MEIDONG AUTO

China MeiDong Auto Holdings Limited
中國美東汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1268

ANNUAL REPORT

2020

CONTENTS

GEOGRAPHICAL COVERAGE

Guangdong

Porsche
(1) Shunde Dongbao*
(2) Shantou Dongbao*
(3) Jieyang Dongbao*

BMW
(4) Yangjiang Meibaohang*
(5) Guangzhou Meibaohang
(6) Xintang Meibaohang
(7) Dongguan Meibaohang (70%)

Lexus
(8) Dongguan Meidong (49%)
(9) Foshan Meixing (60%)
(10) Zhuhai Meidong
(11) Qingyuan Meidong*
(12) Yangjiang Meidong*
(13) Doumen Meidong (71%)
(14) Tangxia Meidong (69%)
(15) Shaoguan Meidong*
(16) Jiangmen Meidong

Toyota
(17) Dongguan Dongbu
(18) Dongguan Dongmei
(19) Dongguan Dongxin
(20) Dongguan Fenggang
(21) Dongguan Wangniudun
(22) Dongguan Meiyue

Hyundai
(23) Dongguan Guanfeng

Audi
(24) Heyuan Guanao*

Beijing & Hebei

BMW
(25) Chengde Meibaohang*
(26) Beijing Huibaohang
(27) Beijing Meibaohang (70%)
(28) Langfang Guanbaohang
(29) Bazhou Guanbaohang*

Toyota
(30) Beijing Zhongye
(31) Bazhou Guanyue*

Lexus
(32) Beijing Meidong

Hubei

Porsche
(33) Wuhan Xinbao

BMW
(34) Huanggang Baoxinhang*

Hunan

BMW
(35) Zhuzhou Meibaohang*
(36) Hengyang Meibaohang*
(37) Changde Meibaohang*
(38) Yueyang Meibaohang*
(39) Liuyang Meibaohang*
(40) Yongzhou Meibaohang*

Lexus
(41) Changsha Meidong
(42) Zhuzhou Meidong*
(43) Hengyang Meidong*

Toyota
(44) Yiyang Dongxin*

Gansu

Lexus
(45) Lanzhou Meidong*

Jiangxi

Porsche
(46) Ganzhou Xinbao*
(47) Nanchang Jubao

BMW
(48) Jingdezhen Meibaohang*
(49) Shangrao Meibaohang
(50) Xinyu Meibaohang*
(51) Jiujiang Huibaohang

Toyota
(52) Xinyu Dongbu*
(53) Jiujiang Dongbu*

Fujian

Lexus
(54) Xiamen Meidong
(55) Longyan Meidong*

Toyota
(56) Quanzhou Meidong

Anhui

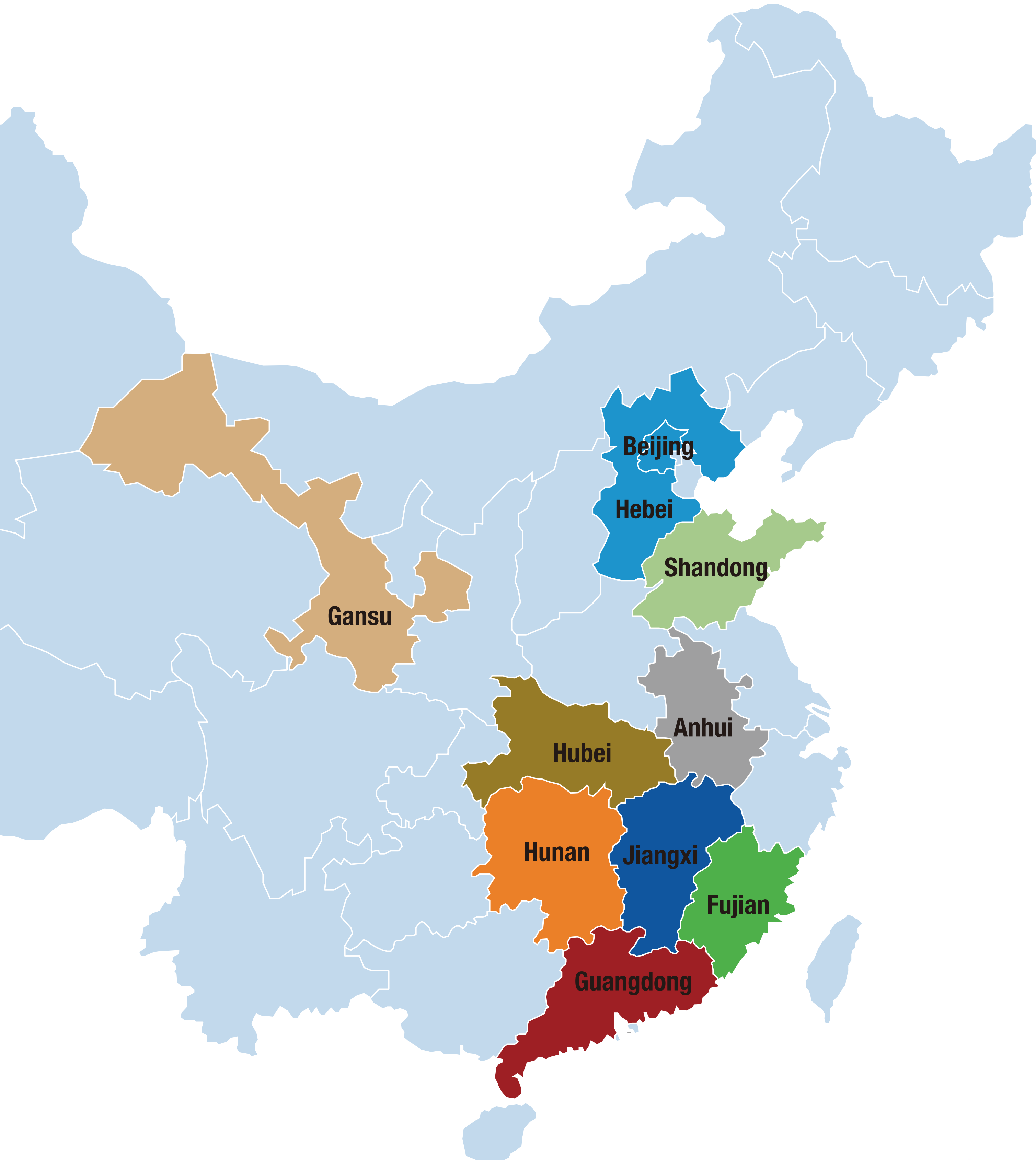
BMW
(57) Huaibei Meibaohang*
(58) Suzhou Meibaohang*
(59) Chizhou Meibaohang*
(60) Chuzhou Meibaohang*
(61) Tongling Meibaohang*
(62) Huangshan Meibaohang*

Shandong

Porsche
(63) Jinan Jubao (70%)

Notes:
(1) Apart from the stores marked by brackets, the others are 100% owned by the Group.
(2) Including a joint venture in which the Group owns 49% equity interest (Dongguan Meidong).

* Single City Single Store


Beijing
Hebei
Shandong
Gansu
Anhui
Hubei
Hunan
Jiangxi
Fujian
Guangdong

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

YE Fan *(Chairman)*
YