. LIU"), aged 45, was appointed as an executive Director and chief executive officer of the Company on October 19, 2015. He is currently a member of the Remuneration Committee of the Company. Mr. LIU is one of the founders of the Group. He has approximately 16 years' experience in China's automobile industry. He obtained a Bachelor degree of commercial English from Zhengzhou University (鄭州大學) in 1998. He joined the Group in February 2003 and worked at Henan Zhongdebao Automobile Sales & Service Co., Ltd. (河南中德寶汽車銷售服務有限公司) as the assistant to the chairman of the board of directors. From August 2006 to April 2013, he was the general manager of Zhengzhou Yuanda Lexus Automobile Sales & Services Co., Ltd. (鄭州遠達雷克薩斯汽車銷售服務有限公司). From April 2013 to October 2015, he was the senior vice president of the Company in charge of the Group's network development and luxury passenger vehicles' business. Over the past three years, Mr. LIU has not been a director of any other listed companies.

Directors and Senior Management

MA Lintao ("Ms. MA"), aged 53, was appointed as an executive Director on January 31, 2013 and is currently a vice-president of the Company. She is responsible for the Group's overall administrative matters and public relationships. Ms. MA graduated from Henan Institute of Finance and Economics (河南財經學院) (now known as Henan University of Economics and Law (河南財經政法大學) with a bachelor's degree in national economic planning and statistics in June 1992. From July 1992 to December 2003, Ms. MA worked in China Construction Bank Henan branch (中國建設銀行河南分行) in various positions such as director of the credit approval committee of the Zhengzhou branch office and vice-president of the Zhengzhou futures branch office, where she was responsible for matters such as credit assessment and approval and public and retail sales. Ms. MA joined our Group in September 2006 as the chairlady of Yuanda Lexus, our wholly-owned subsidiary. Over the past three years, Ms. MA has not been a director of any other listed companies. Ms. MA is the wife of Mr. FENG Changge.

FENG Guo ("Ms. FENG"), aged 39, was appointed as an executive Director and vice-president of the Company on August 31, 2017. Ms. FENG graduated with a degree in law from Zhengzhou University in July 2004, obtained a master's degree in business administration from Zhongnan University of Economics and Law in December 2009 and obtained an executive master degree in business administration from China Europe International Business School in July 2017. She joined the Group in March 2004 as a financial manager, and was appointed as a deputy general manager from March 2008 to September 2010 and was responsible for finance matters. In October 2010, Ms. FENG was appointed as the financial controller of the Company and was responsible for financial affairs of the Group, including financial budgeting, accounting, fund management, financial talent management and assistance in formulating various approval processes and policies as well as development objectives. Ms. FENG has rich experience in the operations of automobile distribution group, financial accounting, fund management and financial data analysis for luxury and ultra-luxury automobile brands. She was involved in establishing our partnership with BMW China in Henan Province and setting up Zhongdebao. Ms. FENG was also tasked with the development of automobile brands such as BMW, Land Rover and Rolls-Royce. Ms. FENG is the niece of Mr. FENG Changge. Over the past three years, Ms. FENG has not been a director of any other listed companies.

HAN Yang ("Mr. HAN"), aged 40, graduated from Beijing University of Technology with a degree of law in 2002. Mr. HAN joined the Group in April 2013, served as the sales director and responsible for the BMW brand. From March 2014 to July 2015, he was promoted to the general manager and was responsible for the operation of ultra-luxury brands. In July 2015, Mr. HAN was appointed as the Vice President of Harmony Auto, responsible for the operation of luxury and ultra-luxury brands of the Group (including assistance to the top senior management of the Group in formulating strategic plans for the next three to five years; organisation, formulation and review of the annual operational planning and budget for the dealerships under his management as well as supervision of their implementation; establishment of external connection with OEMs of each brand and discussion of business policies to timely adjust strategic direction; and assistance in formulating various approval procedures and systems as well as development goals). Mr. HAN has extensive experience in the operation of automobile dealership business, coordination between internal and external parties, resources sharing and integration, budget planning, management of luxury and ultra-luxury automobile brands and network development. Harmony Auto has been included by BMW China as one of its best partners, and Mr. HAN was also appointed as a member of the expert committee of its BMW Group. Mr. Han is also responsible for the development of automobile brands including BMW, Rolls Royce, Bentley, Land Rover, Maserati, Ferrari and Lincoln. In September 2020, Mr. HAN was appointed to be responsible for the development of Luxury and ultra-luxury brands of the Group

Independent Non-executive Directors

WANG Nengguang ("Mr. WANG"), aged 62, was appointed as an independent non-executive Director, chairman of the Audit Committee and a member of the Nomination Committee of the Company on February 4, 2019. Mr. WANG graduated from Party School of the Central Committee of C.P.C. (中共中央黨校) with a master's degree in economic management in July 2001. He is qualified as a senior accountant and a certified public accountant. From August 1991 to July 1992, he served as financial manager of China Record (Shenzhen) Co., Ltd. of Ministry of Broadcasting and Television (廣電部中唱深圳公司). From April 1994 to March 2001, he served as general manager of the financial department of Lenovo Group Limited (聯想集團), a company listed on the Stock Exchange (stock code: 992). From April 2001 to December 2003, he served as managing director and chief financial officer of Legend Capital Limited (聯想投資有限公司). From January 2004 to February 2012, he served as managing director and chief financial officer of Beijing Legend Investment Advisor Co., Ltd. (北京聯想投資顧問有限公司). From September 2012 to November 2015, he served as a non-executive Director of the Company. From April 2001 to March 2018, he served as managing director and chief financial officer of Beijing Legend Capital Management Co., Ltd. (北京君聯資本管理有限公司). From April 2018, he served as a director of Beijing Legend Capital Management Co., Ltd. (北京君聯資本管理有限公司). From May 2014 to May 2020, he served as an independent director of Digital China Information Service Company Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 000555.SZ).

Directors and Senior Management

LAU Kwok Fan ("Mr. LAU"), aged 39, was appointed as an independent non-executive Director on June 14, 2019 and is currently a member of the Audit Committee and Remuneration Committee of the Company. Mr. LAU was awarded a Bachelor of Arts degree in Public Administration and Management from De Montfort University in June 2006 and a Master of Arts degree in Sociology from the Chinese University of Hong Kong in December 2010. Mr. LAU is currently a member of the Legislative Council of Hong Kong. In February 2018 he was appointed by the Chief Executive of Hong Kong as a member of the Betting and Lotteries Commission. From 2008 to 2019, he was an elected member of North District Council and from November 2016, he was elected by the members of the Legislative Council to serve as a member of the university council of the Chinese University of Hong Kong. He was appointed as a member of the Commission On Youth of the Hong Kong government for the three terms commencing on 1 April 2010, 1 April 2013 and 1 April 2015, respectively, and was appointed as a member of the Council for Sustainable Development of the Hong Kong government for the two years' term commencing on 1 March 2015. Mr. LAU is also a member of the Beijing Committee of the Chinese People's Political Consultative Conference ("**CPPCC**") and a member of the Jiangmen Committee of the CPPCC. Mr. LAU is also an independent non-executive director of KNT Holdings Limited (stock code: 1025.HK), a company listed on the Stock Exchange of Hong Kong Limited since 31 January 2019.

CHAN Ying Lung ("Mr. CHAN"), aged 41, was appointed as an independent non-executive Director on March 27, 2020, who currently is the Chairman of the Remuneration Committee, a member of each of the Audit Committee and the Nomination Committee of the Company. Mr. CHAN has over 15 years of professional experience in research and investments. He has been with Henderson (China) Investment Company Limited as Investment Director/General Manager since November 2014. He is primarily responsible for reporting to Group Chairman and all (non-property) business strategy and development. He previously worked as an investment team head in private equity at CMS Capital (HK) Company Limited from November 2010 to November 2014. From August 2006 to October 2010, he was the vice president at CCB International Asset Management. Prior to that, he worked as a research analyst and responsible for mid-small capital research at China Everbright Research Limited.

Senior Management

ZHANG Lei ("Mr. ZHANG"), aged 41, graduated from Henan University of Finance and Economics majoring in financial accounting in June 2000, obtained a bachelor's degree in management from Zhongnan University of Economics and Law in December 2009, and obtained an executive master's degree in business administration from Zhengzhou University in July 2017. Mr. ZHANG has 17 years of experience in financial affairs in the automobile industry, and has been engaging in financial related works in the Company for 14 years. Mr. ZHANG served for Henan Zhongdebao Automobile Sales & Services Co., Ltd. from March 2005 to May 2011 as the head of accounting affairs and financial manager and the chief accountant of the Group since May 2011 and was appointed as the Chief Financial Officer of the Company since August 31, 2017. Mr. ZHANG is a qualified senior accountant.

Company Secretary

WONG Wai Yee Ella ("Ms. WONG"), aged 45, is a Director of Corporate Services of Tricor Services Limited ("**Tricor**"). Ms. WONG has over 20 years of experience in the corporate secretarial and compliance services field. Her practice focuses on business development and professional corporate services for multinational, private, listed and offshore companies. Ms. WONG is currently the company secretary/joint company secretary for a number of listed companies on Hong Kong Stock Exchange.

Ms. WONG is a Chartered Secretary, a Chartered Governance Professional and a Fellow of both the Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute. Ms. WONG holds a Bachelor of Economics from The University of Hong Kong and a Postgraduate Diploma in Corporate Administration from the City University of Hong Kong.

Directors' Report

The Directors are pleased to present this report together with the audited consolidated financial statements of the Group for the year ended December 31, 2020.

PRINCIPAL PLACE OF BUSINESS

The Company is a company incorporated in the Cayman Islands with limited liability where its registered office is located in the Cayman Islands. Its principal place of business and headquarter in PRC is located in Zhengzhou, Henan Province.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities and other particulars of the subsidiaries of the Company are set out in note 46 to the consolidated financial statements.

BUSINESS REVIEW

A review of the Group's business during the year, which includes a discussion of the principal risks and uncertainties facing by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year, and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 7 to 14 of this annual report. In addition, discussions on the Group's environmental policies and compliance with relevant laws and regulations which have a significant impact on the Group are also included in the Management Discussion and Analysis, Corporate Governance Report and Environment, Social and Governance Report of this annual report. The review forms part of this directors' report.

RESULTS AND DIVIDEND

The results of the Group for the year ended December 31, 2020 are set out in the consolidated financial statements.

The Board recommended the payment of a final dividend of HK7.9 cents per ordinary share for the year ended December 31, 2020, subject to the approval of such final dividend by the shareholders at the forthcoming AGM and if approved, the final dividend shall be paid on or before August 11, 2021 to the shareholders of the Company.

USE OF PROCEEDS FROM THE ALLOTMENT OF NEW SHARES

(1) On December 22, 2014, the Company entered into a subscription agreement with Foxconn (Far East) Limited ("**Foxconn**"), a wholly-owned subsidiary of Hon Hai Precision Industry Co. Ltd., pursuant to which Foxconn conditionally agreed to subscribe for an aggregate of 128,734,000 Shares with a nominal value of HK$0.01 each at the subscription price of HK$4.73 per Share. The net issue price per Share of the aforesaid subscription was approximately HK$4.67. On December 22, 2014, the closing price of the Shares of the Company was HK$5.31 per Share as quoted on the Stock Exchange. The allotment of the said Shares was completed on March 2, 2015.

(2) On January 9, 2015, the Company and Eagle Seeker Company Limited ("**Eagle Seeker**") entered into separate placing agreements with each of First Shanghai Securities Limited ("**First Shanghai**") and Haitong International Securities Company Limited ("**Haitong Securities**"), respectively, pursuant to which First Shanghai and Haitong Securities as the placing agents have agreed to severally, as agents of Eagle Seeker, procure placees to purchase a total of up to 90,113,000 Shares owned by Eagle Seeker at the price of HK$6.08 per Share. The net issue price per the new Share was approximately HK$5.90 per Share. On January 9, 2015, the closing price of the Shares was HK$6.15 per Share as quoted on the Stock Exchange. The placing and subscription were completed on January 13, 2015 and January 21, 2015, respectively. The Company used the net proceeds for investment in the manufacturing of new energy electric vehicles.

(3) On May 22, 2015, the Company, Mr. FENG Chengge and Eagle Seeker entered into a placing agreement with Credit Suisse (Hong Kong) Limited and Haitong (collectively, the "**Joint Placing Agents**"), pursuant to which the Joint Placing Agents have agreed to, as agents of Eagle Seeker, procure placees to purchase a total of up to 262,616,779 Shares owned by Eagle Seeker at the placing price of HK$8.18 per Share. The net issue price per the new Share was approximately HK$8.04 per Share. On May 22, 2015, the closing price of the Shares was HK$8.91 per Share as quoted on the Stock Exchange. The completion of the placing agreements of May 22, 2015 is subject to the entering into of the subscription agreement between the Company and Eagle Seeker which conditionally agrees to subscribe from the Company for an aggregate of up to 262,616,779 new Shares at the subscription price of HK$8.18 per subscription Share. The placing and the subscription were completed on May 27, 2015 and June 3, 2015, respectively. The Company used the proceeds as follows: (1) approximately 15% in supplement working capital; (2) approximately 20% in invest in GFMC and Aiche Company; (3) approximately 35% in invest in business opportunities in the field of new energy vehicles; (4) approximately 10% in the after-sales services center of Tesla Motors, Inc.; (5) approximately 20% in online and offline after-sales service.

(4) On 20 November 2019, the Company entered into the placing agreement with RaffAello Securities (HK) Limited, pursuant to which the Company conditionally agreed to place, through RaffAello Securities (HK) Limited on a best efforts basis, up to 52,000,000 placing shares to Successful Lotus Limited at a price of HK$3.00 per placing share. The placing price of HK$3.00 per share represents (i) a premium of 9.09% over the closing price of HK$2.75 per share as quoted on the Stock Exchange on the trading date immediately preceding the last trading day; and (ii) a premium of 8.77% over the average of the closing prices per share of HK$2.758 as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the last trading day. The maximum gross proceeds from the placing was approximately HK$156 million. The net proceeds, after the deduction of the placing commission and other related expenses, was approximately HK$150 million, representing a net issue price of approximately HK$2.88 per placing share. The Company intended to use the net proceeds raised from the placing for establishing long term partnerships with the Company's strategic partners and for the general working capital of the Company to meet running expenses. The Company considered that the placing represents a good opportunity to raise additional funds to strengthen the Company's financial position and to meet its financial obligations. It will also widen the Company's shareholder base and improve the liquidity of the shares. The placing of shares was completed on 2 December 2019. For further details, please refer to the announcement of the Company dated 20 November 2019.

As of December 31, 2019, approximately 65% of the net proceeds had been used for the general working capital. The unused portion (approximately 35%) has been used in 2020 for the general working capital.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Detail of the movement in the share capital of the Company during the year are set out in note 38 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at December 31, 2020, the Company's reserves available for distribution, subject to the Cayman Companies Law and the Articles of Association of the Company, amounted to RMB3,056.4 million (2019: RMB3,153.0 million).

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 39(b) to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

MAJOR RISKS AND UNCERTAINTIES

(1) Macro policies

As a pillar industry of the national economy, the auto mobile sector is considerably correlated to the volatile cycles of the macro-economy in terms of timing and extent. Being a dealer of luxury and ultra-luxury vehicles, the Group's operating conditions are more associated with the macro economic environment as compared to the industry. Currently, China's auto mobile market continues to hold out strong potential for development. However, if significant fluctuations occur in the auto industry as a result of cyclical developments in the macro-economy, the sales of whole-vehicle will be inevitably affected. As such, the Group is required to monitor any changes in the economic landscape in a timely manner and adjust its overall business planning, network development plans and marketing plans under different market conditions.

(2) Industry policies

The Group must comply with policies and regulations promulgated by the PRC government in its business operation. The alterations in the finance system of China, for instance, the introduction of new tax and increase in tax rate, may affect the profit of the Group. The acceleration in promotion and application of new energy automobiles by the Chinese government may also exert impact on the automobile industry. On the other hand, the limits or other measures imposed by local governments may have an influence on the sales of passenger vehicle, which in turn controls the number of the passenger vehicles in the cities where the network of the Group are located. As a result, the Group will monitor closely any developments in government policies on our industry, while enhancing our service standards on an ongoing basis to address any risks arising from changes in industry policies.

(3) Automobile manufacturers' policies

As an automobile dealership group, the Group maintains sound cooperation with branded automobile manufacturers. The Group generates the majority of the revenue from operation of dealership outlets, which relies on the authorization from manufacturers on operating our existing dealership outlets and establishing new outlets. Changes in the policies of such manufacturers might result in changes in the sales strategies for their brands, sales incentives and business policy support for us, and such changes might lead to a decrease in products sales and revenue. Hence, the Group will actively enhance communication with the manufacturers and continue to adopt a development strategy that covers a diverse range of brands.

(4) Market competition

The Group competes not only with other automobile dealers, but also players in the general express auto mobile repair service sector and the e-commerce sector, in a number of segments, such as sales, repair, maintenance and extended services. Our inability to respond to challenges presented by different competitors in a timely manner may result in the decline in customers' demand for our products and the decrease in our revenue and profit. Hence, the Group is required to adjust its strategy in a timely manner and enhance its overall service standards to address intense competition.

(5) Market risks

The Group exposes to various types of market risks, including credit risks, liquidity risks, interest rate risks and exchange risks, the details of which are set out in Note 5 to the consolidated financial statements in this annual report. The Group has exercised effective control over market risks through continuous monitoring of risks and changes, timely risk warnings, appropriate application of hedge instruments and other methods.

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended December 31, 2020, the aggregate purchases from our top five suppliers and our largest supplier accounted for approximately 90.5% and 52.3% of our total purchases, respectively.

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year ended December 31, 2020, no major customer information is presented in accordance with HKFRS 8 "Operating Segments".

As far as the Directors are aware, neither the Directors, their close associates, nor shareholders who own more than 5% of the Company's number of issued shares as at December 31, 2020 had any interest in any of the five largest suppliers and customers disclosed above.

RELATIONSHIP WITH CUSTOMERS

In respect of customer service, the Group listened to various demands of consumers on motor use carefully and provided them with high-quality services to constantly raise customer satisfaction. The Group proactively conducted customer satisfaction surveys, scored evaluation on sales team and customer service to fully understand the Company's shortcomings in terms of service so as to pursue improvement. In the provision of maintenance services, the Group's stores are established taking the customer's consumption experience into full consideration, which provide customers with barrier-free communication, and offers them with catering, entertainment, leisure and other activities to render services of the finest quality. At the same time, the Group places emphasis on securing customer privacy, confidentiality and filing of customer information to protect information security of customers. During the Reporting Period, no leakage of customer information has been occurred.

The Group has established a complete motor recall service system and actively took the initiative of liaising and negotiating with customers on motor quality issues to minimize the potential safety threats to motor owners caused by product quality. For recalled vehicles, recall solutions were carried out in the Group's stores according to the "Recall Emergency Plan" to ensure that the recall indicators of motor manufacturers are reached after sales, increase the contribution from warranty to output value of aftersales, and enhance smooth experience of the recall process. During the Reporting Period, the Group has not experienced any incident and complaint of motor recall due to safety and health. In response to complaints, the customer service department first classifies the complaints according to the types of complaints, and then hands over to professional technicians or account managers to offer system solutions in order to fully satisfy various demands of customers.

RELATIONSHIP WITH SUPPLIERS

The Group maintains long-term and stable cooperation with major automobile suppliers, being luxury and ultra-luxury brands such as BMW, Maserati, Lexus, Land Rover, Ferrari, etc., ensuring the sound development of the sales business of vehicles. In addition, the Group also maintains long-term and stable relationships with 31 suppliers for not originally manufactured vehicle equipment and accessories in the PRC. The Group also provides tendering opportunities for various kinds of projects on an open, fair, transparent and fair basis in order to select the most excellence. Furthermore, the Group conducts regular assessment and rating on the performance of existing suppliers to realize the performance of suppliers, promote their improvement of the supply level, while continuously cooperating with outstanding suppliers and terminating partnered suppliers with unsatisfactory performance. The Group attaches great emphasis on maintaining the relationship with suppliers and establishes long-term cooperation based on the concept of "equality and mutual benefit".

RELATIONSHIP WITH EMPLOYEES

The Group lays much stress on maintaining sound relationship with employees. The Group regards employees as the most essential asset of the Group and a very foundation of the sustainable development of the Group. Providing employees with competitive salaries and premier working environment and benefits are conducive to establish good relationship with our staff and retain our staff. The remuneration policies of the Group are determined and reviewed regularly based on the performance of employees. Discretionary bonus is granted to employees for encouraging contribution to the Group from them and promotion is released to excellent employees by the Group depending on the profitability and employees' performance. The Group also offers trainings for new employees and existing employees to enhance their technical knowledge. These initiatives are beneficial to the improvement of the production capacity and efficiency of the Group. Staff is recruited and treated equally by the Group regardless of gender, race and age. The Group provides staff with healthy, safe, enjoyable and harmonious working environment and pays attention to and satisfies various needs of staff, endeavoring to build the Group as a big family which is harmonious, united, healthy and pleasant.

DETAILED INFORMATION ON MAJOR CUSTOMERS AND SUPPLIERS

The Directors of the Group are of the view that the Group does not rely on any individual customer.

The largest supplier of the Group is an automobile manufacturer. The Group has maintained business relationship with the five largest suppliers for more than 15 years.

DIRECTORS

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

Executive Directors:

Mr. FENG Changge *(Chairman)*
Mr. LIU Fenglei *(President)*
Ms. MA Lintao *(Vice-president)*
Ms. FENG Guo *(Vice-president)*
Mr. HAN Yang *(Vice-president)*

Independent Non-executive Directors:

Mr. WANG Nengguang
Mr. LAU Kwok Fan
Mr. CHAN Ying Lung (appointed on March 27, 2020)
Mr. LIU Zhangmin (resigned on March 27, 2020)
Mr. XUE Guoping (resigned on March 27, 2020)

Pursuant to Article 84 of the Company's Articles of Association, Mr. FENG Changge, Mr. HAN Yang and Mr. WANG Nengguang will retire by rotation and being eligible, will offer themselves for re-election at the AGM. Biographical details of the directors of the Company and the senior management of the Group are set out in the "Directors and Senior Management" of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors has entered into a service agreement with the Company for an initial fixed period of three years commencing from their respective date of appointment unless terminated earlier. The appointments of the executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles of Association of the Company.

Each of our independent non-executive Directors has signed a letter of appointment with the Company for an initial fixed period of three years commencing from their respective date of appointment. Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed director's fee of HK$300,000 per annum. The appointments of the independent non-executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles of Associations of the Company.

None of the Directors proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY

A permitted indemnity provision for the benefit of the Directors of the Company is currently in force and was in force throughout the year.

DIRECTORS' INTEREST IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Except for the service contracts detailed above, no Director nor an entity connected with him/her had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' COMPETING INTERESTS

None of our Directors are interested in any business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the business of the Group.

MANAGEMENT CONTRACT

No contracts concerning the management and distribution of the whole or any substantial part of the business of the Company was entered into or existed during the year ended December 31, 2020.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors are independent.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme of the Company as set out in this report, no equity-linked agreements were entered into by the Group, or existed during the year ended December 31, 2020.

SHARE OPTION SCHEME

The Company has adopted a share option scheme on June 26, 2015 ("**Share Option Scheme**"), which is made pursuant to Chapter 17 of the Listing Rules, in relation to grant of share options to certain employees of the Company or its subsidiaries to subscribe for shares (the "**Shares**") of HK$0.01 each of the Company, for the purpose of attracting, retaining and motivating talented employees to strive towards long-term performance targets set by the Group and to provide them with an incentive to work better for the interest of the Group.

On May 9, 2017, the Board resolved to grant up to 70,000,000 new share options to the then existing grantees and certain new grantees (collectively, the "**Grantees**", each a "**Grantee**") to replace the outstanding options granted on June 29, 2015 and July 2, 2015 respectively ("**Outstanding Options**"), subject to the acceptance of each of the then existing grantees. No compensation shall be payable to them for cancellation of the Outstanding Options. New grantees are mainly senior management of the subsidiaries of the Company and general managers of its outlets.

On December 15, 2017, the Company offered to grant new share options to certain grantees under the Share Option Scheme, entitling them to subscribe for a total of 15,000,000 Shares of HK$0.01 each of the Company. The grant of the share options will be subject to the acceptance of the grantees. The grantee is not a Director, chief executive or substantial shareholder of the Company or an associate (as defined under the Listing Rules) of any of them.

On December 17, 2019, the Company offered to grant share options (the "**2019 Share Options**") to certain eligible employees of the Group (the "**2019 Grantees**") under the Share Option Scheme, entitling them to subscribe for a total of 20,000,000 ordinary shares of HK$0.01 each of the Company. The grant of the Share Options will be subject to the acceptance of the 2019 Grantees. Each 2019 Grantees is not a Director, chief executive or substantial shareholder of the Company or an associate (as defined under the Listing Rules) of any of them.

Summary of the Share Option Scheme has been set out in note 42 to the consolidated financial statements.

Details of the share options granted to Directors of the Company to subscribe for ordinary shares of the Company and its movement for the year ended December 31, 2020 are as follows:

			Number of Share Options				
Name of Grantees	**Date granted**	**Exercise price per Share**	**Outstanding as at January 1, 2020**	**Granted during the year**	**Exercised during the year**	**Lapsed/ cancelled during the year**	**Outstanding as at December 31, 2020**
Directors							
Mr. FENG Changge — Executive Director and Chairman of the Board	May 9, 2017	HK$3.00	5,000,000	—	—	2,500,000[3]	2,500,000[1]
Mr. LIU Fenglei — Executive Director and President	May 9, 2017	HK$3.00	5,000,000	—	—	2,500,000[3]	2,500,000[1]
Ms. FENG Guo — Executive Director and Vice President	May 9, 2017	HK$3.00	800,000	—	—	400,000[3]	400,000[1]
Mr. HAN Yang — Executive Director and Vice President	May 9, 2017	HK$3.00	1,600,000	—	—	800,000[3]	800,000[1]
Former Directors							
Mr. YANG Lei — Former Executive Director, Chief Operating Officer and Vice President	May 9, 2017	HK$3.00	2,250,000	—	—	1,125,000[3]	1,125,000[1]
Mr. QIAN Yewen — Former Executive Director and Chief Financial Officer	May 9, 2017	HK$3.00	6,000,000	—	3,000,000	3,000,000[3]	—
Other eligible employees	May 9, 2017	HK$3.00	41,981,000	—	1,940,000	22,675,000[3]	17,366,000[1]
	December 17, 2019	HK$4.00	20,000,000	—	—	—	20,000,000[2]
Total			82,631,000	—	4,940,000	33,000,000[3]	44,691,000

Notes:

(1) Such Share Option period of the Share Option Scheme is valid from May 9, 2017 (i.e. date of grant) till the earlier of (i) the day on which the relevant Grantee ceases to be an employee or a director of the Company and its subsidiaries on one or more of the grounds of termination of employment, appointment or directorship specified in paragraph 8(vi) of the Share Option Scheme, and (ii) June 28, 2025. All Share options granted on May 9, 2017 vested and became fully exercisable on July 1, 2017. The cessation of directorships of the former Director Mr. YANG Lei did not involve the grounds of termination as specified in the above (i), and his Share Options remained valid as at December 31, 2020.

(2) The Share Option period of the 20,000,000 Share Options is valid from December 17, 2019 (i.e. date of grant) till the earlier of (i) the day on which the relevant Grantee ceases to be an employee of the Group, and (ii) December 17, 2025. The vesting period for these share options is 50% on February 16, 2020 and 50% on February 16, 2021.

(3) A total of 32,400,000 and 600,000 Share Options both at the exercise price of HK$3.00 were cancelled on April 7, 2020 and on October 9, 2020.

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

As at December 31, 2020, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

		Ordinary Shares			Underlying Shares under Share Options		
		Capacity/Nature of Interest					
Name	**Position**	**Personal Interests**[5]	**Family Interests**[6]	**Other interests**	**Personal Interests**	**Total Interests**	**Approximate % of Shareholding Interest**
Mr. FENG Changge	Director	—	—	707,331,660 (L)[1]	2,500,000[3][4]	709,831,660 (L)	45.03%
Ms. MA Lintao	Director	—	709,831,660 (L)[2]	—	—	709,831,660 (L)	45.03%
Mr. LIU Fenglei	Director	778,587 (L)	—	—	2,500,000[3][4]	3,278,587 (L)	0.21%
Ms. FENG Guo	Director	360,285 (L)	—	—	400,000[3][4]	760,285 (L)	0.05%
Mr. HAN Yang	Director	295,000 (L)	—	—	800,000[3][4]	1,095,000 (L)	0.07%
Mr. WANG Nengguang	Director	40,000(L)	—	—	—	40,000 (L)	0.00%

Notes:

(1) These 707,331,660 shares in the Company are held by Eagle Seeker Company Limited ("**Eagle Seeker**"). Mr. FENG Changge is deemed to be interested in the said 707,331,660 shares by virtue of Eagle Seeker being held indirectly by Cititrust Private Trust (Cayman) Limited through Eagle Pioneer Company Limited, whereas Mr. Feng Changge is the founder of the trust.

(2) Ms. MA Lintao is Mr. FENG Changge's spouse and is therefore deemed to be interested in all the shares of the Company in which Mr. FENG Changge is interested in.

(3) These interests represent options to subscribe for Shares in accordance with the Share Option Scheme granted to the relevant Directors. For further details, please refer to the section headed "Share Option Scheme".

(4) These options were granted by the Company in May 2017 and accepted by the relevant grantees in May 2017.

(5) "Personal Interests" represents interests directly beneficially owned.

(6) "Family Interests" represents interests of spouse or child under 18.

(7) The letter "L" denotes the long position in the shares of the Company.

Save as disclosed above, as at December 31, 2020, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE AWARD PLAN

On February 28, 2019, the Company adopted a share award plan (the "**Share Award Plan**"), pursuant to which the Company may grant existing Shares to selected participants (namely all employees, directors (whether executive or non-executive, but excluding independent non-executive Directors) and officers of the Group, but excluding Mr. FENG Changge). The reason for adopting the Share Award Plan is to (i) incentivize, recognize and reward employees, directors (whether executive or non-executive, but excluding independent non-executive Directors) and officers of the Group for their contribution to the Group; (ii) attract and retain personnel to promote the long-term growth and development of the Group; and (iii) align the interests of the Award Holders with that of the Shareholders to promote the long-term financial performance of the Company. No new Shares will be granted under the Share Award Plan. Details of the Share Award Plan are set out in the Company's announcement dated April 2, 2019.

As at December 31, 2020, the trustee appointed by the Company for the purpose of the Share Award Plan has purchased a total of 59,987,500 Shares according to the Share Award Plan. 30,000,000 Shares has been granted under the Share Award Plan.

During the year ended December 31, 2020, none of Shares has been granted under the Share Award Plan.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at December 31, 2020, the following persons (other than the Directors and Chief executive of the Company) had interests in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO as follows:

Name	Capacity/Nature of Interest	Number of Shares Directly or Indirectly Held[4]	Approximate % of Shareholding Interest
Eagle Seeker	Beneficial owner	707,331,660 (L)	44.87%
Eagle Pioneer Company Limited[1]	Interest of controlled corporation	707,331,660 (L)	44.87%
Cititrust Private Trust (Cayman) Limited[2]	Trustee	707,331,660 (L)	44.87%
Foxconn (Far East) Limited[3]	Beneficial owner	128,734,000 (L)	8.17%
Hon Hai Precision Industry Co. Ltd[3]	Interest of controlled corporation	128,734,000 (L)	8.17%

Notes:

(1) Eagle Seeker is wholly owned by Eagle Pioneer Company Limited. Accordingly, Eagle Pioneer Company Limited is deemed to have interest in the 707,331,660 Shares held by Eagle Seeker.

(2) Eagle Pioneer Company Limited is wholly owned by Cititrust Private Trust (Cayman) Limited. Accordingly, Cititrust Private Trust (Cayman) Limited is deemed to have interest in the 707,331,660 Shares held by Eagle Seeker (the controlling Shareholder of the Company), indirectly via Eagle Pioneer Company Limited. Mr. Feng Changge, Executive Director and Chairman of the Company, is the founder of the trust of Cititrust Private Trust (Cayman) Limited.

(3) Foxconn (Far East) Limited ("**Foxconn**") is wholly owned by Hon Hai Precision Industry Co. Ltd. ("**Hon Hai**"), a company listed on the Taiwan Stock Exchange. Accordingly, Hon Hai is deemed to have interest in the 128,734,000 Shares held by Foxconn.

(4) The letter "L" denotes long position in such Shares.

Save as disclosed above, as at December 31, 2020, no persons (other than the Directors or the chief executive of the Company) had any interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

CHANGE IN DIRECTORS' BIOGRAPHICAL DETAILS

Save as disclosed above, no other information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Apart from the Share Options Scheme and the Share Award Plan, at no time during the year was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of Shares in, debentures of, the Company or any other body corporate.

NON-COMPETITION UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

The Company has received annual confirmations from the controlling shareholders, Mr. FENG Changge and Eagle Seeker Limited, in respect of their compliance with the terms of the non-competition undertaking as described in the prospectus of the Company dated May 31, 2013 and that they have not engaged, nor interested, in any business which directly or indirectly, competes or may compete with the business of the Group during the year 2020.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at December 31, 2020 are set out in note 33 to the consolidated financial statements.

EMOLUMENT POLICY

The emolument policy of the general staff of the Company is set up by the management of the Group on the basis of their merit, qualifications and competence. The emoluments of the Directors and senior management of the Company are proposed by the Remuneration Committee of the Company to the Board, having regard to the Company's operating results, individual performance and comparable market statistics, subject to the final decision by the Board. The remuneration of the Directors and chief executive are set out in note 13 to the consolidated financial statements. Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended December 31, 2020 is set out below:

Remuneration bands	Number of person
Nil to HK$1,000,000	1

RELATED PARTY TRANSACTIONS

During the year, the Group entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Details of the related party transactions entered into by the Group during the year are disclosed in note 45 to the consolidated financial statements. The related party transactions disclosed in note 45 were not regarded as connected transactions or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules and the Group has complied with the requirements in Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE

For the year ended December 31, 2020, the Company has complied with the applicable code provisions of the CG Code as set out in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code throughout the year ended December 31, 2020.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained a sufficient public float.

PURCHASES, SALE AND REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2020, the Company repurchased a total of 3,178,500 ordinary shares of HK$0.01 each on the Stock Exchange for a total consideration of approximately HK$10,861,776 (excluding transaction cost). The 3,178,500 repurchased shares were subsequently cancelled on December 9, 2020. Details of the shares repurchased during the year are set out as follows:

		Repurchase price per share		
Month of repurchase	**Number of shares**	**Highest** *(HK$)*	**Lowest** *(HK$)*	**Aggregate consideration (HK$) (excluding transaction cost)**
November 2020	3,178,500	3.57	3.40	10,861,776
Total	3,178,500			10,861,776

The Directors believe that repurchases of shares are in the best interests of the Company and its shareholders and that such repurchases of shares would benefit shareholders as a whole by enhancing the earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities for the year ended December 31, 2020.

EVENTS AFTER THE REPORTING PERIOD

As of the end of the Reporting Period of 31 December, 2020 to the date of this announcement, there was no significant event that would have any material impact on the Group.

PRE-EMPTIVE RIGHTS

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

DONATIONS

Donations made by the Group during the year ended December 31, 2020 amounted to RMB122,850 (2019: RMB10,500).

AUDITOR

Ernst & Young resigned as the auditor of the Company on January 7, 2020 and ZHONGHUI ANDA CPA Limited ("**ZHONGHUI**") was appointed by the board of directors of the Company on January 23, 2020 to fill up the casual vacancy so arising. ZHONGHUI resigned as the auditor of the Company with effect from July 13, 2020, and Deloitte Touche Tohmatsu was appointed as the auditor of the Company with effect from July 17, 2020 to fill the casual vacancy following the resignation of ZHONGHUI. Deloitte Touche Tohmatsu resigned as the auditor of the Company on January 8, 2021 and ZHONGHUI was appointed by the board of directors of the Company on January 9, 2021 to fill up the casual vacancy so arising. Save as disclosed above, there were no other changes in auditor of the Company during the past three years.

The consolidated financial statements for the year ended December 31, 2020 have been audited by ZHONGHUI, who shall retire at the forthcoming annual general meeting of the Company and, being eligible to offer themselves for re-appointment. A resolution for the re-appointment of ZHONGHUI as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

By Order of the Board
CHINA HARMONY AUTO HOLDING LIMITED

FENG Changge
Chairman and Executive Director

March 31, 2021

Environmental, Social and Governance Report

I. REPORTING STANDARD, PERIOD AND SCOPE

The environmental, social and governance report (the "**ESG report**") is prepared by China Harmony Auto Holding Limited (the "**Company**") and its subsidiaries (collectively the "**Group**", "**Harmony Auto**" or "**We**") in accordance with the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**"), as set out in Appendix 27 to the Listing Rules, with an aim to inform stakeholders of the Group's environmental, social and governance ("**ESG**") policies, initiatives and performance beyond its financial results.

This report describes the Group's ESG management policies and strategies for the period from January 1, 2020 to December 31, 2020 (the "**Reporting Period**"). Our ESG data collection system is still in the development stage. The data collection is subject to different restrains in different project sites. Nevertheless, we have made our best effort to collect relevant ESG data in order to disclose more accurate information and continuously improve the comprehensiveness and integrity of our ESG data collection system. The scope of this ESG report covers the Group's headquarters and its major outlets. The total number of outlets as of December 31, 2020 is 75, of which 72 (2019: 70) are included in the ESG report.

II. COMPANY BACKGROUND

Harmony Auto is a leading automotive services group in China, representing 13 luxury and ultra-luxury brands in 37 cities across the country. It serves 9 luxury brands such as BMW, MINI, Audi, Volvo, Land Rover, Lexus, Jaguar, Lincoln, Alfa Romeo and 4 super luxury brands such as Rolls-Royce, Bentley, Ferrari and Maserati.

The Group will continue to focus on the development of the main business, actively improve the operating efficiency of stores, strengthen the assessment indicators and management model of stores, and build excellent operating stores for major brands. We use the scientific inventory management system to achieve reasonable allocation and optimization of resources.

In 2020, we will continue to explore the luxury and ultra-luxury automobile market, focus on dominant brands, increase self-built and merger and acquisition efforts, improve customer retention and satisfaction, and improve the Group's operating efficiency and quality. We will focus on providing efficient, convenient and harmonious high-quality driving experience and services for customers.

We will, based the core values of "simplicity, efficiency, happiness and efforts are equal to all in", provide long-term benefits to all stakeholders in a responsible way, and maintain the sustainable development of the Company by taking into full account of the social and environmental factors in addition to economic factors.

During the Reporting Period, we ranked 34th in the 2020 Top 100 China Automobile Dealership Group list, which fully demonstrates that the industry and investors have recognized the Company's comprehensive strength in business growth, industry ranking, corporate governance and business model, as well as its future development potential.

III. OUR COMMITMENT AND APPROACH TO THE ENVIRONMENT, SOCIETY AND GOVERNANCE

We are aware of the importance of effective ESG initiatives at the operation level. The direction of the ESG work of Harmony Auto is supervised by the Group's Board of Directors (the "**Board**") to ensure that the ESG strategy reflects the Group's core values. Therefore, the Board and the management work together to enhance the value and performance of the Group, and at the same time undertake the responsibility of assessing and identifying the risks associated with the ESG matters of Harmony Auto, to ensure that the relevant risk management and internal control systems are properly and effectively implemented. Furthermore, the ESG framework adopted by the Group has incorporated ESG concepts and guidelines into every level of our operations from top to bottom. It can increase not only the awareness of ESG of our employees and enable them to be participants of sustainable development, but also ensure that the scope of our ESG framework effectively and comprehensively covers key parts of our business. In this way, while we are committed to providing high-quality service to our customers, we can also ensure the sustainable development of the Group.

IV. STAKEHOLDERS AND MATERIALITY ASSESSMENT

Stakeholders

Harmony Auto strives to adopt the opinions of stakeholders (including shareholders, customers, employees, suppliers, regulators and the public) and protect their rights and interests through constructive communication, so as to determine the long-term development direction of the Company and maintain a close relationship with the stakeholders. During the Reporting Period, the major stakeholders of Harmony Auto included the shareholders and investors, employees, consumers, suppliers, governmental and regulatory authorities, media and communities, etc. Major issues and measures of concern are shown in the following table:

Stakeholders	Major concern	Communication channel	Measures of the Company
Shareholder/investor	Operation strategies Sustainable and steady investment return Timely information disclosure Good corporate image Compliant business operation	General Meeting Information disclosure of listed company Roadshow/teleconference/meeting Media communication mechanism Telephone/email inquiries Investor visits Information disclosure on website	To issue notice and proposals of annual general meeting as required To disclose the Company information in time To release public announcements and issue regular reports as required To provide smooth communication channel
Employees	Training and career development Remuneration and benefits Working environment Health and safety	Direct communication Health check Staff activities Staff feedback Employee training	To provide a healthy and safe working environment To establish a fair promotion mechanism To provide a staff communication platform To organize staff activities

Stakeholders	Major concern	Communication channel	Measures of the Company
Consumer	Product quality Service quality Customer information protection	Customer satisfaction survey After-sales service and complaint	To carry out customer survey After-sales service management To handle the complaints promptly
Supplier	Timely performance of contracts Long term and stable cooperation Reputation of partners	Business conference Daily communication	To perform contracts according to the agreed terms To maintain long term cooperation
Governmental and regulatory authorities	Compliant operation Tax payment in accordance with law Transparent governance Information disclosure and declaration materials	Compliance with Laws and Regulations Daily work report Information Disclosure	To strictly comply with laws and regulations To accurately disclose information To pay tax in accordance with law To accept government supervision
Communities	Employment opportunities Ecological environment Community development Public welfare	Community activities	Local staff are preferred To protect ecological environment To organize community activities
Media	Information disclosure Good media relations	Information Disclosure	To maintain good communication To disclose information in time

Materiality Assessment

After the communication with stakeholders during the Reporting Period, the Company collected many potential topics related to ESG. We categorized these issues in various areas according to the HKEX ESG guidelines, further sought more internal and external information from staff and external consultants on these topics, estimated the impact of these ESG issues on the Company and assessed their importance. After careful analysis by the Board and the management, we obtained the following materiality results.

ESG Scope and Aspect	Important ESG issues related to our business
(A) Environment	
Aspect A1: Emissions	Utilization of gasoline
Aspect A2: Use of energy and resources	Utilization of gasoline, refrigerant, electricity consumption
Aspect A3: Environment and natural resources	Development of new energy
(B) Society	
Aspect B1: Employment	Employment rules, workplace fairness
Aspect B2: Health and safety	Employees, safety of working place
Aspect B3: Development and training	Employee training
Aspect B4: Labor Standards	Avoid child labor and forced labor
Aspect B5: Supply chain management	Supplier management
Aspect B6: Product responsibility	Service quality
Aspect B7: Anti-corruption	Integrity and self-discipline
Aspect B8: Community investment	Giving back to the community

Based on these results, the Group will constantly improve its ESG performance and continue to receive public views, in order to meet its stakeholders' expectations and address the risks to the Company. The ESG work details and key performance indicators that are considered relevant and significant to the operation of Harmony Auto will be presented under four subject areas: Our Environment, Our Employees, Our Business and Our Community.

V. OUR ENVIRONMENT

The Company is China's leading luxury and ultra-luxury automobile dealer group, with distribution outlets established in more than 20 large and medium-sized cities nationwide. Over the years, the Company has been committed to becoming the largest and most prominent automobile dealer in China. The Company pays close attention to and strictly abides by the requirements contained in the environmental laws and regulations of China, including but not limited to the Environmental Protection Law of the People's Republic of China, the Environmental Protection Tax Law of the People's Republic of China, the Water Pollution Prevention and Control Law of the People's Republic of China, the Atmospheric Pollution Prevention and Control Law of the People's Republic of China, and the Law of the People's Republic of China on the Prevention and Control of Solid Waste Pollution.

Our key performance indicators in emissions, waste management and energy and resource utilization for the year will be presented in the following paragraphs.

Aspect A1: emissions

The Company has a small number of outlets with canteens for staff meals, which use natural gas and LPG. However, this is not the Company's main business, and accounts for a small percentage of the Company's overall energy consumption. Moreover, the importance of ESG issues related to the use of these fuels and their related emissions is low for the Company. In order to optimize cost efficiency and focus resources on other more important ESG issues, the Company has chosen not to analyze and disclose detailed data on the energy consumption and resulting emissions of the canteens, but will closely monitor the relevant data and disclose it when appropriate.

Air and greenhouse gas emissions

Air and greenhouse gas emissions for 2020 and 2019 are as follows:

(In Kg)		**2020**		2019	
Type of air emission	**Emission source**	**Emission amount**	**Density**(Note 1)	Emission amount(Note 2)	Density(Note 1)
Nitrogen oxides (NOx)	Cars	**3,000.51**	**0.71**	4,353.05	1.21
Sulfur oxides (SOx)	Cars	**6.05**	**< 0.01**	9.36	< 0.01
Particulate matter (PM)	Cars	**285.78**	**0.07**	406.42	0.11

Note 1: Density is calculated by dividing the emission amount by the number of employees at the end of the year.

Note 2: In order to make a meaningful comparison with the 2020 air emissions, only air emissions caused by the use of cars are disclosed, and air emissions caused by natural gas used in canteens are excluded from 2019.

Greenhouse gas emissions for 2020 and 2019 are as follows:

(In tons of CO2e)[Note 1]		2020		2019	
Greenhouse gas emission scope	**Emission source**	**Emission amount**	**Density**[Note 2]	Emission amount	Density[Note 2]
Scope 1 Direct emission	• Consumption of lead free gasoline and diesel of cars • Refrigerant	**1,569.24**	**0.37**	2,060.42 [Note 3]	0.57
Scope 2 Indirect emission	Electricity consumption	**17,994.39**	**4.28**	16,056.58	4.47
Total		**19,563.63**		18,117.00	

Note 1: Carbon dioxide equivalent (ton) is a measure based on the greenhouse effect of each ton of carbon dioxide, which is used to measure and compare the greenhouse effect of carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O) and other greenhouse gases.

Note 2: Density is calculated by dividing the emission amount by the number of employees at the end of the year.

Note 3: In order to make a meaningful comparison with the 2020 air emissions, only greenhouse gas emissions caused by the use of cars are disclosed, and greenhouse gas emissions caused by natural gas used in canteens are excluded from 2019.

During the Reporting Period, the air emissions of the Group were mainly generated from the use of vehicles in our sales activities, where the engine of a vehicle burns gasoline when it is idling and driving and when it is moving. The emissions included nitrogen oxides, sulfur oxides and particulate matter. Air emissions for the year were lower than the previous year due to a reduction in test drives for sales activities as the sales and after-sales operations were affected by the COVID-19.

The Group's direct emission of greenhouse gases (scope 1) during the Reporting Period was approximately 1,569 tons (2019: 2,060 tons), mainly generated from the lead free gasoline and diesel consumption of vehicles, as well as the refrigerants for air-conditioning and refrigeration equipment. Save for the small amount of natural gas used in canteens, our business did not produce any air or greenhouse gas emissions directly from the burning of fuels at stationary source. The indirect emissions of greenhouse gases (scope 2) this year were generated mainly from electricity we used daily. Our total indirect emissions (scope 2) increased slightly from the previous year due to the increase in the number of outlets and the opening hours of dealer outlets, but the density decreased. The Group continued to implement several office measures to save energy and reduce consumption, including strengthening the power saving, improving the daily management of all electrical equipment, and turn off power upon the completion of operations, so as to reduce the overall power consumption.

The stores operated by the Group were not only designed to give full consideration to lighting, energy saving and other factors, but also adopted environmentally friendly materials and technologies to reduce the energy consumption of the buildings. For example, the exterior walls of buildings were coated with thermal insulation, efficient and energy-saving LED lighting facilities were installed and replaced, and solar heaters and other renewable energy equipment were installed and used. Furthermore, the Group established a strict energy management system where the administrative department carried out the monitoring of the energy consumption data management system for each store every month in order to be aware of any excessive energy consumption or abnormal conditions in a timely manner, and established effective countermeasures and punishment system.

In addition, the Group has adopted a series of measures to achieve environmental protection and energy conservation on a regular basis, including:

1. Installing a new filter monitoring system for the paint room to reduce greenhouse gas emissions in the stores;

2. Encouraging employees to travel green and commute on foot or by taking public transport, in order to reduce the direct emissions of greenhouse gas equivalent due to the use of private vehicles;

3. The administrative department shall supervise the use of air conditioners and refrigerant stocks in each store to ensure the reasonable use of refrigeration equipment such as air conditioners;

4. Encouraging employees to reasonably control the air-conditioning operation period according to the temperature conditions;

5. Implementing zoning of electricity consumption to reduce unnecessary lighting use;

6. The elevators of the stores of the Group are operated in accordance to a schedule. From Monday to Friday, the elevators are turned off, and they are turned on only when there are customers on weekends, so as to reduce the power consumption;

7. Arranging designated personnel to check and shut down the water dispenser, computer, printer, air conditioner and other electrical equipment after work every day. Prohibiting the use of office computers for recreational activities;

8. The Company shall use the electronic OA system, and adopt online intelligent examination and approval to a greater extent and scope, so as to reduce paper consumption and document delivery;

9. Applying for office supplies in the right amount according to the departmental and personal use to avoid surplus or shortage.

Waste

In the course of conducting after-sales and vehicle repair services, the stores of the Group produce various hazardous wastes, such as used oil, used oil filter, used oil drum and used auto parts. In order to prevent these wastes from harming the environment, the Group has established a waste management system to standardize the process of hazardous and non-hazardous waste management. As for hazardous waste, stores are prohibited from dumping hazardous waste. The Group strictly abides by national and regional standards and strictly classifies hazardous waste according to their characteristics, packages and transports hazardous waste in special buckets and bags. Special personnel are responsible for the storage and disposal of hazardous waste, and third-party professional agencies are employed regularly for recycling.

In order to reduce the amount and harm of hazardous waste, the Group's stores take the following measures, including:

1. Conducting safety training for production personnel and strengthening site cleanliness management;

2. Arranging dedicated personnel for the management of hazardous waste, sorting, packaging and transferring waste generated in a timely manner; and

3. Strengthening on-site supervision and inspection, standardizing the temporary storage of hazardous waste, and classifying storage of hazardous waste.

The amount of different types of hazardous waste generated by the Group in 2020 is as follows:

(In tons) **Hazardous waste types**	**2020** **Amount**	**Density**(Note 1)
Used mineral oil(Note 2)	**171.91**	0.04
Used lead batteries	**14.78**	< 0.01
Others(Note 3)	**107.06**	0.03

Note 1: Density is calculated by dividing the amount by the number of employees at the end of the year.

Note 2: Used mineral oil includes used oil.

Note 3: Others include waste paint drums, oil-containing waste, waste paint sludge, waste filter cartridges, filter cotton, electric batteries and waste activated carbon.

The work activities in daily operations will also produce non-hazardous wastes such as food packaging, beverage cans and bottles, waste paper products and office stationery. In accordance with the waste management system and the relevant regulations on the management of domestic waste in the cities where our stores are located, the Group cleans up the recyclable non-hazardous waste products and then places them at designated locations for waste separation and disposal in order to achieve waste reduction and resource recovery and reuse. The amount of different types of non-hazardous waste generated by the Group in 2020 is as follows:

(In tons) **Non-hazardous waste types**	**2020** **Amount**	**Density**(Note 1)
Waste cartons/packaging boxes and paper products	**15.79**	< 0.01
Domestic waste	**373.23**	0.10

Note 1: Density is calculated by dividing the amount by the number of employees at the end of the year.

We have been implementing waste reduction programs, such as encouraging employees to bring their own utensils to reduce the amount of disposable waste produced, and strictly requiring all departments to recycle as much paper as possible to reduce paper usage in order to reduce the generation of non-hazardous waste.

There were no significant cases of non-compliance with environmental laws and regulations for the Group during the Reporting Period (2019: nil).

Aspect A2: Use of energy and resources

The Group always attaches great importance to energy conservation, complies with the provisions of the Energy Conservation Law of the People's Republic of China, and encourages energy conservation and possible reuse of resources in the course of business operation, so as to protect the environment and improve operational efficiency, and achieve sustainable development. The energy used by the Group is mainly gasoline, diesel and electricity, and the resources used by the Group mainly includes water.

Energy

Energy consumption for 2020 and 2019 are as follows:

		2020		2019	
Type of energy	**Unit**	**Consumption**	**Density** *(Note 1)*	Consumption	Density *(Note 1)*
Electricity	MWh	**20,046.69**	**4.77**	17,187.36	4.79
Gasoline *(Note 2)*	Liter	**422,195.00**	**100.38**	601,062.35	167.47
Diesel *(Note 2)*	Liter	**11,551.37**	**2.75**	—	—

Note 1: Density is calculated by dividing the consumption by the number of employees at the end of the year.

Note 2: Classified as direct non-renewable fuel.

Note 3: Total direct non-renewable fuel consumption is approximately 4,215.28 MWh, with a density of approximately 1 MWh.

Note 4: The conversion to MWh is based on the Energy Statistics Manual published by the International Energy Agency.

Electricity is the main energy consumption of the Group. The increase was mainly due to the increase in the number of dealer outlets during the year, but the electricity consumption figures were also affected by the opening and closing of these outlets at different times during the year.

For gasoline, the decrease in consumption was mainly due to the reduction in sales activities such as test drives due to the impact of the COVID-19 in the sales and after-sales this year.

To further reduce the adverse impact of the business on the environment, the Group has formulated policy, including vehicle management regulations and air conditioning regulations, to regulate the use behavior of staff, in order to achieve the reasonable use of energy and resources and reduce waste.

Water resources

The Group's business does not have a significant demand for water resources and therefore no problems have been identified in sourcing suitable water supplies. The water consumption of our stores is mainly for daily use and comes mainly from the municipal tap water network. Domestic waste water is discharged into municipal drainage pipes and treated by municipal waste water treatment plants, and no direct discharge to water and land will be made. Water consumption for 2020 and 2019 are as follows:

(In tons)	**2020**	2019
Total water consumption	**191,634.18**	174,164.29
Density*(Note 1)*	**45.56**	48.53

Note 1: Density is calculated by dividing the total water consumption by the number of employees at the end of the year.

The water consumption in 2020 has increased compared with the previous year, but the density has decreased, which was similar to electricity consumption in difference and reason. The Group encouraged employees to save water and reduce unnecessary consumption. The Group has implemented a number of water-saving measures, such as installing water conservation devices, water recycling, advocating water conservation at water faucets and implementing inspection to conduct daily water and electricity meter reading, and carrying out analysis and treatment on any abnormality.

The Group does not manufacture or produce any finished products directly, and the products sold are manufactured and provided by suppliers. Therefore, we do not use any packaging materials.

Aspect A3: Environment and Natural Resources

Although our business do not have significant impact on the environment and natural resources, we are committed to building a harmonious and sustainable environment friendly enterprise, constantly pursue the coordinated development between the Group business and the ecological environment, and include the protection of the environment and natural resources into the enterprise strategic planning and policy implementation. In addition, the Group is committed to promoting the development of new energy vehicle projects, in order to transmit the environmental awareness to the consumers on business level and effectively fulfill the environmental obligations.

VI. OUR EMPLOYEES

Aspect B1: Employment

The Group believes that employees are an important strategic asset for its development. During the Reporting Period, the Group strictly complied with the Labor Law of the People's Republic of China, Labor Contract Law of the People's Republic of China, the Civil Code of the People's Republic of China and other relevant laws and regulations, effectively protected the legitimate rights and interests of employees, continuously improved the benefits of employees and enhanced their sense of belonging.

The Group has developed human resources policies in accordance with legal requirements and its own operations circumstances to ensure that employees enjoy their due employment rights. We have developed and clearly communicated to all staff our policies on remuneration, dismissal, recruitment and promotion, working hours and leave applications, equal opportunities and other employee benefits to ensure that the protection of employees' rights and interests can be effectively implemented. Employees of different races, origins, regions and genders shall enjoy equal opportunities for employment, salary adjustment, promotion, training and education. The Group highly respects and safeguards these rights and does not tolerate any discrimination in its operations.

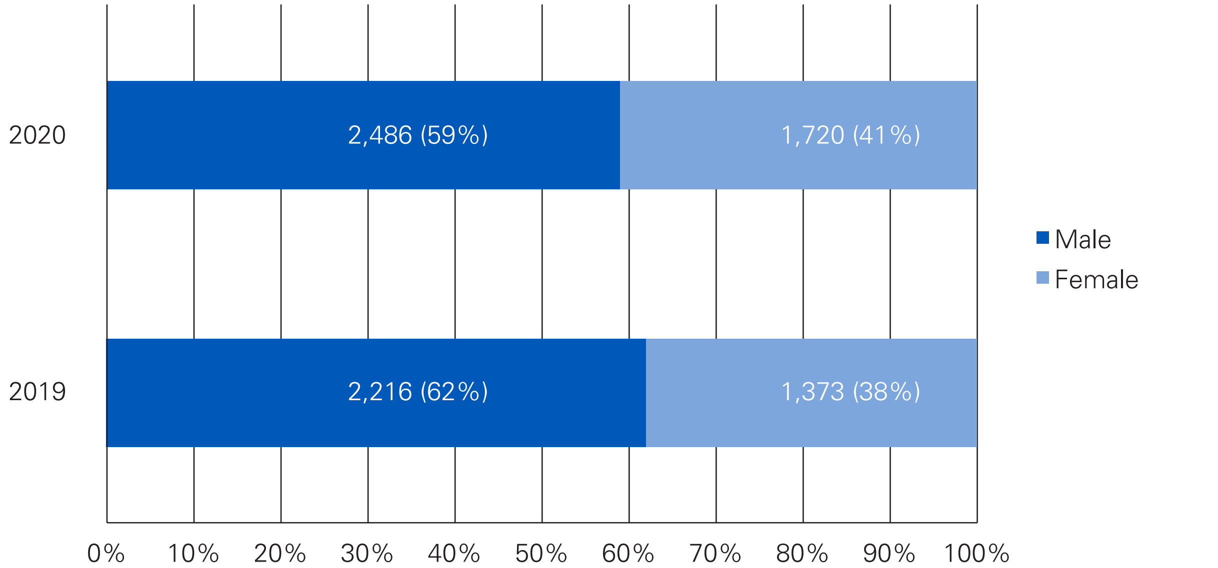
In addition to protecting employees' legal employment rights and benefits, subject to prevailing business conditions the Group also continuously optimizes its employees' benefits. For example, for employees who do not meet the conditions for purchasing social insurance, the Group will purchase commercial insurance for them as an alternative; the Group will provide extra holiday benefits to employees; the Group will distribute meal allowance and assignment allowance to employees and those working in other places. In addition, the Group will organize a variety of activities to enhance the cohesion of the staff and enrich their spiritual life, such as team building, tours, and fitness activities. At present, the Group has set up an effective staff feedback and grievance mechanism from top to bottom, providing a smooth communication channel for staff to appeal and make suggestions.

Our labor

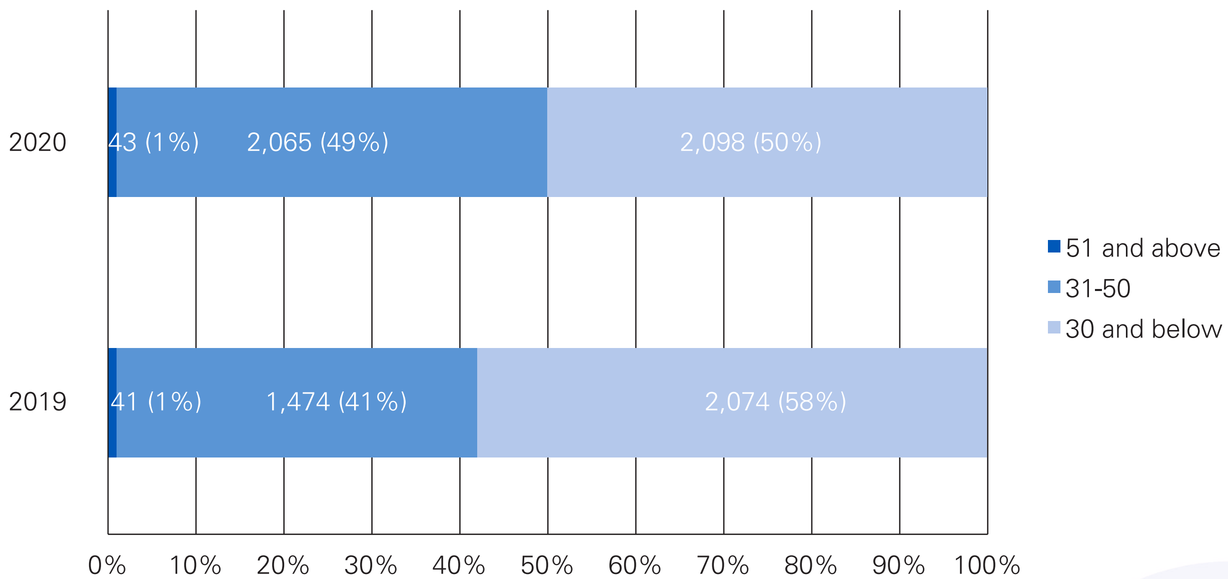
As of December 31, 2020, the Group had 4,206 employees (2019: 3,589), including 4,203 employees in Mainland China, 2 in Hong Kong and 1 in Macao. Those who join the automobile after-sales and maintenance service industry has been mostly male, hence the proportion of male employees in the Group remains relatively high. The ratio of male to female in 2020 was 1.5 to 1, similar to the situation in 2019.

The gender and age composition of employees are shown in the following graphs:

By Gender



By age



The Group provides competitive remuneration and benefits and fair remuneration structure for employees, adjusts salaries in accordance with the actual situation in each year, and improves the compensation management system and comprehensive performance appraisal mechanism to reduce employee turnover. There were no significant case of non-compliance concerning labor practices in the Group during the Reporting Period (2019: nil).

Employee turnover

The Company has established relevant human resources policies to regulate employees' resignation, dismissal or retirement and protect the legal rights and interests of employees. As of December 31, 2020, the Company had 1,657 (2019: 1,849) employees leaving the Company, all of whom were full-time employees in the PRC, with an overall turnover rate (Note 1) of 43% (2019: 51%). The number and rate (Note 2) of employee turnover classified by gender and age are as follows:

	2020	2019
The number and rate of employee turnover by gender		
Male	**1,050 (45%)**	1,117 (50%)
Female	**607 (39%)**	732 (53%)
The number and rate of employee turnover by age		
30 and below	**1,000 (48%)**	1,241 (56%)
31–50	**643 (36%)**	577 (42%)
51 and above	**14 (33%)**	31 (63%)

Note 1: Overall employee turnover rate is calculated by dividing the turnover number of employees by the average number of employees at beginning and the end of the year.

Note 2: The employee turnover rate is calculated by dividing the number of turnover employees in that category by the average number of employees at beginning and the end of the year in that category.

Aspect B2: Health and safety

The Group attaches great importance to the protection of employees' rights and interests, the security of the working environment and the health and safety of the employees. We are determined to provide employees with a comfortable and safe working environment, maintain and improve the welfare of the staff, and ensure that the Group is in line with the professional and workplace safety related laws and regulations such as the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, the Law of the People's Republic of China on Mediation and Arbitration of Labor Disputes and the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases.

Some specific daily measures related to workplace safety are as follows:

1. The Group attaches great importance to the occupational health of employees. We have provided an efficient and suitable working environment for employees, cooperated with the listed company of professional medical health examination, and organized regular health examination for employees every year; for employees in positions that may suffer from occupational diseases, occupational disease medical examinations are conducted at the time of entry, every year of employment and before leaving.

2. The Group attaches great importance to the office fire safety. We have included the fire safety education and training in the annual fire protection work plan, provided funds for the fire safety education and training, and organized various forms of fire safety publicity and education.

3. Designated personnel are assigned to conduct daily fire prevention inspection to ensure that the evacuation passageways and safety exits are unblocked, and the fire control facilities for evacuation, such as fire doors, evacuation signs and fire accident lighting, are unimpaired and usable. Once any fire control facilities are found to be damaged or lost, they are repaired and replaced in time.

4. We cooperate with the local environmental protection authority and the occupational disease management center to have annual inspection and sample test, as well as the annual fire training from the local fire department and the exercise organized by the property management company.

5. We provide protective tools and clothing for employees.

6. To avoid the occurrence of major safety accidents, the Group has formulated the Management System for the Avoidance of Major Accidents (the "**Management System**"), with an aim to strengthen the management of major potential accidents and prevent the occurrence of major accidents. The manager of the administration department and the general manager of the subsidiary companies are responsible for strengthening the management, monitoring and control of the potential major issues in the region under their jurisdiction, get a grip of where they are and how they change dynamically, establish and improve the emergency rescue plan of emergency rescue organizations, strictly implement the safety operation procedures and safety management rules and regulations, and earnestly fulfill the safety responsibilities to prevent the potential danger.

7. The Management System requires the subsidiary companies to conduct a risk analysis and evaluation of major accident hazards once a year, and make quantitative or qualitative analysis and evaluation according to their hazard characteristics, the possibility of accidents and their severity and consequences, and submit the evaluation report to the Group's administration department. Moreover, the subsidiary company where the major accident hazards is located must formulate an accident emergency rescue plan, equip the necessary emergency equipment and tools, and conduct at least one emergency rescue drill each year to test the effectiveness and timeliness of the emergency response, and make timely modifications and additions according to the result of the drill.

During the Reporting Period, some of the Group's stores conducted Workplace Occupational Disease Hazard Factor Testing Report, regularly tested workplaces for occupational disease hazards and conducted operational health checks for workers engaged in occupational disease hazard exposure operations. This further protects the occupational health and safety of employees.

It is our important duty to protect our employees from the invasion of the COVID-19 while remain productive by pushing forward actively and steadily. During the Reporting Period, our stores formulated emergency plans to prevent and control the epidemic, effectively protecting the lives and health of our employees and maintaining the smooth operation of our business. A series of measures are as follows:

1. We established an epidemic prevention and control working group with the chief executive as the commander-in-chief, under which five executive teams were set up, assigning each of them with specific epidemic prevention tasks such as the provision of epidemic prevention supplies, personnel movement management and office environment; we also identified the persons in charge of epidemic prevention in each department of the Company;

2. Epidemic prevention supplies such as epidemic prevention masks, temperature measuring guns, disinfectants, disposable gloves, and disinfection spraying equipment were purchased and are managed and used by dedicated personnel;

3. Conducting and recording temperature tests on employees twice a day;

4. Ventilation of office premises by opening windows for half an hour every two hours every day;

5. Staff dining distance of one meter or more to avoid face-to-face interaction;

6. All employees are required to wear masks during work, and it is strictly forbidden to remove the masks without permission;

7. Communicate online or by phone where possible to reduce the number of outward trips.

During the Reporting Period, the total lost days due to work injury of the Group was 99 days, the average lost days per capita due to work injury (calculated based on the total number of employees as at December 31, 2020) was 0.02, there were no incident of work-related fatalities in the past 3 years including the Reporting Period, and the Company did not have any material non-compliance incident relating to laws and regulations on health and safety.

Aspect B3: Development and training

To improve the business ability and vocational skills of the employees, the Group has established a systematic training system called Training Management System, in order to provide continuous and systematic career development trainings for the employees through knowledge, experience, ability accumulation, dissemination, application and innovation. The Group attaches great importance to talent training. We believe that systematic development and training is not only a good way to help employees grow quickly and adapt to the needs of business development, but also a good way to cultivate useful talents for social development.

According to the training content, the Group's training activities can be divided into:

➢ **New employee orientation training:** In order to help new employees integrate into the Company faster and better, we provide systematic training activities for each new employee, including basic training and post training.

➢ **Competency training:** This training is organized for the purpose of updating and expanding the staff's knowledge, enhancing their abilities, preparing them for promotion and improving their work efficiency. The training contents completed in this year included the Senior Sales Management, Value-added Business Management, After-sales Business Management, Service Management and Customer Relationship Management.

➢ **External training:** The Group also allows providing employees with the external trainings that we cannot provide for the moment but are required for the works. Upon the approval of the Group, the staff can apply to participate in the training activities organized by the Group, industry, manufacturers and professional training institutions.

➢ **Advanced study in spare time:** The Group encourages employees to take part in professional learning activities in their spare time to enrich themselves and improve their functional skills and professional quality.

During the Reporting Period, the number of employees trained as a percentage of the total number of employees (Note 1) was 67% (2019: 49%), a total of approximately 62,514 (2019: 99,716) training hours were completed and the average training hours per employee (Note 2) were 16.04 (2019: 27.39) hours. Compared to 2019, this year, due to the impact of the epidemic, the Group actively responded to the national call to minimize the gathering of people, resulting in a significant decrease in the average training hours per employee. Details of the training are shown in the table below:

Details of the training are shown in the chart below:

	2020			
	Number of employees trained	Percentage of trained employees (Note 3)	Total hours of training (hours)	Average training hours per employee (hours) (Note 4)
By gender				
— Male	**1,738**	**67%**	**41,124**	**17.49**
— Female	**870**	**33%**	**21,390**	**13.83**
By type of employees				
— Management	**52**	**2%**	**2,312**	**35.30**
— Middle-level employees	**285**	**11%**	**7,589**	**22.65**
— Junior employees	**2,271**	**87%**	**52,613**	**15.05**

Note 1: This percentage is calculated by dividing the total number of employees participated in training by the average number of employees at beginning and the end of the year.

Note 2: This average training hours is calculated by dividing the total training hours by the average number of employees at beginning and the end of the year.

Note 3: This percentage is calculated by dividing the number of employees participated in training in that category by the total number of employees who participated in the training.

Note 4: This average training hours is calculated by dividing the total training hours for that category of employees by the average number of employees at beginning and the end of the year in that category.

Aspect B4: Labor Standards

The Group strictly complies with the Labor Law of the People's Republic of China, the Provisions on the Prohibition of the Use of Child Labor, the Provisions on the Special Protection of Juvenile Workers, the Civil Code of the People's Republic of China and other legal requirements in China, and firmly resists and opposes forced labor and child labor. The full-time employees recruited by the Group and in service are above 18 years old, and the interns and apprentices are above 16 years old. When signing the labor contract, we will strictly check the identity documents, including checking of his or her age, so as to prevent child labor. In the recruitment notice, during interview phase and when signing the labor contract, we clearly inform the job seekers of the nature of the relevant work, time, content and other terms, in strict accordance with the provisions of the labor law and labor contract law. Hence, all labor contracts were signed and all the labor works were performed by the employees voluntarily which rule out any forced labor. In the event of forced labor and child labor, the Company will handle the situation in accordance with the law and will hold those responsible for violations accountable and provide rewards and punishments in accordance with the Company's system. In spite of this, since the Group focuses on taking preventive measures at the source and hence is confident that those illegal practices mentioned above will not occur in the future.

The Group has made reasonable arrangements for employees' working hours within the statutory standard working hours to ensure a balance between work and rest time, and provides paid leave and sick leave and other benefits according to the labor law, so as to prevent all forms of forced labor. The Group's employment practices (including recruitment and promotion, leave, equal opportunities, compensation and dismissal, anti-discrimination, etc.) were conducted in accordance with local labor laws and regulations. In addition, the Group conducted regular performance appraisal program and other systems to assess the work contents and achievements of its employees, and strictly monitored the working ability and performance of employees, so as to avoid forced overtime, excessive work pressure and other forced labor behaviors.

During the Reporting Period, the Group was not aware of any incidents of child labor or forced labor in any form (2019: nil).

VII. OUR BUSINESS

Aspect B5: Supply chain management

The Group has formulated the Bidding and Tendering Management Measures in accordance with the Bidding and Tendering Law of the People's Republic of China to regulate the bidding and tendering behavior of the Group for projects such as project construction and material procurement, strengthen the supervision and management of bidding activities, reasonably control the project cost and capital expenditure, and ensure the quality of the project. Based on the Management Measures, the Group has formulated the Measures for Supplier Evaluation and Management to standardize the selection behavior of suppliers, strengthen the supervision and management of suppliers, fully guarantee product quality and ensure the stability of supply chain management.

The Group maintains a long-term and stable partnership with major automotive suppliers such as BMW, Maserati, Lexus, Land Rover, Ferrari and other luxury and ultra-luxury brands to ensure the steady development of automotive sales business. In addition, the Group's after-sales service also relies on the long-term cooperative relationship maintained by the Group with 31 suppliers of replacement automotive equipment and accessories in China to ensure continuous supply. During the Reporting Period, the distribution of major automotive equipment and accessories suppliers by region was as follows: 5 in Beijing, 9 in Guangdong province, 7 in Henan province, 5 in Jiangsu province, 3 in Shanghai, 1 in Zhejiang province, and 1 in Chongqing.

When selecting suppliers of replacement parts, the Group not only requires the counterparty to have basic operating qualifications and product quality, but also fully considers the environmental and social risk factors of the supplier, such as whether the materials used in the supplier's products meet the environmental standards, the market reputation of the supplier's brand and other factors. Meanwhile, the Group will provide open, equal, transparent and fair bidding opportunities for various projects, so as to select the best. In addition, the Group will regularly evaluate the performance of existing suppliers to check their performance and promote them to improve their supply level. We will continue to work with excellent suppliers, but eliminate those with poor performance.

Aspect B6: Product responsibility

The Group supplies the world famous luxury and super luxury brand cars to the consumers, including BMW, Lexus, Maserati, and maintains long-term stable partnership with these manufacturers. The Group has established a comprehensive product quality management system, which covers the entire supply chain from release, transportation, storage to sales to consumers and the sales service process. The automobiles have obtained the manufacturer's qualification certificate when leaving the factory, and conform to the international and national production quality standards for the industry. In addition, the quality inspection department of the Group will also review the standards of automobiles to ensure that the production quality of automobiles meets the sales requirements of the Group.

In terms of customer service, the Group carefully listens to the demands of consumers on cars, and provides them with high-quality services, in order to continuously improve customer satisfaction. The Group will actively carry out customer satisfaction survey and evaluate the sales team and customer service, in order to find out the deficiencies in service and make corresponding improvement. The customer experience is taken into account in the construction of our stores as well as during the provision of maintenance services, providing them with barrier-free communication, catering, entertainment, leisure and other activities, in addition to the high-quality services. In addition, to further enhance the service awareness of the staff, the Group has provided courses related to customer service to the staff in the course of daily work and training activities.

The Group has established a comprehensive automobile recall service system. We will actively communicate and negotiate with customers regarding the automobile quality problems, recall vehicles in strict accordance with recall message of the manufacturers so as to minimize the potential safety threats caused by product quality to the owners. For the recalled vehicles, the stores under the Group will carry out the recall plan according to the "Recall Contingency Plan" to ensure the completion of the after-sales recall indicators of the automobile manufacturers, increase the contribution of warranty to the after-sales output value, and smooth the recall process. During the Reporting Period, our stores strictly carried out recall work, and there was no safety and health incidents and complaints related to the recall work. BMW and Lexus vehicles were recalled for 16 times and 4 times respectively for upgrade. In response to complaints, the Group has established the Regulations on Customer Complaint Resolution Management to learn about specific problems in the service based on customer feedback, and implement improvements and preventions to increase customer satisfaction and maintain continuous improvement in service quality. The Regulations stipulates that the customer service department shall first classify the complaints according to the category of incidents and take records, and then the professional and technical staff or customer managers shall provide systematic solutions to meet the needs of customers and protect the interest of consumers as much as possible. The customer manager shall pay a return visit to the customer who complained within three days, communicate with the customers by telephone, solicit opinions and understand their satisfaction degree, and ensure continuous improvement of service quality.

In addition, the Group pays attention to the protection of customer privacy. In addition to protecting consumers' personal information in strict accordance with the Law on Protection of the Rights and Interests of Consumers and other relevant provisions, we have established consumer data protection and privacy policies for our customers, stressing that employees shall not disclose or abuse any information or trade secrets related to the Company's transactions or operations for their own personal gain. We employ authorized personnel to keep all confidential information related to suppliers, contractors or customers to ensure the security of customer information. The Group has also maintained a Confidentiality and Non-Competition Agreement with employees on a long-term basis to ensure that employees keep confidential information and undertake non-competition obligations during their services and after termination of their employment. In addition, employees are required to use confidential information properly and not to use such confidential information outside of their duties or assist any third party who is not under a duty of confidentiality to use the Group's trade secrets. If a trade secret is discovered to have been leaked or leaked through their own negligence, they shall take effective measures to prevent further expansion of the leak and report to the Group in a timely manner. No customer information leakage occurred during the Reporting Period.

Aspect B7: Anti-corruption

The Group strictly complies with the Anti-unfair Competition Law, the Anti-money Laundering Law, the Interim Provisions on Banning Commercial Bribery and other relevant laws and regulations in China, and expressly requires that no employee shall engage in bribery, extortion, fraud and money laundering and any other illegal and criminal acts. The Group regularly issues "integrity and self-discipline commitment" circulars to the staff, requiring that the staff must select suppliers, contractors or partners objectively and openly, in order to eliminate all inappropriate behaviors in the workplace, such as soliciting bribes, accepting bribes, using power to solicit business for relatives and friends at the price of damaging the Company's interests, etc. In terms of internal policies, the Group has established a legal supervision department to supervise the integrity and self-discipline of all employees. For accounting, cashier, information system operation and other positions prone to fraud, as well as the recruitment of middle and senior managers, we will check whether the candidate has the criminal record of illegal crime, administrative punishment, commercial fraud, etc. In addition, in the process of daily work and training activities, the Group will also promote the employees to improve the awareness of anti-corruption and the ability to identify corruption, and remind managers at all levels and ordinary employees to be vigilant and lead by example.

In terms of external policy, the human resources department, financial department and audit department of the Group have set up public complaint and report email, and their contact information is open to the public. Any person inside or outside the Company who finds bribery, extortion, fraud, money laundering and other illegal and criminal acts can directly report them through a variety of communication channel, which will be submitted to the relevant departments for handling according to law after verification. Those who are suspected of serious violation of laws, regulations or disciplines will be punished by the Company and compensate for the economic losses caused to the Company. Those who violate the law will be subject to legal repercussions.

VIII. OUR COMMUNITY

Aspect B8: Community investment

While creating economic benefits for shareholders, investors and the society, the Group also shoulders the social responsibility of building a harmonious society and promoting the construction and development of the community. During the Reporting Period, the Group actively participated in the livelihood of the community, understanding the community needs. The Group vigorously carried out various public welfare activities, participated in the community building through not just words but actions, with an aim to build a relationship of harmony and common prosperity between enterprise and community.

During the Reporting Period, the Group successively carried out a number of social and charitable activities:

In July 2020, Xiamen Yuanda Branch and Kaifeng Biandebao Branch organized "Caring for Gaokao Students (愛心送考)" and "Kaifeng Biandebao 2020 Caring for Gaokao Students (開封汴德寶2020年愛心送考活動)" volunteer activities to help students with travel difficulties to reach the examination sites safely and on time, and to participate in the college entrance examination without worries.

In July 2020, Luoyang Yuanda Branch practiced its social responsibility and carried out the "Luoyang Yuanda Public Welfare Walk (洛陽遠達公益行)" to provide quality drinking water for people who work in the high temperature to relieve the summer heat. This event will be continued in the future and has been carried out twice.

In August 2020, Changzhou Changjunhang Branch organized the "The Blue Hobbits (藍精靈)" fire guards summer camp, so that children not only learn fire safety knowledge, but also pay attention to the importance of daily safety management.

In September 2020, Jiujiang Jiangdebao and Nanchang Hexiebao Branch organized a public service activity to pay tribute to Teachers' Day and went to Minsheng Qingsong Hope Primary School to care for teachers and children, as well as to donate materials.

In September 2020, Guangzhou Guangdebao Branch organized the "Helping the war against epidemic, warming the school season public welfare activities (助力防疫戰，溫暖開學季公益活動)" and went to the Haizhu District Second Experimental Primary School of Guangzhou City to carry out a donation ceremony for epidemic prevention materials.

In October 2020, Xinxiang Yuanda Branch organized the "Brave for righteousness (見義勇為)" campaign and made a public donation.

Independent Auditor's Report

TO THE SHAREHOLDERS OF
CHINA HARMONY AUTO HOLDING LIMITED
(FORMERLY KNOWN AS "CHINA HARMONY NEW ENERGY AUTO HOLDING LIMITED")
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Harmony Auto Holding Limited (formerly known as "China Harmony New Energy Auto Holding Limited") (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 74 to 181, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other 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 (the "**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Estimation of rebates

Refer to note 29 to the consolidated financial statements

The Group recognises volume-related vendor rebates on an accrual basis based on the terms of the supplier contracts. As at 31 December 2020, the rebate receivables recognised in the consolidated statement of financial position amounted to approximately RMB1,133,464,000. The balance of rebate receivables was significant and the process of estimating the accrual was complex.

Our audit procedures included, among others:

— Checking the rebate policies adopted against the terms of the relevant supplier contracts;

— Checking the calculation of the rebate receivables based on the rebate policies; and

— Checking subsequent cash collections of rebate receivables.

We consider that the Group's recognition of the volume-related vender rebates is supported by the available evidence.

Investments at fair value through profit or loss

Refer to note 24 to the consolidated financial statements

The Group measured its non-current unlisted equity investment at fair value with the changes in fair value recognised in the consolidated profit or loss. This fair value measurement is significant to our audit because the balance of non-current unlisted equity investment of RMB1,273,077,000 as at 31 December 2020 and the fair value loss of RMB116,512,000 for the year then ended are material to the consolidated financial statements. In addition, the Group's fair value measurement of the non-current unlisted equity investment involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

- Assessing the competence, independence and integrity of the external valuer engaged by client;
- Obtaining the external valuation report and communicating with the external valuer to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation model;
- Checking key assumptions and input data in the valuation model to supporting evidence;
- Checking arithmetical accuracy of the valuation model;
- Comparing the fair value with recent and past capital contributions from other investors with reference to the Group’s announcements;
- Involving our external valuation expert to assist in the review of the valuation methodology, key assumptions and input data; and
- Assessing the disclosure of the fair value measurement in the consolidated financial statements.

We consider that the Group’s fair value measurement of the non-current unlisted equity investment is supported by the available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the Company’s annual report, but does not include the consolidated financial statements and our auditor’s report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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. We report our opinion 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 HKSAs 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.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Wan Ho Yuen
Audit Engagement Director
Practising Certificate Number P04309
Hong Kong, 31 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	8	**14,746,923**	12,621,821
Cost of sales and services		**(13,448,106)**	(11,534,741)
GROSS PROFIT		**1,298,817**	1,087,080
Other income and gains, net	9	**339,523**	530,565
Selling and distribution expenses		**(689,611)**	(633,243)
Administrative expenses		**(198,706)**	(181,387)
PROFIT FROM OPERATIONS		**750,023**	803,015
Finance costs	10	**(134,050)**	(110,015)
Share of profits of joint ventures		**2,150**	14
Share of losses of associates		**(817)**	(20,121)
PROFIT BEFORE TAX		**617,306**	672,893
Income tax expense	11	**(195,162)**	(146,845)
PROFIT FOR THE YEAR	12	**422,144**	526,048
Other comprehensive (loss)/income after tax:			
Items that will not be reclassified to profit or loss:			
Fair value changes of an equity investment at fair value through other comprehensive income		**(86,537)**	9,292
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(18,530)**	(5,166)
Other comprehensive (loss)/income for the year, net of tax		**(105,067)**	4,126
Total comprehensive income for the year		**317,077**	530,174

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	**2020 RMB'000**	2019 RMB'000
Profit for the year attributable to:			
Owners of the Company		**410,701**	513,307
Non-controlling interests		**11,443**	12,741
		422,144	526,048
Total comprehensive income for the year attributable to:			
Owners of the Company		**305,634**	517,433
Non-controlling interests		**11,443**	12,741
		317,077	530,174
Earnings per share attributable to owners of the company	15		
Basic *(RMB)*		**0.27**	0.34
Diluted *(RMB)*		**0.27**	0.34

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	**2020** **RMB'000**	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**2,914,140**	2,691,070
Right-of-use assets	17	**730,628**	525,106
Intangible assets	18	**137,581**	98,578
Goodwill	19	**141,791**	57,911
Prepayments and other assets	20	**776,818**	789,142
Finance lease receivables	21	**221,501**	130,538
Investments in joint ventures	22	**7,770**	5,620
Investments in associates	23	**6,527**	7,344
Investments at fair value through profit or loss	24	**1,273,077**	1,389,589
Equity investment at fair value through other comprehensive income	25	**31,800**	118,337
Deferred tax assets	26	**63,406**	61,244
Total non-current assets		**6,305,039**	5,874,479
CURRENT ASSETS			
Finance lease receivables	21	**156,796**	92,347
Inventories	27	**1,093,579**	1,261,867
Trade receivables	28	**155,364**	134,858
Prepayments, other receivables and other assets	29	**2,736,182**	2,496,613
Investments at fair value through profit or loss	24	**84,201**	88,187
Pledged and restricted bank deposits	30	**84,869**	68,379
Cash in transit	31	**22,031**	43,769
Cash and bank balances	32	**1,714,316**	1,362,063
Total current assets		**6,047,338**	5,548,083
CURRENT LIABILITIES			
Bank loans and other borrowings	33	**2,604,410**	2,493,699
Trade and bills payables	34	**264,444**	115,539
Other payables and accruals	35	**855,063**	675,447
Lease liabilities	36	**83,874**	30,408
Income tax payable		**284,888**	218,314
Total current liabilities		**4,092,679**	3,533,407
NET CURRENT ASSETS		**1,954,659**	2,014,676

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	**2020** ***RMB'000***	2019 *RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,259,698**	7,889,155
NON-CURRENT LIABILITIES			
Lease liabilities	36	**654,957**	510,009
Deferred tax liabilities	26	**57,254**	55,647
Total non-current liabilities		**712,211**	565,656
NET ASSETS		**7,547,487**	7,323,499
EQUITY			
Equity attributable to owners of the parent			
Share capital	38	**12,536**	12,519
Reserves		**7,475,504**	7,257,804
		7,488,040	7,270,323
Non-controlling interests		**59,447**	53,176
TOTAL EQUITY		**7,547,487**	7,323,499

Approved by the Board of Directors on 31 March 2021:

Liu Fenglei
Director

Feng Guo
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to owners of the parent												
	Share capital *RMB'000*	Shares held under share award plan *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	Statutory reserve *RMB'000*	Merger reserve *RMB'000*	Fair value change reserve *RMB'000*	Share option reserve *RMB'000*	Exchange fluctuation reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2019	12,085	–	3,186,337	1,995	238,414	371,200	–	73,873	112,459	2,856,099	6,852,462	42,885	6,895,347
Profit for the year	–	–	–	–	–	–	–	–	–	513,307	513,307	12,741	526,048
Other comprehensive income for the year													
Fair value changes of an equity investment at fair value through other comprehensive income	–	–	–	–	–	–	9,292	–	–	–	9,292	–	9,292
Exchange differences on translating foreign operations	–	–	–	–	–	–	–	–	(5,166)	–	(5,166)	–	(5,166)
Total comprehensive income for the year, net of tax	–	–	–	–	–	–	9,292	–	(5,166)	513,307	517,433	12,741	530,174
Shares repurchased and cancelled *(note 38(a))*	(46)	–	(15,705)	–	–	–	–	–	–	–	(15,751)	–	(15,751)
Shares repurchased *(note 41)*	–	(151,532)	–	–	–	–	–	–	–	–	(151,532)	–	(151,532)
Transfer of reserves	–	–	–	(360)	–	–	–	(12,702)	–	13,062	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(2,450)	(2,450)
Final 2018 dividend declared	–	–	(156,080)	–	–	–	–	–	–	–	(156,080)	–	(156,080)
Exercise of share options *(note 38(b))*	13	–	4,573	–	–	–	–	(812)	–	–	3,774	–	3,774
Equity-settled share option arrangement *(note 42)*	–	–	–	–	–	–	–	15,481	–	–	15,481	–	15,481
Transfer from retained profits	–	–	–	–	32,968	–	–	–	–	(32,968)	–	–	–
Placing of new shares *(note 38(c))*	467	–	133,915	–	–	–	–	–	–	–	134,382	–	134,382
Equity-settled share award arrangement *(note 41)*	–	65,570	–	–	–	–	–	–	–	4,584	70,154	–	70,154
At 31 December 2019	12,519	(85,962)	3,153,040	1,635	271,382	371,200	9,292	75,840	107,293	3,354,084	7,270,323	53,176	7,323,499

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to owners of the parent												
	Share capital	Shares held under share award plan	Share premium	Capital reserve	Statutory reserve	Merger reserve	Fair value change reserve	Share option reserve	Exchange fluctuation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2020	**12,519**	**(85,962)**	**3,153,040**	**1,635**	**271,382**	**371,200**	**9,292**	**75,840**	**107,293**	**3,354,084**	**7,270,323**	**53,176**	**7,323,499**
Profit for the year	–	–	–	–	–	–	–	–	–	410,701	410,701	11,443	422,144
Other comprehensive income for the year													
Fair value changes of an equity investment at fair value through other comprehensive income	–	–	–	–	–	–	(86,537)	–	–	–	(86,537)	–	(86,537)
Exchange differences on translating foreign operations	–	–	–	–	–	–	–	–	(18,530)	–	(18,530)	–	(18,530)
Total comprehensive income for the year, net of tax	–	–	–	–	–	–	(86,537)	–	(18,530)	410,701	305,634	11,443	317,077
Shares repurchased and cancelled *(note 38(a))*	(25)	–	(9,280)	–	–	–	–	–	–	–	(9,305)	–	(9,305)
Shares repurchased *(note 41)*	–	(15,649)	–	–	–	–	–	–	–	–	(15,649)	–	(15,649)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	1,672	1,672	(5,172)	(3,500)
Final 2019 dividend declared	–	–	(103,978)	–	–	–	–	–	–	–	(103,978)	–	(103,978)
Exercise of share options *(note 38(b))*	42	–	16,583	–	–	–	–	(3,447)	–	–	13,178	–	13,178
Equity-settled-share option arrangement *(note 42)*	–	–	–	–	–	–	–	26,165	–	–	26,165	–	26,165
Transfer from retained profits	–	–	–	–	25,678	–	–	–	–	(25,678)	–	–	–
At 31 December 2020	**12,536**	**(101,611)**	**3,056,365**	**1,635**	**297,060**	**371,200**	**(77,245)**	**98,558**	**88,763**	**3,740,779**	**7,488,040**	**59,447**	**7,547,487**

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
Cash flows from operating activities		
Profit before tax	**617,306**	672,893
Adjustments for:		
Finance costs	**134,050**	110,015
Share of profits and losses of joint ventures and associates	**(1,333)**	20,107
Interest income	**(65,783)**	(114,146)
Depreciation charge of property, plant and equipment	**183,083**	153,983
Depreciation charge of right-of-use assets	**85,967**	70,171
Amortisation of intangible assets	**5,442**	4,400
Loss on disposals of property, plant and equipment	**10,782**	13,522
Gain on disposal of intangible assets	**–**	(2,063)
Gain on disposal of an associate	**–**	(32,288)
Fair value change on investments at fair value through profit or loss	**120,498**	(16,789)
Equity-settled share award arrangement	**–**	70,154
Equity-settled share option arrangement	**26,165**	15,481
Operating cash flows before working capital changes	**1,116,177**	965,440
Change in pledged and restricted bank deposits	**(16,490)**	6,568
Change in cash in transit	**21,738**	(7,805)
Change in trade receivables	**(20,286)**	(11,506)
Change in prepayment, other receivables and other assets	**(451,901)**	(52,816)
Change in inventories	**169,803**	(137,448)
Change in finance lease receivables	**(155,412)**	(90,825)
Change in trade and bills payables	**140,267**	(20,778)
Change in other payables and accruals	**174,376**	(293,521)
Cash generated from operations	**978,272**	357,309
Income taxes paid	**(143,029)**	(86,626)
Lease interests paid	**(35,721)**	(34,814)
Net cash generated from operating activities	**799,522**	235,869

	2020 RMB'000	2019 RMB'000
Cash flows from investing activities		
Interest received	**65,783**	40,922
Purchases of property, plant and equipment	**(191,895)**	(425,978)
Proceeds from disposal of property, plant and equipment	**142,214**	106,163
Proceeds from disposal of intangible assets	**—**	7,085
Proceeds from disposal of an associate	**—**	192,000
Purchase of intangible assets	**(2,423)**	(3,009)
Proceeds from disposals of investments at fair value through profit or loss	**—**	84,000
Loan repayment from a third party	**260,000**	(42,080)
Advance and loan made to third parties	**(315,000)**	—
Repayment from/(Advance made to) a related party	**839**	(1,553)
Increase in time deposits	**(10,000)**	(230,000)
Acquisition of subsidiaries	**(179,825)**	—
Net cash used in investing activities	**(230,307)**	(272,450)
Cash flows from financing activities		
Proceeds from exercise of share options	**13,178**	3,774
Proceeds from placing of new shares	**—**	134,382
Repurchase of shares	**(24,954)**	(167,283)
Bank loans and other borrowings raised	**11,782,562**	11,922,298
Repayment of bank loans and other borrowings	**(11,671,851)**	(11,566,203)
Acquisition of non-controlling interests	**(3,500)**	—
Dividends paid	**(103,978)**	(156,080)
Dividends paid to a non-controlling shareholder	**—**	(2,450)
Repayment of lease liabilities	**(57,354)**	(51,956)
Interest paid	**(142,597)**	(90,972)
Net cash (used in)/generated from financing activities	**(208,494)**	25,510

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	2020 *RMB'000*	2019 *RMB'000*
Net increase/(decrease) in cash and cash equivalents	**360,721**	(11,071)
Effect of foreign exchange rate changes, net	**(18,468)**	(5,166)
Cash and cash equivalents at 1 January	**932,063**	948,300
Cash and cash equivalents at 31 December	**1,274,316**	932,063
Analysis of cash and cash equivalents		
Cash and cash equivalents as stated in the consolidated statement of cash flows	**1,274,316**	932,063
Non-pledged time deposits with original maturity of more than three months when acquired	**440,000**	430,000
Cash and bank balances as stated in the consolidated statement of financial position	**1,714,316**	1,362,063

1. GENERAL INFORMATION

China Harmony Auto Holding Limited (formerly known as China Harmony New Energy Auto Holding Limited) (the "**Company**") was incorporated on 24 September 2012 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 13 June 2013 (the "**Listing**").

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "**Group**") were principally engaged in the sale of automobiles and provision of after-sales services in Mainland China.

In the opinion of the directors of the Company (the "**Directors**"), the ultimate holding company of the Company is Cititrust Private Trust (Cayman) Limited, which is incorporated in the Cayman Islands ("**Cayman Islands**"). Eagle Seeker Company Limited is wholly owned by Eagle Pioneer Company Limited. Accordingly, Eagle Pioneer Company Limited is deemed to have interest in the shares held by Eagle Seeker Company Limited. Eagle Pioneer Company Limited is wholly owned by Cititrust Private Trust (Cayman) Limited. Accordingly, Cititrust Private Trust (Cayman) Limited is deemed to have interest indirectly through Eagle Seeker Company Limited, in the shares held by Mr. Feng Changge (the Chairman and a director of the Company, the "**Controlling Shareholder**"), who is the founder of the trust of Cititrust Private Trust (Cayman) Limited.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") that are relevant to its operations and effective for its accounting year beginning on 1 January 2020. HKFRSs comprise Hong Kong Financial Reporting Standards ("**HKFRSs**"); Hong Kong Accounting Standards ("**HKAS**"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments at fair value through profit or loss and equity investments at fair value through other comprehensive income, which are carried at their fair values.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 4 to the consolidated financial statements.

The significant accounting policies applied in the preparation of the consolidated financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated exchange fluctuation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidation (Continued)

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

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

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in profit or loss as a gain on bargain purchase which is attributed to the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combination and goodwill (Continued)

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, equity investments at fair value through other comprehensive income), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of "impairment of assets" as stated in the accounting policy below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units ("**CGU**") that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Associates (Continued)

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Relevant activities are activities that significantly affect the returns of the arrangement. When assessing joint control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has joint control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

In relation to its interest in a joint operation, the Group recognises in its consolidated financial statements, its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly, in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

Investment in a joint venture is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the joint venture in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of a joint venture's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint arrangements (Continued)

The gain or loss on the disposal of a joint venture that results in a loss of joint control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that joint venture and (ii) the Group's share of the net assets of that joint venture plus any remaining goodwill relating to that joint venture and any related accumulated foreign currency translation reserve. If an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in Renminbi ("**RMB**"), which is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group.

(b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (Continued)

(c) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

(iii) All resulting exchange differences are recognised in the exchange fluctuation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The estimated useful lives and residual values are as follows:

	Estimated useful lives	Estimated residual values
Buildings	20–40 years	5%
Leasehold improvements	Over the shorter of terms of the leases terms and 10 years	Nil
Plant and machinery	5–10 years	5%
Furniture and fixtures	3–10 years	5%
Motor vehicles	4–10 years	5%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Leases

The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

Category	Annual rate
Land use rights	2.5%–50%
Land and buildings	2%–50%

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as lessee (Continued)

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US$5,000.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

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

Category	Estimated useful life
Customer relationships	15 years
Dealership agreements	40 years
Software	5 years
Others	10 years

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is attributable to specific items of inventory 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 price in the ordinary course less the estimated costs to be incurred to completion and sale.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Financial assets of the Group are classified under the following categories:

— Financial assets at amortised cost;

— Equity investments at fair value through other comprehensive income; and

— Investments at fair value through profit or loss.

(i) Financial assets at amortised cost

Financial assets (including trade, loans and other receivables) are classified under this category if they satisfy both of the following conditions:

— the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

— the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

(ii) Equity investments at fair value through other comprehensive income

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that are not held for trading as at fair value through other comprehensive income.

Equity investments at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising from changes in fair values recognised in other comprehensive income and accumulated in the equity investment revaluation reserve. On derecognition of an investment, the cumulative gains or losses previously accumulated in the equity investment revaluation reserve are not reclassified to profit or loss.

Dividends on these investments are recognised in profit or loss, unless the dividends clearly represent a recovery of part of the cost of the investment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

(iii) Investments at fair value through profit or loss

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost and the conditions of debt investments at fair value through other comprehensive income unless the Group designates an equity investment that is not held for trading as at fair value through other comprehensive income on initial recognition.

Investments at fair value through profit or loss are subsequently measured at fair value with any gains or losses arising from changes in fair values recognised in profit or loss. The fair value gains or losses recognised in profit or loss are net of any interest income and dividend income. Interest income and dividend income are recognised in profit or loss.

Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost and lease receivables. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("**lifetime expected credit losses**") for trade receivables, contract assets and lease receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables, contract assets and lease receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

— the customer simultaneously receives and consumes the benefits provided by the Group's performance;

— the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

— the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

Other revenue

(a) Dividend income is recognised when the shareholders' rights to receive payment are established.

(b) Bank interest income is recognised using the effective interest method.

(c) 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.

(d) Rental income is recognised on a time proportion basis over the lease terms.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 consolidated statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Share-based payments

The Group issues equity-settled share-based payments to certain employees (including directors). Equity-settled share-based payments are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are 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, until such time as 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 eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in consolidated statement of profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Repayment of a grant related to income is applied first against any unamortised deferred income set up in respect of the grant. To the extent that the repayment exceeds any such deferred income, or where no deferred income exists, the repayment is recognised immediately in profit or loss. Repayment of a grant related to an asset is recorded by increasing the carrying amount of the asset or reducing the deferred income by the amount repayable. The cumulative additional depreciation that would have been recognised in consolidated statement of profit or loss to date in the absence of the grant is recognised immediately in consolidated statement of profit or loss.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in consolidated statement of profit or loss, except when it relates to items recognised in consolidated statement of other comprehensive income or directly in equity, in which case the deferred tax is also recognised in consolidated statement of other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if 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 Company or of a parent of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (Continued)

(B) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the entities comprising the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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. If the Group is itself such a plan, the sponsoring employers are also 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).

(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 a parent of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and other intangible assets, except goodwill, deferred tax assets, investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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.

If the recoverable amount of an asset or cash-generating unit ("**CGU**") is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss is recognised immediately in consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

3. 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 the notes to the consolidated financial statements.

Contract liabilities

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

Vendor rebates

Volume-related vendor rebates are recognised as a deduction from cost of sales on an accrual basis based on the expected entitlement earned up to the reporting date for each relevant supplier contract.

Rebates relating to items purchased but still held at the reporting date are deducted from the carrying value of these items so that the cost of inventories is recorded net of applicable rebates.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. KEY ESTIMATES

Key sources of 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 discussed below.

(a) Estimated rebate receivables

The Group receives incentive rebates from suppliers from time to time depending on the policies of the manufacturers. The amount of incentive rebates given by a manufacturer for a given period is generally determined with reference to the Group's purchase volume, sales volume, customer satisfaction and other performance indicators set by the manufacturer with respect to that period. The Group accrues incentive rebates based on management's best estimates and judgements as of the relevant reporting date while the actual amount of the incentive rebates is determined by the manufacturers after the end of the reporting period. These estimates and judgements involve, among other factors, the estimated results of assessment by the manufacturers for the Group's performance in various aspects during the reporting period. When the actual rebates received by the Group differ from the estimated amount, adjustment will be made and recognised in the period in which such event takes place.

(b) Fair value of unlisted equity investments

The Group appointed independent professional valuers to assess the fair values of an unlisted equity investments. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

(c) 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 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 CGU 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 CGU and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. KEY ESTIMATES (CONTINUED)

Key sources of estimation uncertainty (Continued)

(d) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(e) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flows, a material impairment loss may arise.

(f) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was approximately RMB141,791,000 (2019: RMB57,911,000). No impairment loss was recognised during 2019 and 2020.

(g) Impairment of trade and other receivables

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

4. KEY ESTIMATES (CONTINUED)

Key sources of estimation uncertainty (Continued)

(h) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions. The Group will reassess the estimates by the end of each reporting period.

(i) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets was approximately RMB63,406,000 (2019: RMB61,244,000) as at 31 December 2020. The amount of unrecognised tax losses at 31 December 2020 was approximately RMB161,491,000 (2019: RMB189,786,000). Further details are contained in note 26 to the consolidated financial statements.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) 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 United States dollar and Hong Kong dollars as disclosed in note 32 to the consolidated financial statements.

The Group's assets and liabilities denominated in US$ and HK$ were mainly held by certain subsidiaries incorporated outside Mainland China who had US$ and HK$ as their functional currencies, and the Group did not have material foreign currency transactions in Mainland China during the year. Therefore, the Group had no significant foreign currency risk.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk

The carrying amount of the cash and bank balances, trade and other receivables and investments included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

It has policies in place to ensure that sales are made to customers with an appropriate credit history. Amounts due from related companies are closely monitored by the directors.

The credit risk on cash and bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

— internal credit rating;

— actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

— actual or expected significant changes in the operating results of the borrower;

— significant increases in credit risk on other financial instruments of the same borrower; and

— significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

The Group uses two categories for non-trade receivables which reflect their credit risk and how the loan loss provision is determined for each of the categories. In calculating the expected credit loss rates, the Group considers historical loss rates for each category and adjusts for forward looking data.

Category	Definition	Loss provision
Performing	Low risk of default and strong capacity to pay	12 month expected losses
Non-performing	Significant increase in credit risk	Lifetime expected losses

All of these non-trade receivables are considered to have low risk and under the 'Performing' category because they have a low risk of default and have strong ability to meet their obligations.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

The maturity analysis, based on undiscounted cash flows, of the Group's financial liabilities is as follows:

At 31 December 2020

	Less than 1 year *RMB'000*	Between 1 to 2 years *RMB'000*	Between 2 to 5 years *RMB'000*	Over 5 years *RMB'000*
Bank loans and other borrowings	**2,797,866**	**–**	**–**	**–**
Trade and bills payables	**264,444**	**–**	**–**	**–**
Other payables	**309,149**	**–**	**–**	**–**
	3,371,459	**–**	**–**	**–**

At 31 December 2019

	Less than 1 year *RMB'000*	Between 1 to 2 years *RMB'000*	Between 2 to 5 years *RMB'000*	Over 5 years *RMB'000*
Bank loans and other borrowings	2,616,130	—	—	—
Trade and bills payables	115,539	—	—	—
Other payables	251,580	—	—	—
	2,983,249	—	—	—

(d) Interest rate risk

The Group's bank deposits, bank loans and other borrowings bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

The Group's exposure to the risk of interest rate fluctuation is very limited, as the Group does not have a floating interest rate of bank loans and other borrowings.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Categories of financial instruments at 31 December

	2020 RMB'000	2019 RMB'000
Financial assets		
Investments at fair value through profit or loss		
Mandatorily measured	**1,357,278**	1,477,776
Equity investment at fair value through other comprehensive income	**31,800**	118,337
Financial assets at amortised cost		
— Prepayments and other assets	**660,000**	390,000
— Finance lease receivables	**378,297**	222,885
— Trade receivables	**155,364**	134,858
— Financial assets included in prepayments, other receivables and other assets	**1,793,620**	1,681,631
— Pledged and restricted bank deposits	**84,869**	68,379
— Cash in transit	**22,031**	43,769
— Cash and bank balances	**1,714,316**	1,362,063
	4,808,497	3,903,585
Financial liabilities		
Financial liabilities at amortised cost		
— Bank loans and other borrowings	**2,604,410**	2,493,699
— Trade and bills payables	**264,444**	115,539
— Financial liabilities included in other payables and accruals	**309,149**	251,580
	3,178,003	2,860,818

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Capital management

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

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

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity attributable to owners of the parent plus net debt. Net debt includes bank loans and other borrowings, trade and bills payables, other payables and accruals, less cash and bank balances and structured deposits. The gearing ratios as at the end of the reporting periods were as follows:

	2020 ***RMB'000***	2019 *RMB'000*
Bank loans and other borrowings	**2,604,410**	2,493,699
Trade and bills payables	**264,444**	115,539
Other payables and accruals	**855,063**	675,447
Less: Cash in transit	**(22,031)**	(43,769)
Less: Cash and bank balances	**(1,714,316)**	(1,362,063)
Net debt	**1,987,570**	1,878,853
Equity attributable to owners of the parent	**7,488,040**	7,270,323
Gearing ratio	**26.5%**	25.8%

6. FAIR VALUE MEASUREMENTS

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 following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

6. FAIR VALUE MEASUREMENTS (CONTINUED)

(a) Disclosures of level in fair value hierarchy at 31 December 2020:

Description	Fair value measurements using: Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Recurring fair value measurements:				
Equity investment at fair value through other comprehensive income				
Unlisted equity investment	–	–	31,800	31,800
Investments at fair value through profit or loss				
Unlisted equity investment	–	–	1,273,077	1,273,077
Unlisted private fund in the PRC	–	84,201	–	84,201
Total recurring fair value measurements	–	84,201	1,304,877	1,389,078

Disclosures of level in fair value hierarchy at 31 December 2019:

Description	Fair value measurements using: Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Recurring fair value measurements:				
Equity investment at fair value through other comprehensive income				
Unlisted equity investment	—	—	118,337	118,337
Investments at fair value through profit or loss				
Unlisted equity investment	—	—	1,389,589	1,389,589
Unlisted private fund in the PRC	—	88,187	—	88,187
Total recurring fair value measurements	—	88,187	1,507,926	1,596,113

6. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Reconciliation of assets measured at fair value based on level 3:

Description	**Equity investments at fair value through other comprehensive income** ***RMB'000***	**Investments at fair value through profit or loss equity investments** ***RMB'000***	**Total** ***RMB'000***
At 1 January 2020	**118,337**	**1,389,589**	**1,507,926**
Addition	**—**	**—**	**—**
Total gains or losses recognised			
in profit or loss*	**—**	**(116,512)**	**(116,512)**
in other comprehensive income	**(86,537)**	**—**	**(86,537)**
At 31 December 2020	**31,800**	**1,273,077**	**1,304,877**
* Include gains or losses for assets held at end of reporting period	**—**	**(116,512)**	**(116,512)**

Description	Equity investments at fair value through other comprehensive income *RMB'000*	Investments at fair value through profit or loss equity investments *RMB'000*	Total *RMB'000*
At 1 January 2019	—	1,377,410	1,377,410
Addition	109,045	—	109,045
Total gains or losses recognised			
in profit or loss*	—	12,179	12,179
in other comprehensive income	9,292	—	9,292
At 31 December 2019	118,337	1,389,589	1,507,926
* Include gains or losses for assets held at end of reporting period	—	12,179	12,179

6. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at the end of reporting period:

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Level 2 fair value measurements

Description	**Valuation technique**	**Key input**	**Fair value 2020** ***RMB'000***
Unlisted private fund in the PRC	Market approach	Market price of private fund	**84,201**

Description	Valuation technique	Key input	Fair value 2019 *RMB'000*
Unlisted private fund in the PRC	Market approach	Market price of private fund	88,187

6. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at the end of reporting period: (Continued)

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2020 *RMB'000*
Private equity investments classified as investments at fair value through profit or loss	Market approach	Discounts for lack of marketability	30%	Decrease	**1,273,077**
Equity investment at fair value through other comprehensive income	Market approach	Discounts for lack of marketability	15.8%	Decrease	**31,800**

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2019 *RMB'000*
Private equity investments classified as investments at fair value through profit or loss	Discounted cash flow	weighted average cost of capital	26%–28%	Decrease	1,389,589
Equity investment at fair value through other comprehensive income	Discounted cash flow	weighted average cost of capital	14%	Decrease	118,337

7. OPERATING SEGMENT INFORMATION

The Group's principal business is the sale of automobiles and provision of after-sales services. 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 area

Since all of the Group's revenue was generated from the sale of automobiles and provision of after-sales services in Mainland China and over 90% of the Group's identifiable non-current assets and liabilities were located in Mainland China, no geographical segment information is presented.

Information about major customers

Since no sales to a single customer amounted to 10% or more of the Group's revenue during the year, no major customer information is presented.

8. REVENUE

	2020 *RMB'000*	2019 *RMB'000*
Revenue from contracts with customers		
— Revenue from the sale of automobiles and others	**12,893,047**	10,912,378
— Provision of after-sales services	**1,818,155**	1,685,770
Revenue from other sources		
— Finance leasing services	**35,721**	23,673
	14,746,923	12,621,821

8. REVENUE (CONTINUED)

Disaggregation of revenue from contracts with customers:

	2020	2019
	RMB'000	*RMB'000*
Type of goods or services		
Sale of automobiles and others	**12,893,047**	10,912,378
Provision of after-sales services	**1,818,155**	1,685,770
Total revenue from contracts with customers	**14,711,202**	12,598,148

	2020	2019
	RMB'000	*RMB'000*
Timing of revenue recognition		
Goods received by the customer at a point in time	**12,893,047**	10,912,378
Services rendered at a point in time	**1,818,155**	1,685,770
Total revenue from contracts with customers	**14,711,202**	12,598,148

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2020	2019
	RMB'000	*RMB'000*
Sale of automobiles and others	**314,331**	243,620
Provision of after-sales services	**46,983**	41,521
	361,314	285,141

8. REVENUE (CONTINUED)

Performance obligations

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

Sale of automobiles and others

The performance obligation is satisfied upon receipt of goods by the customer and payment in advance is normally required.

Provision of after-sales services

The performance obligation is satisfied upon the services are rendered and the payment is generally fully settled when the services are rendered.

9. OTHER INCOME AND GAINS, NET

	2020 ***RMB'000***	2019 *RMB'000*
Commission income	**342,261**	299,559
Interest income from loans to equity investment at fair value through other comprehensive income	**27,631**	73,224
Advertisement support received from motor vehicle manufacturers	**29,117**	44,461
Gain on disposal of an associate	**—**	32,288
Interest income from loans and advances to a third party	**15,455**	25,953
Bank interest income	**18,667**	11,366
Gain on disposal of intangible assets	**—**	2,063
Government grants *(note)*	**5,915**	1,964
Interest income from an investment at fair value through profit or loss	**4,030**	3,603
Fair value change on investments at fair value through profit or loss	**(120,498)**	16,789
Rental income	**13,689**	8,215
Others	**3,256**	11,080
	339,523	530,565

Note:

Government grants include various subsidies received by the Company's subsidiaries from relevant government bodies. There are no unfulfilled conditions or contingencies related to these grants.

10. FINANCE COSTS

	2020 **RMB'000**	2019 RMB'000
Interest on bank loans and other borrowings	**106,876**	90,972
Leases interests	**35,721**	34,814
	142,597	125,786
Less: Interest capitalised	**(8,547)**	(15,771)
	134,050	110,015

11. INCOME TAX EXPENSE

	2020 **RMB'000**	2019 RMB'000
Current Mainland China corporate income tax		
Provision for the year	**206,238**	156,956
Deferred tax *(note 26)*	**(11,076)**	(10,111)
	195,162	146,845

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

The subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 8.25% for the first HK$2,000,000 of the estimated assessable profits and 16.5% of the remaining estimated assessable profits arising in Hong Kong for the year ended 31 December 2020 and 2019. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2020 as the Group did not generate any assessment profit arising in Hong Kong during the year (2019: Nil).

11. INCOME TAX EXPENSE (CONTINUED)

According to the Corporate Income Tax Law of the People's Republic of China, the income tax rate for Mainland China subsidiaries is 25% (2019: 25%).

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 rates for the regions 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 from continuing operations	**617,306**	672,893
Tax at the weighted average tax rate	**154,326**	177,217
(Profits)/losses attributable to joint ventures and associates	**(333)**	5,027
Income not subject to tax	**(11,854)**	(34,187)
Tax effect of non-deductible expenses	**34,925**	3,765
Tax losses and temporary difference not recognised	**18,438**	8,274
Tax losses utilised from previous periods	**(340)**	(13,251)
Total income tax expenses	**195,162**	146,845

12. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging/(crediting) the following:

	2020 **RMB'000**	2019 RMB'000
Amortisation of intangible assets	**5,442**	4,400
Auditor's remuneration		
Audit services		
— Current year	**5,300**	3,300
— Under provision in prior year	**650**	—
Non-audit services	**560**	200
Remuneration paid to ex-auditor	**1,580**	—
Bank charges	**2,758**	5,127
Cost of sales and services:		
Cost of sales of automobiles	**12,444,500**	10,589,269
Cost of aftersales services *(note)*	**1,003,606**	945,472
	13,448,106	11,534,741
Depreciation charge of property, plant and equipment *(note 16)*	**183,083**	153,983
Depreciation charge of right of use assets *(note 17)*	**85,967**	70,171
Fair value change on investments at fair value through profit or loss	**120,498**	(16,789)
Foreign exchange differences, net	**(383)**	(385)
Gain on disposal of an associate	**—**	(32,288)
Gain on disposal of intangible assets	**—**	(2,063)
Loss on disposals of property, plant and equipment	**10,782**	13,522
Staff costs including directors' emoluments		
— Wages and salaries	**283,109**	237,982
— Equity-settled share-based payments	**26,165**	85,635
— Other welfare	**43,493**	56,576
	352,767	380,193

Note:

The employee benefit expenses of RMB80,161,000 (2019: RMB64,065,000) were included in the cost of after-sales services.

13. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The emoluments of each director were as follows:

	2020					
	Fees *RMB'000*	Salaries allowance and other benefits *RMB'000*	Equity-settled share award expense *RMB'000*	Equity-settled share option expense *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
Executive director and chief executive:						
Mr. Liu Fenglei	–	700	–	170	43	913
Executive directors						
Mr. Feng Changge	–	2,261	–	170	–	2,431
Ms. Ma Lintao	–	1,815	–	–	43	1,858
Ms. Fengguo	–	688	–	27	64	779
Mr. Han Yang	–	560	–	54	80	694
	–	5,324	–	251	187	5,762
Independent non-executive directors						
Mr. WANG Nengguang *(note a)*	251	–	–	–	–	251
Mr. LAU Kwok Fan *(note b)*	251	–	–	–	–	251
Mr. Chan Ying Lung *(note f)*	191	–	–	–	–	191
Mr. Liu Zhangmin *(note d)*	63	–	–	–	–	63
Mr. Xue Guoping *(note e)*	63	–	–	–	–	63
	819	–	–	–	–	819
	819	6,024	–	421	230	7,494

13. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

	2019					
	Fees	Salaries allowance and other benefits	Equity–settled share award expense	Equity–settled share option expense	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director and chief executive:						
Mr. Liu Fenglei	—	750	—	440	48	1,238
Executive directors						
Mr. Feng Changge	—	2,599	—	440	—	3,039
Ms. Ma Lintao	—	2,535	—	—	48	2,583
Ms. Fengguo	—	700	—	70	34	804
Mr. Han Yang	—	600	—	331	122	1,053
	—	6,434	—	841	204	7,479
Independent non-executive directors						
Mr. WANG Nengguang *(note a)*	246	—	—	—	—	246
Mr. LAU Kwok Fan *(note b)*	147	—	—	—	—	147
Mr. Liu Zhangmin *(note d)*	269	—	—	—	—	269
Mr. Xiao Changnian *(note c)*	22	—	—	—	—	22
Mr. Xue Guoping *(note e)*	269	—	—	—	—	269
	953	—	—	—	—	953
	953	7,184	—	1,281	252	9,670

(a) Mr. WANG Nengguang was appointed as an independent non-executive director of the Company with effect from 4 February 2019.

(b) Mr. LAU Kwok Fan was appointed as an independent non-executive director of the Company with effect from 14 June 2019.

(c) Mr. Xiao Changnian resigned as an independent non-executive director of the Company with effect from 4 February 2019.

(d) Mr. Liu Zhangmin resigned as an independent non-executive director of the Company with effect from 27 March 2020.

(e) Mr. Xue Guoping resigned as an independent non-executive director of the Company with effect from 27 March 2020.

(f) Mr. Chan Ying Lung was appointed as an independent non-executive director of the Company with effect from 27 March 2020.

13. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

There was no arrangement under which a director waived or agreed to waive any remuneration in respect of the years ended 31 December 2019 and 2020.

The five highest paid individuals in the Group during the year included two (2019: Nil) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2019: five) individuals for the year ended 31 December 2020 are set out below:

	2020 **RMB'000**	2019 RMB'000
Salaries, allowances and other benefits	**413**	571
Equity-settled share options expense	**18,762**	728
Equity-settled share award expense	**–**	55,120
Pension scheme contributions	**62**	80
	19,237	56,499

The emoluments fell within the following band:

	Number of individuals	
	2020	2019
HK$1,000,001 to HK$1,500,000	**1**	—
HK$9,500,001 to HK$10,000,000	**–**	2
HK$10,000,001 to HK$10,500,000	**2**	—
HK$14,000,001 to HK$14,500,000	**–**	2
HK$14,500,001 to HK$15,000,000	**–**	1

In 2019, share options were granted to non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 42 to the consolidated financial statements. The fair value of such options, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the year ended 31 December 2019 and 2020 is included in the above non-director's and non-chief executive's remuneration disclosures.

13. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

In 2019, share awards were granted to non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 41 to the consolidated financial statements. The fair value of such awards, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the year ended 31 December 2019 and 2020 is included in the above non-director's and non-chief executive's remuneration disclosures.

14. DIVIDENDS

	2020 *RMB'000*	2019 *RMB'000*
Proposed final — HK7.9 cents (2019: HK7.5 cents) per ordinary share	**105,309**	104,128

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The calculation of the proposed final dividend for the year ended 31 December 2020 is based on the proposed final dividend per ordinary share and the total number of ordinary shares as at the date of approval of these consolidated financial statements.

15. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the profit for the year attributable to the owners of the company and the weighted average number of ordinary shares in issue during the year. The number of shares for the current year has been arrived at after eliminating the restricted shares of the Company held under the share award scheme.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to the owners of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares under the share award scheme and share option scheme outstanding at the end of the reporting period.

15. EARNINGS PER SHARE (CONTINUED)

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

	2020	2019
	RMB'000	*RMB'000*
Earnings:		
Profit for the year attributable to owners of the Company used in the basic earnings per share calculation	**410,701**	513,307
Number of shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,536,876,241**	1,513,637,039
Effect of dilution *weighted average number of ordinary shares:*		
— Share options	**6,621,766**	—
	1,543,498,007	1,513,637,039

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2019	1,636,851	515,799	147,333	144,142	304,254	372,289	3,120,668
Additions	18,782	13,632	20,545	27,209	165,794	195,787	441,749
Transfers	118,886	153,875	3,396	2,953	—	(279,110)	—
Disposals	(6,537)	(9,737)	(2,879)	(24,595)	(128,112)	—	(171,860)
At 31 December 2019 and 1 January 2020	**1,767,982**	**673,569**	**168,395**	**149,709**	**341,936**	**288,966**	**3,390,557**
Additions	**99,005**	**15,166**	**61,970**	**55,155**	**118,946**	**165,409**	**515,651**
Acquisition of subsidiaries *(notes 43(b),(c) and (d))*	**17,969**	**8,456**	**17,050**	**–**	**23**	**–**	**43,498**
Transfers	**196,694**	**3,244**	**1,922**	**1,844**	**648**	**(204,352)**	**–**
Disposals	**(9,766)**	**(4,387)**	**(7,313)**	**(13,868)**	**(167,309)**	**–**	**(202,643)**
At 31 December 2020	**2,071,884**	**696,048**	**242,024**	**192,840**	**294,244**	**250,023**	**3,747,063**
Accumulated depreciation and impairment							
At 1 January 2019	220,389	122,317	71,609	92,594	60,770	30,000	597,679
Depreciation	55,084	30,404	13,813	17,993	36,689	—	153,983
Disposals	(4,061)	(8,235)	(1,872)	(12,607)	(25,400)	—	(52,175)
At 31 December 2019 and 1 January 2020	**271,412**	**144,486**	**83,550**	**97,980**	**72,059**	**30,000**	**699,487**
Depreciation	**76,698**	**33,454**	**18,643**	**31,292**	**22,996**	**–**	**183,083**
Disposals	**(215)**	**(50)**	**(2,042)**	**(12,185)**	**(35,155)**	**–**	**(49,647)**
At 31 December 2020	**347,895**	**177,890**	**100,151**	**117,087**	**59,900**	**30,000**	**832,923**
Carrying amount							
At 31 December 2020	**1,723,989**	**518,158**	**141,873**	**75,753**	**234,344**	**220,023**	**2,914,140**
At 31 December 2019	1,496,570	529,083	84,845	51,729	269,877	258,966	2,691,070

At 31 December 2020, certain of the Group's buildings with an aggregate net book value of approximately RMB11,133,000 (2019: RMB16,842,000) were pledged as security for the Group's bank and other borrowings (note 33).

The Group has yet to obtain property ownership certificates for certain buildings with an aggregate net book value of RMB1,478,512,000 (2019: RMB1,405,656,000) as at 31 December 2020. The directors are of the opinion that the Group is in the process to obtain the relevant certificates and does not expect any legal obstacles.

17. RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

	2020 RMB'000	2019 RMB'000
At 31 December:		
Right-of-use assets		
Land use rights	**186,033**	154,780
Land and buildings	**544,595**	370,326
	730,628	525,106
Lease commitments of short-term leases	**570**	192
The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:		
Less than 1 year	**116,077**	62,906
Between 1 and 2 years	**113,387**	83,834
Between 2 and 5 years	**271,334**	207,802
Over 5 years	**496,108**	444,789
	996,906	799,331
Depreciation charge of right-of-use assets		
Land use rights	**15,182**	14,110
Land and buildings	**70,785**	56,061
	85,967	70,171
Lease interests	**35,721**	34,814
Expenses related to short-term leases	**4,881**	2,490
Income from subleasing right-of-use assets	**11,307**	2,978
Total cash outflow for leases	**97,956**	89,260
Additions to right-of-use assets	**291,489**	17,253

17. RIGHT-OF-USE ASSETS (CONTINUED)

The Group leases various land use rights and land and buildings. Lease agreements are typically made for fixed periods of 2 to 49 years (2019: 2 to 49 years). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and the leased assets may not be used as security for borrowing purposes.

The Group's land use rights of approximately RMB5,116,000 (2019: RMB10,697,000) were pledged as security for the Group's bank loans and other borrowings as at 31 December 2020.

18. INTANGIBLE ASSETS

	Dealership agreements *RMB'000*	Customer relationships *RMB'000*	Software *RMB'000*	Others *RMB'000*	Total *RMB'000*
Cost					
At 1 January 2019	90,500	8,500	18,850	500	118,350
Additions	—	—	3,009	—	3,009
Disposal	—	—	(6,084)	—	(6,084)
At 31 December 2019	**90,500**	**8,500**	**15,775**	**500**	**115,275**
Additions	**–**	**–**	**2,423**	**–**	**2,423**
Acquisition of subsidiaries *(notes 43(b),(c) and (d))*	**33,361**	**8,723**	**–**	**–**	**42,084**
Exchange realignment	**–**	**–**	**(100)**	**–**	**(100)**
At 31 December 2020	**123,861**	**17,223**	**18,098**	**500**	**159,682**
Amortisation					
At 1 January 2019	3,546	895	8,673	245	13,359
Amortization for the year	2,434	567	1,349	50	4,400
Disposals	—	—	(1,062)	—	(1,062)
At 31 December 2019	**5,980**	**1,462**	**8,960**	**295**	**16,697**
Amortization for the year	**3,235**	**772**	**1,385**	**50**	**5,442**
Exchange realignment	**–**	**–**	**(38)**	**–**	**(38)**
At 31 December 2020	**9,215**	**2,234**	**10,307**	**345**	**22,101**
Carrying amount					
At 31 December 2020	**114,646**	**14,989**	**7,791**	**155**	**137,581**
At 31 December 2019	84,520	7,038	6,815	205	98,578

19. GOODWILL

	RMB'000
Cost	
At 1 January 2019, 31 December 2019 and 1 January 2020	**57,911**
Arising on acquisition of subsidiaries *(notes 43(b), (c) and (d))*	**83,880**
At 31 December 2020	**141,791**
Carrying amount	
At 31 December 2020	**141,791**
At 31 December 2019	57,911

Impairment testing of goodwill

The recoverable amounts of the CGUs are determined on the basis of their value in use using discounted cash flow method (level 3 fair value measurements). The key assumptions for the discounted cash flow method are those regarding the discount rates, growth rates and budgeted gross margin and revenue during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and revenue are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next ten years with the residual period using the growth rate of 3% (2019: 3%). The rate used to discount the forecast cash flows is 14% (2019: 14%).

20. PREPAYMENTS AND OTHER ASSETS

	2020 *RMB'000*	2019 *RMB'000*
Prepayments for purchase of items of property, plant and equipment	**116,818**	399,142
Loan to Independent Aftersales Company *(note b)*	**390,000**	390,000
Loan to a third party *(note a)*	**270,000**	—
	776,818	789,142

Notes:

(a) The loan granted to a third party with an amount of RMB260,000,000 (the "**Loan 1**") as at 31 December 2018 is guaranteed by a third party and the Loan 1 bore a fixed interest rate of 9.5% per annum with a maturity period of two years. The Loan 1 was classified as a current asset as at 31 December 2019. During the year ended 31 December 2020, the Loan 1 was fully settled and was replaced by a loan granted to the abovementioned third party with an amount RMB270,000,000 (the "**Loan 2**"). The Loan 2 is unsecured and bears interest in accordance with the benchmark loan interest rate stipulated by the People's Bank of China for the corresponding period and has a fixed repayment term of two years. The Loan 2 will be matured in 2022.

(b) As of 31 December 2020, the loan granted to 河南和諧汽車維修服務有限公司 (Henan Hexie Automobile Aftersales Services Co., Ltd. (the "**Independent Aftersales Company**") with an amount of RMB390,000,000 (2019: RMB390,000,000) is unsecured and bears interest in accordance with the benchmark loan interest rate stipulated by the People's Bank of China for the corresponding period and has a fixed repayment term of five years. The loan will be matured in 2022.

21. FINANCE LEASE RECEIVABLES

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

At 31 December 2020, the future minimum lease receivables under finance lease and their present value were as follows:

	Lease payments		Present value of lease payments	
	2020 **RMB'000**	2019 RMB'000	**2020** **RMB'000**	2019 RMB'000
Less than 1 year	**198,017**	115,901	**156,796**	92,347
Between 1 and 2 years	**132,775**	92,409	**111,451**	81,103
Between 2 and 3 years	**115,143**	52,017	**110,050**	49,435
	445,935	260,327		
Less: Unearned finance income	**(67,638)**	(37,442)		
Present value of lease payments	**378,297**	222,885	**378,297**	222,885
Less: Amount within 12 months (shown under current assets)			**(156,796)**	(92,347)
Amount receivable after 12 months			**221,501**	130,538

Disclosures of finance lease-related items:

Year ended 31 December:

	2020 **RMB'000**	2019 RMB'000
Selling profit for finance leases	**35,721**	23,673
Significant changes in net investment in the leases		
— Increase due to new leases	**277,087**	151,280
— Decrease due to repayments	**121,675**	60,455

22. INVESTMENTS IN JOINT VENTURES

	2020	2019
	RMB'000	*RMB'000*
Unlisted investments in the PRC:		
Share of net assets	**7,770**	5,620

河南和諧富騰互聯網加智能電動汽車企業管理有限公司(Henan Harmony Futeng Internet and Intelligent Electric Vehicle Corporate Management Company Limited) ("**Futeng Corporate Management Company**"), and 河南和諧富騰互聯網加智能電動汽車新能源合夥企業(有限合夥) (Henan Harmony Futeng Internet and Intelligent Electric Vehicle Corporate New Energy Partnership (Limited Partnership)) ("**Henan Harmony Futeng LP**") are joint ventures of the Group and are considered to be related parties of the Group.

These joint ventures are accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRS financial statements of the joint ventures.

(a) Particulars of the joint ventures are as follows:

Name	Place of establishment/ registration	Paid-in/ issued capital	Percentage of Ownership interest/ Voting power/ Profit sharing	Principal activities
Futeng Corporate Management Company	Zhengzhou, the PRC	RMB20,000,000	40.0%	Technological development and sale of electric vehicles; corporate management consulting
Henan Harmony Futeng LP	Zhengzhou, the PRC	RMB302,500,000	39.2%	Technological development and sale of electric vehicles; corporate management consulting

The above investments are indirectly held by the Company.

The Group has discontinued the recognition of its share of losses of a joint venture, Henan Harmony Futeng LP, because the share of losses of the joint venture exceeded the Group's interest in the joint venture and the Group has no obligation to take up further losses. The amount of the Group's unrecognised share of losses of this joint venture for the current year was RMB Nil (2019: RMB1,000).

22. INVESTMENTS IN JOINT VENTURES (CONTINUED)

(b) **The following table shows, in aggregate, the Group's share of the amounts of all individually immaterial joint ventures that are accounted for using the equity method.**

	2020	2019
	RMB'000	*RMB'000*
At 31 December:		
Carrying amounts of interests	**7,770**	5,620
Year ended 31 December:		
Gain/(loss) from continuing operations	**2,150**	(14)
Total comprehensive gain/(loss)	**2,150**	(14)

23. INVESTMENTS IN ASSOCIATES

	2020	2019
	RMB'000	*RMB'000*
Unlisted investments in the PRC:		
Share of net assets	**6,527**	7,344

鄭州永達和諧汽車銷售服務有限公司 (Zhengzhou Yongda Hexie Automobile Sales & Services Co., Ltd.) ("**Yongda Hexie**") and 浙江愛車互聯網智能電動車有限公司 (Zhejiang Aiche Internet Intelligent Electric Vehicle Company Limited) ("**Aiche Company**") are associates of the Group and are considered to be related parties of the Group.

23. INVESTMENTS IN ASSOCIATES (CONTINUED)

(a) Particulars of the associates are as follows:

Name	Place of establishment/ registration	Paid-in/ issued capital	Percentage of Ownership interest/ Voting power/Profit sharing 2020	2019	Principal activities
Yongda Hexie	Zhengzhou, the PRC	RMB20,000,000	**30%**	30%	Sale and service of motor vehicles
Aiche Company	Shangyu, the PRC	RMB456,500,000	**33.7%**	33.7%	Technological development and sale of electric vehicles

The Group has discontinued the recognition of its share of losses of an associate, Aiche Company, because the share of losses of the associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. The amount of the Group's unrecognised share of losses of this associate for the year was RMB75,000 (2019:RMB75,000).

(b) The following table shows, in aggregate, the Group's share of the amounts of all individually immaterial associates that are accounted for using the equity method.

	2020 ***RMB'000***	2019 *RMB'000*
At 31 December:		
Carrying amounts of interests	**6,527**	7,344
Year ended 31 December:		
Loss from continuing operations	**(817)**	(497)
Total comprehensive loss	**(817)**	(497)

24. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 *RMB'000*	2019 *RMB'000*
Non-current		
— Unlisted equity investment, at fair value *(note a)*	**1,273,077**	1,389,589
Current		
— Unlisted private fund in the PRC *(note b)*	**84,201**	88,187

Notes:

(a) The above unlisted equity investment as at 31 December 2020 and 2019 was investments in Future Mobility Corporation Limited Cayman ("**FMC**") and was mandatorily classified as investments at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interest.

(b) The above unlisted private fund at 31 December 2020 and 2019 was a fund managed by a private fund manager registered and approved by the Asset Management Association of China. It was mandatorily classified as investments at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interest.

25. EQUITY INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 *RMB'000*	2019 *RMB'000*
Equity securities, at fair value		
Unlisted equity securities — Independent Aftersales Company	**31,800**	118,337
Analysed as:		
Non-current assets	**31,800**	118,337

The above investments are intended to be held for the medium to long-term. Designation of these investments as equity investments at fair value through other comprehensive income can avoid the volatility of the fair value changes of these investments to the profit or loss.

During the year ended 31 December 2019, the Company legally disposed of 29.0% equity interest in Independent Aftersales Company at a consideration of RMB192,000,000, whereas the Group's interest had been reduced from 48.8% to 19.8%. With the loss of significant influence on Independent Aftersales Company, the equity investment had been reclassified from interest in an associate to an equity investment at fair value through other comprehensive income.

26. 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 offsetting against future taxable profits	Accruals	Deferred rental expenses	Accelerated tax deprecation	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019	11,981	12,859	1,815	20,040	2,128	48,823
Deferred tax (charged)/credited to the consolidated statement of profit or loss during the year	(3,501)	(1,029)	13,067	6,012	(2,128)	12,421
At 31 December 2019	8,480	11,830	14,882	26,052	—	61,244
Deferred tax (charged)/credited to the consolidated statement of profit or loss during the year	(3,975)	(2,912)	(2,351)	11,400	—	2,162
At 31 December 2020	4,505	8,918	12,531	37,452	—	63,406

26. 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 years are as follows:

	Fair value adjustments arising from acquisition of a subsidiary *RMB'000*	Capitalised interest expense *RMB'000*	Total *RMB'000*
At 1 January 2019	24,313	29,024	53,337
Deferred tax (credited)/charged to the consolidated statement of profit or loss during the year	(799)	3,109	2,310
At 31 December 2019	23,514	32,133	55,647
Acquisition of subsidiaries *(notes 43(b), (c) and (d))*	10,521	—	10,521
Deferred tax (credited)/charged to the consolidated statement of profit or loss during the year	(1,180)	(7,734)	(8,914)
At 31 December 2020	32,855	24,399	57,254

At the end of the reporting period the Group has unused tax losses arising in Mainland China of RMB179,510,000 (2019: RMB223,706,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB18,019,000 (2019: RMB33,920,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB161,491,000 (2019: RMB189,786,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB161,491,000 (2019: RMB189,786,000) that will expire in 5 years.

Pursuant to the PRC Corporate Income Tax 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 applicable rate of the Group is 10%. 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.

26. DEFERRED TAX (CONTINUED)

Deferred tax liabilities (Continued)

At 31 December 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

27. INVENTORIES

	2020	2019
	RMB'000	*RMB'000*
Automobiles	**925,916**	1,133,165
Spare parts and accessories	**167,663**	128,702
	1,093,579	1,261,867

At 31 December 2020, certain of the Group's inventories with an aggregate carrying amount of approximately RMB430,970,000 (2019: RMB1,014,390,000) were pledged as security for the Group's bank loans and other borrowings (note 33).

At 31 December 2020, certain of the Group's inventories with an aggregate carrying amount of approximately RMB90,522,000 (2019: RMB2,802,000) were pledged as security for the Group's bills payable (note 34).

28. TRADE RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**155,364**	134,858

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.

28. TRADE RECEIVABLES (CONTINUED)

(a) Aging analysis

The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	2020 *RMB'000*	2019 *RMB'000*
Within 3 months	**138,749**	116,228
3 months to within 1 year	**16,615**	18,630
	155,364	134,858

(b) Impairment of trade receivables

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

	Current *RMB'000*	**Less than 3 months past due** *RMB'000*	**Total** *RMB'000*
At 31 December 2020			
Trade receivables			
Weighted average expected loss rate	0%	0%	
Receivable amount	138,749	16,615	155,364
Loss allowance	—	—	—
At 31 December 2019			
Trade receivables			
Weighted average expected loss rate	0%	0%	
Receivable amount	116,228	18,630	134,858
Loss allowance	—	—	—

29. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020 ***RMB'000***	2019 *RMB'000*
Prepayments to suppliers	**816,684**	678,392
Rebate receivables	**1,133,464**	852,802
Loan to a third party *(note 20(a))*	**—**	260,000
Insurance commission receivable	**46,019**	24,964
Dividend receivable	**—**	1,624
Due from an associate *(note a)*	**1,624**	2,463
Advances to and interest receivable from Independent Aftersales Company *(note b)*	**375,759**	357,568
VAT recoverable	**125,878**	134,012
Others	**236,754**	184,788
	2,736,182	2,496,613

Notes:

(a) As of 31 December 2020, the Group had a balance with its associate, Yongda Hexie with an amount of approximately RMB1,624,000 (2019: RMB2,463,000). The balance is unsecured, non-interest bearing and has no fixed repayment terms.

(b) As of 31 December 2020, the Group had current portion of advances balance due from Independent Aftersales Company, with an amount of RMB375,759,000 (2019: RMB357,568,000), of which RMB209,331,000 (2019: RMB222,656,000) is unsecured, interest bearing of 4.35% to 4.75% and has no fixed repayment terms and RMB166,428,000 (2019: RMB134,912,000) is unsecured, non-interest bearing and has no fixed repayment terms.

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.

The information about the credit risk exposure on the Group's prepayments, other receivables and other assets using a provision matrix was disclosed in note 5 to the consolidated financial statements.

30. PLEDGED AND RESTRICTED BANK DEPOSITS

	2020 ***RMB'000***	2019 *RMB'000*
Deposits pledged	**79,764**	47,439
Restricted bank deposits	**5,105**	20,940
	84,869	68,379

The deposits pledged and restricted bank were denominated in RMB.

31. CASH IN TRANSIT

	2020	2019
	RMB'000	*RMB'000*
Cash in transit	**22,031**	43,769

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

32. CASH AND BANK BALANCES

	2020	2019
	RMB'000	*RMB'000*
Cash at banks and on hand	**1,274,316**	932,063
Time deposits	**440,000**	430,000
	1,714,316	1,362,063

The Group's cash and cash equivalents at each reporting date are denominated in the following currencies:

	2020	2019
	RMB'000	*RMB'000*
RMB	**1,614,989**	1,210,306
US$	**50,990**	22,474
HK$	**48,337**	129,283
	1,714,316	1,362,063

As at 31 December 2020, bank and cash balances of approximately RMB1,614,989,000 (2019: RMB1,210,306,000) are denominated in RMB. RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for the period of one year, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

33. BANK LOANS AND OTHER BORROWINGS

	2020	2019
	RMB'000	*RMB'000*
Current		
— Bank loans	**1,826,745**	1,486,503
— Other borrowings	**777,665**	1,007,196
	2,604,410	2,493,699

	2020	2019
	RMB'000	*RMB'000*
Bank loans and other borrowings representing:		
Secured *(note a)*	**83,832**	437,018
Guaranteed *(note b)*	**765,399**	639,219
Secured and guaranteed *(note a and b)*	**1,097,457**	966,715
Unsecured	**657,722**	450,747
	2,604,410	2,493,699

All the bank loans and other borrowings are repayable on demand or within one year.

The effective interest rates per annum at 31 December were ranging as follows:

	2020	2019
Bank loans	**4.3%–5.7%**	4.3%–6.1%
Other borrowings	**3.6%–8.5%**	4.0%–8.5%

33. BANK LOANS AND OTHER BORROWINGS (CONTINUED)

Notes:

(a) 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 RMB5,116,000 as at 31 December 2020 (2019: RMB10,697,000);

(ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB11,133,000 as at 31 December 2020 (2019: RMB16,842,000);

(iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB430,970,000 as at 31 December 2020 (2019: RMB1,014,390,000); and

(b) Certain of the Group's bank loans and other borrowings are guaranteed by:

(i) certain of the Group's bank loans and other borrowings amounting to RMB600,000,000 (2019: RMB300,000,000) were guaranteed by the Group's subsidiaries as at 31 December 2020;

(ii) certain of the bank loans amounting to RMB442,661,000 (2019: RMB300,000,000) were guaranteed by the certain directors of the Company as at 31 December 2020; and

(iii) in addition to the mortgages mentioned above, certain of the Group's bank loans amounting to RMB1,240,930,000 (2019: RMB1,606,715,000) were guaranteed by the legal representative of certain subsidiaries of the Company and his spouse as at 31 December 2020.

(c) Except for the unsecured bank loan which is denominated in the US$, all borrowings are in RMB.

34. TRADE AND BILLS PAYABLES

	2020 ***RMB'000***	2019 *RMB'000*
Trade payables	**127,194**	106,867
Bills payable	**137,250**	8,672
	264,444	115,539

34. TRADE AND BILLS PAYABLES (CONTINUED)

An aging 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	**250,058**	106,620
3 to 6 months	**7,879**	3,561
6 to 12 months	**1,284**	3,014
Over 12 months	**5,223**	2,344
	264,444	115,539

The trade and bills payables are non-interest-bearing.

Certain of the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB90,522,000 (2019: RMB2,802,000) as at 31 December 2020.

35. OTHER PAYABLES AND ACCRUALS

	2020 **RMB'000**	2019 RMB'000
Payables for purchase of items of property, plant and equipment	**91,810**	58,925
Payables for purchase of items of land-use-right	**2,554**	2,554
Advances and deposits from distributors	**17,808**	10,554
Contract liabilities *(note a)*	**486,865**	361,314
Taxes payable (exclude corporate income tax)	**41,241**	38,639
Staff payroll and welfare payables	**97,176**	70,887
Deferred government grant	**—**	13,360
Other payables *(note b)*	**117,609**	119,214
	855,063	675,447

35. OTHER PAYABLES AND ACCRUALS (CONTINUED)

Notes:

(a) Details of contract liabilities as at 31 December 2020 and 2019 are as follows:

	2020 *RMB'000*	2019 *RMB'000*
Short-term advances received from customers		
— Sales of automobiles and others	**421,385**	314,331
— Provision of after-sales services	**65,480**	46,983
	486,865	361,314

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

(b) Other payables are unsecured, non-interest-bearing and repayable on demand.

36. LEASE LIABILITIES

	Lease payments		Present value of lease payments	
	2020	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**116,077**	62,906	**83,874**	30,408
In the second to fifth years, inclusive	**384,721**	291,636	**269,391**	192,191
After five years	**496,108**	444,789	**385,566**	317,818
	996,906	799,331		
Less: Future finance charges	**(258,075)**	(258,914)		
Present value of lease liabilities	**738,831**	540,417	**738,831**	540,417
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(83,874)**	(30,408)
Amount due for settlement after 12 months			**654,957**	510,009

At 31 December 2020, the average effective borrowing rate was 6% (2019:6%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

37. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the PRC state regulations, the subsidiaries in Mainland China participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 14% to 20% of the previous year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries.

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

According to the relevant rules and regulations of the PRC, the Mainland China subsidiaries and their employees are each required to make contributions to an accommodation fund at 5% to 12% of the salaries and wages of the employees which is administered by the Public Accumulation Funds Administration Centre. There is no further obligation on the part of the Group except for these contributions to the accommodation fund.

As at 31 December 2020, the Group had no significant obligation apart from the contributions as stated above.

38. SHARE CAPITAL

	2020 Number of shares at HK$0.01 each	**2020** Equivalent to *RMB'000*	2019 Number of shares at HK$0.01 each	2019 Equivalent to *RMB'000*
Ordinary shares	**1,576,424,677**	**12,536**	1,574,663,177	12,519

	Number of issued and fully paid shares	Nominal value of shares *HK$'000*	Share premium *HK$'000*	Equivalent nominal value of shares *RMB'000*	Equivalent share premium *RMB'000*
At 1 January 2019	1,527,115,677	15,271	4,032,337	12,085	3,186,337
Final 2018 dividend declared	—	—	(182,552)	—	(156,080)
Shares repurchased and cancelled *(note a)*	(5,852,500)	(59)	(18,412)	(46)	(15,705)
Exercise of share options *(note b)*	1,400,000	14	4,186	13	4,573
Placing of new shares *(note c)*	52,000,000	520	149,044	467	133,915
At 31 December 2019 and 1 January 2020	1,574,663,177	15,746	3,984,603	12,519	3,153,040
Final 2019 dividend declared	—	—	116,914	—	(103,978)
Shares repurchased and cancelled *(note a)*	(3,178,500)	(32)	(10,889)	(25)	(9,280)
Exercise of share options *(note b)*	4,940,000	49	18,794	42	16,583
At 31 December 2020	1,576,424,677	15,763	4,109,422	12,536	3,056,365

38. SHARE CAPITAL (CONTINUED)

Notes:

(a) During 2019, the Company repurchased 5,852,500 of its ordinary shares on the Hong Kong Stock Exchange at a total consideration of HK$18,414,000 before expenses. The repurchased shares were cancelled during the year. The nominal value of the cancelled shares of the HK$59,000 (RMB46,000) was reduced from share capital and the premium on repurchased and the related costs incurred for share repurchase of HK$18,412,000 (RMB15,705,000) in total, were debited to the share premium account of the Company.

During 2020, the Company repurchased 3,178,500 of its ordinary shares on the Hong Kong Stock Exchange at a total consideration of HK$10,892,000 before expenses. The repurchased shares were cancelled during the year. The nominal value of the cancelled shares of the HK$32,000 (RMB25,000) was reduced from share capital and the premium on repurchased and the related costs incurred for share repurchase of HK$10,889,000 (RMB9,280,000) in total, were debited to the share premium account of the Company.

(b) During 2019, 1,400,000 share options under the Company's share option scheme were exercised. Accordingly, 1,400,000 ordinary shares of HK$0.01 each were issued as a result of the exercise of share options.

During 2020, 4,940,000 share options under the Company's share option scheme were exercised. Accordingly, 4,940,000 ordinary shares of HK$0.01 each were issued as a result of the exercise of share options.

Details of the Company's share option scheme are included in note 42 to the consolidated financial statements.

(c) During 2019, the Company entered into the Placing Agreement with the placing agent, pursuant to which the Company has conditionally agreed to place, through the placing agent on a best efforts basis, up to 52,000,000 placing shares to the place at a price of HK$3.00 per placing share. The placing of shares was completed on 2 December 2019, the nominal value of the placing shares of the HK$520,000 (equivalent to RMB467,000) was added to share capital and the premium on the issue of placing shares and the related costs incurred for placing shares of HK$149,044,000 (equivalent to RMB133,915,000) in total, were credited to the share premium account of the Company.

39. RESERVES

(a) Group

The amounts of the Group's share premium and reserves and movements therein are presented in the consolidated statement of profit or loss, and other comprehensive income and consolidated statement of changes in equity.

(b) Company

Details of movements in the Company's reserves are as follows:

	Shares held under share award plan *RMB'000*	Share premium *RMB'000*	Share option reserve *RMB'000*	Exchange fluctuation reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2019	—	3,186,337	61,171	299,922	(132,005)	3,415,425
Final 2018 dividend declared	—	(156,080)	—	—	—	(156,080)
Total comprehensive income/(loss) for the year	—	—	—	3,604	(110,770)	(107,166)
Shares repurchased and cancelled	—	(15,705)	—	—	—	(15,705)
Shares repurchased	(151,532)	—	—	—	—	(151,532)
Exercise of share options	—	4,573	(812)	—	—	3,761
Equity-settled share option arrangement	—	—	15,481	—	—	15,481
Placing of new shares	—	133,915	—	—	—	133,915
Equity-settled share award arrangement	65,570	—	—	—	4,584	70,154
At 31 December 2019 and 1 January 2020	(85,962)	3,153,040	75,840	303,526	(238,191)	3,208,253
Final 2019 dividend declared	—	(103,978)	—	—	—	(103,978)
Total comprehensive loss for the year	—	—	—	(137,410)	(2,856)	(140,266)
Shares repurchased and cancelled	—	(9,280)	—	—	—	(9,280)
Shares repurchased	(15,649)	—	—	—	—	(15,649)
Exercise of share options	—	16,583	(3,447)	—	—	13,136
Equity-settled share option arrangement	—	—	26,165	—	—	26,165
At 31 December 2020	(101,611)	3,056,365	98,558	166,116	(241,047)	2,978,381

39. RESERVES (CONTINUED)

(c) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Share option reserve

The share option payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3 to the consolidated financial statements.

(iii) 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.

(iv) Merger reserve

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

(v) Exchange fluctuation reserve

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

40. RSU SCHEME

The Company's RSU Scheme was approved and adopted by the then shareholder on 20 May 2013 for the primary purpose of attracting skilled and experienced personnel, to incentivise them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company. The terms of the RSU Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new shares.

Under the RSU Scheme, the vesting of the granted RSUs is conditional upon the eligible participants remaining in employment with the Group during the respective vesting periods. A participant in the RSU Scheme (the "**RSU Participant**") does not have any contingent interest in any shares underlying an RSU award unless and until such shares are actually transferred to the RSU Participant. Further, an RSU Participant may not exercise voting rights in respect of the shares underlying their RSU awards and, unless otherwise specified by the board of directors of the Company in its entire discretion in the RSU grant letter to the RSU Participant, nor do they have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any shares underlying an RSU award.

On 28 May 2013, RSU awards in respect of an aggregate of 19,110,898 shares, representing approximately 1.75% of the total shares issued on the date of the listing of the Company's shares, had been granted, at nil consideration, to 18 RSU Participants pursuant to the RSU Scheme, of which five of the RSU Participants are directors. All RSU awards granted pursuant to the RSU Scheme to the RSU Participants have a vesting period of four years as follows: 10% on 2 January 2014, 30% on 2 January 2015, 30% on 2 January 2016 and 30% on 2 January 2017. Each RSU award granted pursuant to the RSU Scheme has the same terms and conditions. The grant and vesting of the RSU awards granted pursuant to the RSU Scheme are in compliance with Rule 10.08 of the Listing Rules.

On 27 August 2013, each of the five directors of the RSU Participants agreed to, and as confirmed and approved by the board of directors, reduce the RSU awards granted to them by 62,000 units each. The aggregate amount of the RSU awards so reduced (i.e. 310,000 RSU awards) were granted to an employee of the Company. As a result of the foregoing, the total number of RSU awards granted under the RSU Scheme remained unchanged.

40. RSU SCHEME (CONTINUED)

Pursuant to a resolution passed by the board of directors on 27 August 2013 and as confirmed by each of the RSU Participants, the vesting period in respect of the RSU awards granted is extended from four years to five years as follows: 10% on 2 January 2014, 10% on 30 June 2014, 20% on 2 January 2015, 20% on 2 January 2016, 20% on 2 January 2017 and 20% on 2 January 2018. Other than the adjustments in the number of shares underlying the RSU awards granted to certain RSU Participants as described in the previous paragraph and the duration of the vesting period, the terms of the RSU Scheme remained unchanged.

The fair value of the RSU awards granted as at the grant date was RMB82,554,000 (RMB4.32 each), of which the Group did not recognise RSU award expense during the year ended 31 December 2018 and no share award reserve was transferred to share premium account upon the conversion into ordinary shares during the year ended 31 December 2018.

The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The fair value of the shares granted is measured at the grant date at the market value of the shares, adjusted for the exclusion of expected dividends to be received in the vesting period.

For the year ended 31 December 2018, a total of 4,755,215 RSU awards were forfeited due to the resignation of certain RSU Participants and 14,355,683 RSU awards were exercised. As at 31 December 2019 and 2020, the Company did not have RSU awards outstanding under the RSU Scheme.

41. SHARE AWARD PLAN

On 28 February 2019, a share award plan (the "**Share Award Plan**") was approved and adopted by the then shareholder, which is a replacement alternative incentive scheme to the RSU Scheme and the appointment of Acheson Limited (the "**Trustee**") as the trustee of the Share Award Plan. The purposes of the Share Award Plan are to (i) incentivize, recognize and reward employees, directors (whether executive or non-executive, but excluding independent non-executive Directors) and officers of the Group for their contribution to the Group; (ii) attract and retain personnel to promote the long-term growth and development of the Group; and (iii) align the interests of selected person (the "**Selected Person**") who has accepted an offer of an award (the "**Award**") of Shares by the Board to a Selected Person pursuant to the Share Award Plan in accordance with the Share Award Plan Rules (the "**Award Holders**") with that of the shareholders to promote the long-term financial performance of the Company.

41. SHARE AWARD PLAN (CONTINUED)

A selection committee (the "**Selection Committee**") with its members from time to time appointed by the board of directors (the "**Board**") may, from time to time and at its sole discretion, select any eligible Person to participate in the Share Award Plan and determine the number of Shares to be awarded based on the selection criteria adopted by the Board from time to time. Upon receiving the list of selected persons (the "**Selected Persons**") submitted by the Selection Committee, the remuneration committee of the Company (the "**Remuneration Committee**") will decide whether to approve and recommend to the Board or reject any of the selections made by the Selection Committee but will not change the number of shares determined by the Selection Committee to be awarded to each Selected Person. The Board will then decide whether to approve or reject the recommendations made by the Remuneration Committee but will not change the number of Shares determined by the Selection Committee and recommended by the Remuneration Committee to be awarded to each Selected Person. Awards shall be satisfied by shares acquired in the market at prevailing market prices and no new shares will be allotted and issued under the Share Award Plan. The Trustee shall hold the awarded shares and related income on trust for the award holders until the awarded shares and related income are vested in the relevant award holders according to the Share Award Plan rules. Upon vesting, the Trustee shall transfer the vested awarded shares and related income at no cost to such award holders.

The maximum aggregate number of Shares to be acquired by the Trustee under the Share Award Plan is 60,000,000 Shares. The maximum aggregate number of shares and related income (in the form of shares) that the Trustee may hold at any point of time is 30,542,313 Shares, which is subject to adjustment in the event of any subdivision or consolidation of shares. No further shares will be awarded to a Selected Person if the aggregate number of awarded shares underlying all Awards (whether vested or not) granted to such Selected Person under the Share Award Plan will exceed 0.5% of the Shares in issue from time to time.

During the year ended 31 December 2019, the Trustee purchased a total of 55,456,000 shares according to the Share Award Plan and 28,000,000 shares ("**2019 Share Awards**") has been granted. The fair value of 2019 Share Award was RMB70,154,000 (RMB2.51 each) as at the grant date.

During the year ended 31 December 2020, the Trustee purchased a total of 4,531,500 shares according to the Share Award Plan. No shares has been granted in the current year.

42. SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include employees of the Company and its subsidiaries. The Scheme became effective on 26 June 2015, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue on 26 June 2015. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, an amount of HK$1.00 is payable upon acceptance of the grant of options and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period and ends on the expiry date of the Scheme.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average of the closing prices of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Share.

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

42. SHARE OPTION SCHEME (CONTINUED)

The following share options were outstanding under the Scheme during the year:

	2020		2019	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	HK$ per share	***'000***	*HK$ per share*	*'000*
At 1 January	**3.34**	**82,631**	3.32	81,791
Granted during the year	**–**	**–**	4.00	20,000
Exercised during the year	**3.00**	**(4,940)**	3.00	(1,400)
Forfeited during the year	**3.00**	**(33,000)**	4.48	(17,760)
At 31 December	**3.45**	**44,691**	3.34	82,631

On 17 December 2019, the Group granted 20,000,000 share options to its employees.

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.11 (2019: HK$3.92) per share.

The exercise price and exercise period of the share options outstanding as at the end of the reporting period are as follows:

31 December 2020

Number of options ***'000***	**Exercise price*** ***HK$ per share***	**Exercise period**
24,691	3.00	1/7/2017 to 28/6/2025
20,000	4.00	16/2/2020 to 17/12/2025
44,691		

42. SHARE OPTION SCHEME (CONTINUED)

31 December 2019

Number of options '000	Exercise price* HK$ per share	Exercise period
62,631	3.00	1/7/2017 to 28/6/2025
20,000	4.00	16/2/2020 to 17/12/2025
82,631		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted on 17 December 2019 was RMB24,400,000 (RMB1.22 each).

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model are as follows:

	17 December 2019
Weighted average share price (HK$)	3.86
Weighted average exercise price (HK$)	4.0
Expected volatility (%)	49.61%
Expected life	6 years
Risk free rate (%)	1.72%
Expected dividend yield (%)	3.59%

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

During the year, the 4,940,000 share options exercised during the year resulted in the issue of 4,940,000 ordinary shares of the Company and new share capital of HK$49,400 (equivalent to RMB42,400) (before issue expenses), as further detailed in note 38 to the consolidated financial statements.

At the end of the reporting period, the Company had 44,691,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 44,691,000 additional ordinary shares of the Company and additional share capital of HK$446,190 (equivalent to RMB376,303) (before issue expenses).

At the date of approval of these consolidated financial statements, the Company had 44,691,000 share options outstanding under the Scheme, which represented approximately 2.89% of the Company's shares in issue as at that date.

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

	Lease liabilities *RMB'000*	Bank and other loans *RMB'000*	Total liabilities from financing activities *RMB'000*
At 1 January 2019	—	2,137,604	2,137,604
Changes in cash flows	(86,770)	356,095	269,325
Non-cash changes			
— impact of first adoption of HKFRS 16	575,120	—	575,120
— addition	17,253	—	17,253
— interest charged	34,814	—	34,814
At 31 December 2019	540,417	2,493,699	3,034,116
Changes in cash flows	(93,075)	110,711	17,636
Non-cash changes			
— addition	255,768	—	255,768
— interest charged	35,721	—	35,721
At 31 December 2020	738,831	2,604,410	3,343,241

(b) Acquisition of a subsidiary

On 7 January 2020, the Group acquired 100% equity interest in Shijiazhuang Harmony Binchi Automobile Sales Service Co. LTD (石家莊和諧賓馳汽車銷售服務有限公司) ("**Shijiazhuang Harmony Binchi**") for a total consideration of RMB20,000,000 in cash. Shijiazhuang Harmony Binchi was engaged in the sale of automobiles and after-sales service business in PRC during the year.

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Acquisition of a subsidiary (Continued)

The fair value of the identifiable assets and liabilities of Shijiazhuang Harmony Binchi acquired as at its date of acquisition is as follows:

Net assets acquired:	*RMB'000*
Property, plant and equipment	4,844
Intangible assets	5,313
Deferred tax liabilities	(1,328)
	8,829
Goodwill	11,171
	20,000

Satisfied by:	*RMB'000*
Cash	20,000

Net cash outflow arising on acquisition:	*RMB'000*
Cash consideration paid	20,000
Cash and cash equivalents acquired	—
	20,000

The goodwill arising on the acquisition of Shijiazhuang Harmony Binchi is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

Shijiazhuang Harmony Binchi contributed approximately RMB53,317,000 and RMB2,247,000 to the Group's revenue and profit for the year respectively for the period between the date of acquisition and the end of the reporting period.

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Acquisition of a subsidiary (Continued)

If the acquisition had been completed on 1 January 2020, total Group revenue for the year would have been RMB14,746,923,000, and profit for the year would have been RMB422,144,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2020, nor is intended to be a projection of future results.

(c) Acquisition of a subsidiary

On 6 January 2020, the Group acquired 100% equity interest in Kunming Lejun Automobile Sales Service Co. LTD (昆明樂駿汽車銷售服務有限公司) (hereafter collectively referred to as "**Kunming Lejun**") for a total consideration of RMB45,000,000 in cash. Kunming Lejun was engaged in the sale of automobiles and after-sales service business in PRC during the year.

The fair value of the identifiable assets and liabilities of Kunming Lejun acquired as at its date of acquisition is as follows:

Net assets acquired:	*RMB'000*
Property, plant and equipment	415
Intangible assets	5,011
Inventories	1,515
Trade receivables	220
Prepayments, other receivables and other assets	36,392
Cash and bank balances	175
Trade and bills payables	(8,638)
Other payables and accruals	(5,240)
Income tax payable	(3,365)
Deferred tax liabilities	(1,253)
	25,232
Goodwill	19,768
	45,000

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Acquisition of a subsidiary (Continued)

Satisfied by:	*RMB'000*
Cash	45,000

Net cash outflow arising on acquisition:	*RMB'000*
Cash consideration paid	45,000
Cash and cash equivalents acquired	(175)
	44,825

The goodwill arising on the acquisition of Kunming Lejun is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

Kunming Lejun contributed approximately RMB17,036,000 and loss of RMB2,102,000 to the Group's revenue and profit for the year respectively for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2020, total Group revenue for the year would have been RMB14,746,923,000, and profit for the year would have been RMB422,144,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2020, nor is intended to be a projection of future results.

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(d) Acquisition of subsidiaries

On 29 May 2020, the Group acquired two businesses together with their assets and liabilities of Jiujiang Zhongshunbao Automobile Sales Service Co. LTD (九江中順寶汽車銷售服務有限公司) and Nanchang Baoshunxing Automobile Sales Service Co. LTD (南昌寶順行汽車銷售服務有限公司) (hereafter collectively referred to as "**Jiangxi Business Group**") for a total consideration of RMB115,000,000 in cash. Jiangxi Business Group was engaged in the sale of automobiles and after-sales service business in PRC during the year.

The fair value of the identifiable assets and liabilities of Jiangxi Business Group acquired as at its date of acquisition is as follows:

Net assets acquired:	*RMB'000*
Property, plant and equipment	38,239
Intangible assets	31,760
Deferred tax liabilities	(7,940)
	62,059
Goodwill	52,941
	115,000

Satisfied by:	*RMB'000*
Cash	115,000

Net cash outflow arising on acquisition:	*RMB'000*
Cash consideration paid	115,000
Cash and cash equivalents acquired	—
	115,000

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(d) Acquisition of subsidiaries (Continued)

The goodwill arising on the acquisition of Jiangxi Business Group is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

Jiangxi Business Group contributed approximately RMB325,140,000 and RMB11,258,000 to the Group's revenue and profit for the year respectively for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2020, total Group revenue for the year would have been RMB14,746,923,000, and profit for the year would have been RMB422,144,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2020, nor is intended to be a projection of future results.

44. CAPITAL COMMITMENTS

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

	2020 ***RMB'000***	2019 *RMB'000*
Property, plant and equipment — Contracted, but not provided for	**89,461**	128,286

45. RELATED PARTY TRANSACTIONS

Mr. Feng Changge is the Chairman, the Director and the Controlling Shareholder of the Company and is considered a related party of the Group.

In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group had the following transactions with related parties during the year:

(a) Transactions with a related party

	2020	2019
	RMB'000	*RMB'000*
(Repayment from)/advances made to Yongda Hexie	**(839)**	1,553

(b) Balances with a related party

The Group had the following significant balances with its related party as at each reporting date:

	2020	2019
	RMB'000	*RMB'000*
Due from a related party:		
— Yongda Hexie	**1,624**	2,463

Balance with Yongda Hexie is unsecured and non-interest-bearing and have no fixed repayment terms.

45. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Compensation of key management personnel of the Group

	2020 **RMB'000**	2019 RMB'000
Short term employee benefits	**6,148**	8,507
Equity-settled share option expense	**421**	3,404
Post-employee benefits	**261**	1,281
Total compensation paid to key management personnel	**6,830**	13,192

Further details of directors' and chief executive's emoluments are included in note 13 to the consolidated financial statements.

46. SUBSIDIARIES

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries as at 31 December 2020 are as follows:

Name	Notes	Place of incorporation/ registration and operation	Paid-up capital	Percentage of equity attributable to the Company 2020	2019	Principal activities
Directly Owned						
Crystalline Prestige Investments Limited		Tortola, British Virgin Islands 2012	Registered capital US$500 and paid-in capital 0.01	100	100	Investment holding
Indirectly Owned						
LC Gloricar Investment Limited		Tortola, British Virgin Islands 2011	Registered capital US$1,000,000	100	100	Investment holding
Ace Manufacturing Holding Limited		Hong Kong, the PRC 2012	Paid-in capital HK$100	100	100	Investment holding

46. SUBSIDIARIES (CONTINUED)

Name	Notes	Place of incorporation/ registration and operation	Paid-up capital	Percentage of equity attributable to the Company 2020	2019	Principal activities
Doable Future Limited		Hong Kong, the PRC 2011	Paid-in capital HK$100	100	100	Investment holding
河南和諧汽車貿易有限公司 (Henan Hexie Automobile Trading Co., Ltd.)	(iv)	Zhengzhou, the PRC	Registered and paid-in RMB1,815,000,000	100	100	Investment holding
河南中德寶汽車銷售服務有限公司 (Henan Zhongdebao Automobile Sales & Services Co., Ltd.)	(iii)	Zhengzhou, the PRC	Registered and paid-in RMB42,860,000	100	100	Sale of automobiles and provision of after-sales services
鄭州鄭德寶汽車銷售服務有限公司(Zhengzhou Zhengdebao Automobile Sales & Services Co., Ltd.)	(ii)	Zhengzhou, the PRC	Registered and paid-in RMB40,000,000	100	100	Sale of automobiles and provision of after-sales services
西安華都汽車銷售服務有限公司 (Xi'an Huadu Automobile Sales & Services Co., Ltd.)	(ii)	Xi'an, the PRC	Registered and paid-in RMB10,000,000	100	100	Sale of automobiles and provision of after-sales services
河南英之翼汽車銷售服務有限公司 (Henan Yingzhiyi Automobile Sales & Services Co., Ltd.)	(ii)	Zhengzhou, the PRC	Registered and paid-in RMB10,010,000	100	100	Sale of automobiles and provision of after-sales services
廣州市廣德寶汽車銷售服務有限公司(Guangzhou Guangdebao Automobile Sales & Services Co., Ltd.)	(ii)	Guangzhou, the PRC	Registered and paid-in RMB30,000,000	100	100	Sale of automobiles and provision of after-sales services
鄭州華鼎汽車銷售服務有限公司 (Zhengzhou Huading Automobile Sales & Services Co., Ltd.)	(ii)	Zhengzhou, the PRC	Registered and paid-in RMB10,000,000	100	100	Sale of automobiles and provision of after-sales services

46. SUBSIDIARIES (CONTINUED)

Name	Notes	Place of incorporation/ registration and operation	Paid-up capital	Percentage of equity attributable to the Company 2020	2019	Principal activities
上海上德寶駿汽車銷售服務有限公司 (Shanghai Shangdebaojun Automobile Sales & Service Co., Ltd.)	(ii)	Shanghai, the PRC	Registered and paid-in RMB50,000,000	90	90	Sale of automobiles and provision of after-sales services
宜昌路順汽車銷售服務有限公司 (Yichang Lushun Automobile Sales & Services Co., Ltd.)	(ii)	Yichang, the PRC	Registered and paid-in RMB10,000,000	100	65	Sale of automobiles and provision of after-sales services
洛陽豫德寶汽車銷售服務有限公司 (Luoyang Yudebao Automobile Sales & Services Co., Ltd.)	(ii)	Luoyang, the PRC	Registered and paid-in RMB30,000,000	100	100	Sale of automobiles and provision of after-sales services
南陽宛德寶汽車銷售服務有限公司 (Nanyang Wandebao Automobile Sales & Services Co., Ltd.)	(ii)	Nanyang, the PRC	Registered and paid-in RMB30,000,000	100	100	Sale of automobiles and provision of after-sales services
鄭州華誠汽車銷售服務有限公司(Zhengzhou Huacheng Automobile Sales & Services Co., Ltd.)	(ii)	Zhengzhou, the PRC	Registered and paid-in RMB20,000,000	100	100	Sale of automobiles and provision of after-sales services
安陽安德寶汽車銷售服務有限公司 (Anyang Andebao Automobile Sales & Services Co., Ltd.)	(ii)	Anyang, the PRC	Registered and paid-in RMB30,000,000	100	100	Sale of automobiles and provision of after-sales services
開封汴德寶汽車銷售服務有限公司 (Kaifeng Biandebao Automobile Sales & Services Co., Ltd.)	(ii)	Kaifeng, the PRC	Registered and paid-in RMB10,000,000	100	100	Sale of automobiles and provision of after-sales services
北京市華德寶汽車銷售服務有限公司(Beijing Huadebao Automobile Sales & Services Co., Ltd.)	(ii)	Beijing, the PRC	Registered and paid-in RMB55,000,000	100	100	Sale of automobiles and provision of after-sales services

46. SUBSIDIARIES (CONTINUED)

Name	Notes	Place of incorporation/ registration and operation	Paid-up capital	Percentage of equity attributable to the Company 2020	2019	Principal activities
鄭州遠達雷克薩斯汽車銷售服務有限公司 (Zhengzhou Yuanda Lexus Automobile Sales & Services Co., Ltd.)	(ii)	Zhengzhou, the PRC	Registered and paid-in RMB50,000,000	100	100	Sale of automobiles and provision of after-sales services
廈門遠達雷克薩斯汽車銷售服務有限公司 (Xiamen Yuanda Lexus Automobile Sales & Services Co., Ltd.)	(ii)	Xiamen, the PRC	Registered and paid-in RMB30,000,000	100	100	Sale of automobiles and provision of after-sales services
武漢漢德寶汽車銷售服務有限公司 (Wuhan Handebao Automobile Sales & Services Co., Ltd.)	(ii)	Wuhan, the PRC	Registered and paid-in RMB20,000,000	100	100	Sale of automobiles and provision of after-sales services
武漢華鄭汽車銷售服務有限公司 (Wuhan Huazheng Automobile Sales & Services Co., Ltd.)	(ii)	Wuhan, the PRC	Registered and paid-in RMB10,000,000	100	100	Sale of automobiles and provision of after-sales services
蘇州意駿汽車銷售服務有限公司 (Suzhou Yijun Automobile Sales & Services Co., Ltd.)	(ii)	Suzhou, the PRC	Registered and paid-in RMB50,000,000	100	100	Sale of automobiles and provision of after-sales services
新鄉和德寶汽車銷售服務有限公司 (Xinxiang Hedebao Automobile Sales & Services Co., Ltd.)	(ii)	Xinxiang, the PRC	Registered and paid-in RMB10,000,000	100	100	Sale of automobiles and provision of after-sales services
北京豪駿行汽車銷售服務有限公司 (Beijing Haojunhang Automobile Sales & Services Co., Ltd.)	(i)	Beijing, the PRC	Registered and paid-in RMB50,000,000	100	100	Sale of automobiles and provision of after-sales services
漯河漯德寶汽車銷售服務有限公司 (Luohe Luodebao Automobile Sales & Services Co., Ltd.)	(i)	Luohe, the PRC	Registered and paid-in RMB10,000,000	100	100	Sale of automobiles and provision of after-sales services
常州常駿行汽車銷售服務有限公司 (Changzhou Changjunhang Automobile Sales & Services Co., Ltd.)	(ii)	Changzhou, the PRC	Registered and paid-in RMB20,000,000	100	100	Sale of automobiles and provision of after-sales services

46. SUBSIDIARIES (CONTINUED)

Name	Notes	Place of incorporation/ registration and operation	Paid-up capital	Percentage of equity attributable to the Company 2020	2019	Principal activities
無錫龍駿行汽車銷售服務有限公司 (Wuxi Longjunhang Automobile Sales & Services Co., Ltd.)	(ii)	Wuxi, the PRC	Registered and paid-in RMB50,000,000	100	100	Sale of automobiles and provision of after-sales services
河南和諧汽車融資租賃有限公司 (Henan Lease Finance Co., Ltd.)	(i)	Zhengzhou, the PRC	Registered and paid-in $250,000,000	100	100	Service of finance leases
上海谷卡二手車有限公司 (Shanghai Goocar Pre-owned Automobile Co., Ltd.)	(i)	Shanghai, the PRC	Registered and paid-in RMB10,000,000	100	100	Sale of pre–owned motor vehicles
洛陽遠達雷克薩斯汽車銷售服務有限公司 (Luoyang Yuanda Lexus Automobile Sales & Services Co., Ltd.)	(ii)	Luoyang, the PRC	Registered and paid-in RMB30,000,000	100	100	Sale of automobiles and provision of after-sales services
鄭州華德寶汽車銷售服務有限公司(Zhengzhou Huadebao Automobile Sales & Services Co., Ltd.)	(ii)	Zhengzhou, the PRC	Registered and paid-in RMB30,010,000	100	100	Sale of automobiles and provision of after-sales services
邯鄲遠達雷克薩斯汽車銷售服務有限公司 (Handan Yuanda Lexus Automobile Sales & Services Co., Ltd.)	(ii)	Handan, the PRC	Registered and paid-in RMB30,000,000	100	100	Sale of automobiles and provision of after-sales services
商丘商沃汽車銷售服務有限公司 (Shangqiu Shangwo Automobile Sales & Services Co., Ltd.)	(ii)	Shangqiu, the PRC	Registered and paid-in RMB10,000,000	100	100	Sale of automobiles and provision of after-sales services
商丘商德寶汽車銷售服務有限公司(Shangqiu Shangdebao Automobile Sales & Services Co., Ltd.)	(ii)	Shangqiu, the PRC	Registered and paid-in RMB10,000,000	90	90	Sale of automobiles and provision of after-sales services
南陽宛沃汽車銷售服務有限公司 (Nanyang Wanwo Automobile Sales & Services Co., Ltd.)	(ii)	Nanyang, the PRC	Registered and paid-in RMB10,000,000	100	100	Sale of automobiles and provision of after-sales services

46. SUBSIDIARIES (CONTINUED)

Name	Notes	Place of incorporation/ registration and operation	Paid-up capital	Percentage of equity attributable to the Company 2020	2019	Principal activities
上海君諾汽車服務有限公司 (Shanghai Junnuo Automobile Services Co., Ltd.)	(ii)	Shanghai, the PRC	Registered and paid-in RMB5,000,000	100	100	Sale of automobiles and provision of after-sales services
上海和諧進出口貿易有限公司 (Shanghai Hexie Import & Export Trading Co., Ltd.)	(ii)	Shanghai, the PRC	Registered and paid-in RMB10,000,000	100	100	Parallel–import vehicles
周口周德寶汽車銷售服務有限公司 (Zhoukou Zhoudebao Automobile Sales & Services Co., Ltd.)	(ii)	Zhoukou, the PRC	Registered and paid-in RMB10,000,000	51	51	Sale of automobiles and provision of after-sales services
焦作遠達雷克薩斯汽車銷售服務有限公司 (Jiaozuo Yuanda Lexus Automobile Sales & Services Co., Ltd.)	(ii)	Jiaozuo, the PRC	Registered and paid-in RMB30,000,000	100	100	Sale of automobiles and provision of after-sales services
鄭州和駿汽車銷售有限公司 (Zhengzhou Hejun Automobile Sales Co., Ltd.)	(ii)	Zhengzhou, the PRC	Registered and paid-in RMB50,000,000	100	100	Sale of automobiles and provision of after-sales services
鞏義市義德寶汽車銷售服務有限公司(Gongyi Yidebao Automobile Sales & Services Co., Ltd.)	(ii)	Gongyi, the PRC	Registered and paid-in RMB20,000,000	100	100	Sale of automobiles and provision of after-sales services
鄭州賓馳汽車銷售服務有限公司 (Zhengzhou Binchi Automobile Sales & Services Co., Ltd.)	(ii)	Zhengzhou, the PRC	Registered and paid-in RMB10,000,000	100	100	Sale of automobiles and provision of after-sales services
河南和諧汽車控股有限公司 (Henan Hexie Automobile Holding Co., Ltd.)	(i)	Zhengzhou, the PRC	Registered capital RMB100,000,000	100	100	Investment holding
鄭州鄭沃汽車銷售有限公司 (Zhengzhou Zhengwo Automobile Sales Co., Ltd.)	(ii)	Zhengzhou, the PRC	Registered and paid-in RMB30,000,000	100	100	Sale of automobiles and provision of after-sales services

46. SUBSIDIARIES (CONTINUED)

Name	Notes	Place of incorporation/ registration and operation	Paid-up capital	Percentage of equity attributable to the Company 2020	2019	Principal activities
信陽市申沃汽車銷售服務有限公司 (Xinyang Shenwo Automobile Sales & Services Co., Ltd.)	(i)	Xinyang, the PRC	Registered and paid-in RMB10,000,000	100	100	Sale of automobiles and provision of after-sales services
廣州市粵駿汽車銷售服務有限公司 (Guangzhou Yuejun Automobile Sales & Services Co., Ltd.)	(ii)	Guangzhou, the PRC	Registered and paid-in RMB10,000,000	100	100	Sale of automobiles and provision of after-sales services
鄭州和諧鄭駿汽車銷售有限公司 (Zhengzhou Hexie Zhengjun Automobile Sales Co., Ltd.)	(ii)	Zhengzhou, the PRC	Registered and paid-in RMB10,000,000	100	100	Sale of automobiles and provision of after-sales services
漯河漯德奧汽車銷售服務有限公司 (Luohe Luodeao Automobile Sales & Services Co., Ltd.)	(ii)	Luohe, the PRC	Registered and paid-in RMB30,000,000	100	100	Sale of automobiles and provision of after-sales services
新鄉和諧新駿汽車銷售服務有限公司 (Xinxiang Hexie Xinjun Automobile Sales & Services Co., Ltd.)	(ii)	Xinxiang, the PRC	Registered and paid-in RMB20,000,000	100	100	Sale of automobiles and provision of after-sales services
商丘和諧銘駿汽車銷售服務有限公司 (Shangqiu Hexie Mingjun Automobile Sales & Services Co., Ltd.)	(i)	Shangqiu, the PRC	Registered and paid-in RMB20,000,000	100	100	Sale of automobiles and provision of after-sales services
新鄉遠達雷克薩斯汽車銷售服務有限公司 (Xinxiang Yuanda Lexus Automobile Sales & Services Co., Ltd.)	(ii)	Xinxiang, the PRC	Registered and paid-in RMB20,000,000	100	100	Sale of automobiles and provision of after-sales services
包頭市燁德寶汽車銷售服務有限公司(Baotou Yedebao Automobile Sales & Services Co., Ltd.)	(ii)	Baotou, the PRC	Registered and paid-in RMB16,000,000	100	100	Sale of automobiles and provision of after-sales services
鄭州頤駿行汽車銷售服務有限公司 (Zhengzhou Yijun Automobile Sales & Services Co., Ltd.)	(ii)	Zhengzhou, the PRC	Registered and paid-in RMB20,000,000	100	100	Sale of automobiles and provision of after-sales services

46. SUBSIDIARIES (CONTINUED)

Name	Notes	Place of incorporation/ registration and operation	Paid-up capital	Percentage of equity attributable to the Company 2020	2019	Principal activities
山西賓馳汽車銷售服務有限公司 (Shanxi Bingchi Automobile Sales & Services Co., Ltd.)	(ii)	Shanxi, the PRC	Registered and paid-in RMB20,000,000	100	100	Sale of automobiles and provision of after-sales services
洛陽裕駿汽車銷售服務有限公司 (Luoyang Yujun Automobile Sales & Services Co., Ltd.)	(ii)	Luoyang, the PRC	Registered and paid-in RMB20,000,000	100	100	Sale of automobiles and provision of after-sales services
信陽遠達雷克薩斯汽車銷售服務有限公司 (Xinyang Yuanda Lexus Automobile Sales & Services Co., Ltd.)	(ii)	Xinyang, the PRC	Registered and paid-in RMB10,000,000	100	100	Sale of automobiles and provision of after-sales services
北京和諧嘉駿汽車銷售服務有限公司 (Beijing Hexie Jiajun Automobile Sales & Services Co., Ltd.)	(ii)	Beijing, the PRC	Registered and paid-in RMB50,000,000	100	100	Sale of automobiles and provision of after-sales services
北京和諧智聯新能源汽車銷售有限公司 (Beijing Automobile Zhilian New Energy Automotive Sales Co., Ltd.)	(ii)	Beijing, the PRC	Registered and paid-in RMB30,000,000	100	100	Sale of automobiles and provision of after-sales services
三門峽鈞德寶汽車銷售服務有限公司 (Sanmenxia Jundebao Automobile Sales & Services Co., Ltd.)	(i)	Sanmenxia, the PRC	Registered and paid-in RMB20,000,000	100	100	Sale of automobiles and provision of after-sales services
平頂山和諧豫駿汽車銷售服務有限公司 (Pingdingshan Hexie Yujun Automobile Sales & Services Co., Ltd.)	(ii)	Pingdingshan, the PRC	Registered and paid-in RMB20,000,000	100	100	Sale of automobiles and provision of after-sales services
呼和浩特皓德寶汽車銷售服務有限公司 (Hohhot Haodebao Automobile Sales & Services Co., Ltd.)	(ii)	Hohhot, the PRC	Registered and paid-in RMB16,000,000	100	N/A	Sale of automobiles and provision of after-sales services

46. SUBSIDIARIES (CONTINUED)

Name	Notes	Place of incorporation/ registration and operation	Paid-up capital	Percentage of equity attributable to the Company 2020	2019	Principal activities
武漢和諧和駿汽車銷售服務有限公司 (Wuhan Hexie Hejun Automobile Sales & Services Co., Ltd.)	(ii)	Wuhan, the PRC	Registered and paid-in RMB20,000,000	100	N/A	Sale of automobiles and provision of after-sales services
河南和之諧物業管理有限公司 (Henan Hezhixie Property Management Co., Ltd.)	(ii)	Zhengzhou, the PRC	Registered and paid-in RMB10,000,000	100	N/A	Dormant
昆明樂駿汽車銷售服務有限公司 (Kunming Lejun Automobile Sales & Services Co., Ltd.)	(ii)	Kunming, the PRC	Registered and paid-in RMB30,000,000	100	N/A	Sale of automobiles and provision of after-sales services
石家莊和諧賓馳汽車銷售服務有限公司(Shijiazhuang Hexie Binchi Automobile Sales & Services Co., Ltd.)	(i)	Shijiazhuang, the PRC	Registered and paid-in RMB20,000,000	100	N/A	Sale of automobiles and provision of after-sales services
江西和諧賓馳汽車銷售服務有限公司 (Jiangxi Hexie Binchi Automobile Sales & Services Co., Ltd.)	(i)	Jiangxi, the PRC	Registered and paid-in RMB10,000,000	100	N/A	Sale of automobiles and provision of after-sales services
河南和之悦汽車服務有限公司 (Henan Hezhiyue Automobile Services Co., Ltd.)	(ii)	Zhengzhou, the PRC	Registered and paid-in RMB5,000,000	100	N/A	Sales of parts of automobiles
南昌和諧昌寶汽車銷售服務有限公司 (Nanchang Hexie Changbao Automobile Sales & Services Co., Ltd.)	(ii)	Nanchang, the PRC	Registered and paid-in RMB30,000,000	100	N/A	Sale of automobiles and provision of after-sales services
九江江德寶汽車銷售服務有限公司 (Jiujiang Jiangdebao Automobile Sales & Services Co., Ltd.)	(ii)	Jiujiang, the PRC	Registered and paid-in RMB10,000,000	100	N/A	Sale of automobiles and provision of after-sales services
鄂爾多斯勝德寶汽車銷售服務有限公司(Erdos Shengdebao Automobile Sales & Services Co., Ltd.)	(ii)	Ordos, the PRC	Registered and paid-in RMB10,000,000	100	N/A	Sale of automobiles and provision of after-sales services

46. SUBSIDIARIES (CONTINUED)

Name	Notes	Place of incorporation/ registration and operation	Paid-up capital	Percentage of equity attributable to the Company 2020	2019	Principal activities
青島恒駿汽車銷售服務有限公司 (Qingdao Hengjun Automobile Sales & Services Co., Ltd.)	(ii)	Qingdao, the PRC	Registered and paid-in RMB30,000,000	100	N/A	Sale of automobiles and provision of after-sales services
滄州遠達雷克薩斯汽車銷售服務有限公司(Cangzhou Yuanda Lexus Automobile Sales & Services Co., Ltd.)	(ii)	Cangzhou, the PRC	Registered and paid-in RMB20,000,000	100	N/A	Sale of automobiles and provision of after-sales services
鄭州頤德寶汽車銷售有限公司 (Zhengzhou Yidebao Automobile Sales Co., Ltd.)	(ii)	Zhengzhou, the PRC	Registered and paid-in RMB30,000,000	100	N/A	Sale of automobiles and provision of after-sales services
南京瑞駿汽車銷售服務有限公司 (Nanjing Ruijun Automobile Sales & Services Co., Ltd.)	(ii)	Nanjing, the PRC	Registered and paid-in RMB30,000,000	100	N/A	Sale of automobiles and provision of after-sales services

The English names of the PRC companies referred to above in this Note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available.

None of the non-controlling interests is considered individually significant.

Notes:

(i) The subsidiary is a wholly foreign-owned enterprise incorporated in the PRC

(ii) The subsidiary is a wholly domestic owned limited company incorporated in the PRC

(iii) The subsidiary is a non-wholly domestic owned limited company incorporated in the PRC

(iv) The subsidiary is a non-wholly foreign owned enterprise incorporated in the PRC

47. CONTINGENT LIABILITIES

As at 31 December 2020 and 2019, the Group had no significant contingent liabilities.

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(a) 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		
Property, plant and equipment	**2,268**	1,368
Intangible assets	**1,457**	1,765
Interests in subsidiaries	**3,169,864**	3,289,526
Right of use assets	**16,627**	3,989
	3,190,216	3,296,648
Current assets		
Prepayments, other receivables and other assets	**68,186**	10,281
Cash and bank balances	**106,553**	211,256
	174,739	221,537
Current liabilities		
Bank loans and other borrowings	**347,711**	276,112
Other payables and accruals	**9,207**	16,253
Lease liabilities	**9,105**	4,187
	366,023	296,552
Net current liabilities	**(191,284)**	(75,015)
Total assets less current liabilities	**2,998,932**	3,221,633
Non-current liabilities		
Lease liabilities	**8,015**	861
NET ASSETS	**2,990,917**	3,220,772
Capital and reserves		
Share capital	**12,536**	12,519
Reserves	**2,978,381**	3,208,253
TOTAL EQUITY	**2,990,917**	3,220,772

49. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2021.

Five-Year Financial Summary

RESULTS

	Year ended 31 December				
	2020	2019	2018	2017	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**14,746,923**	12,621,821	10,639,877	10,840,411	10,695,872
Profit/(Loss) before taxation	**617,306**	672,893	817,170	1,223,382	(320,345)
Taxation	**(195,162)**	(146,845)	(127,186)	(202,094)	(47,302)
Profit/(Loss) for the year	**422,144**	526,048	689,984	1,021,288	(367,647)
Profit (/Loss) attributable to equity shareholders of the Company	**410,701**	513,307	683,692	1,009,356	(370,674)
Non-Controlling interests	**11,443**	12,741	6,292	11,932	3,027
Profit/(Loss) for the year	**422,144**	526,048	689,984	1,021,288	(367,647)
Earning/(Loss) per share					
Basic (RMB Cents)	**0.27**	0.34	0.45	0.66	(0.24)
Diluted (RMB Cents)	**0.27**	0.34	0.44	0.65	(0.24)

ASSETS AND LIABILITIES

	As at 31 December				
	2020	2019	2018	2017	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total Assets	**12,352,377**	11,422,562	11,022,067	10,077,107	9,599,689
Total Liabilities	**4,804,890**	(4,099,063)	(4,100,789)	(3,746,642)	(4,130,231)
	7,547,487	7,323,499	6,921,278	6,330,465	5,469,458
Equity attributable to equity shareholders of the Company	**7,488,040**	7,270,323	6,878,393	6,287,320	5,439,108
Non-Controlling interests	**59,447**	53,176	42,885	43,145	30,350
Total Equity	**7,547,487**	7,323,499	6,921,278	6,330,465	5,469,458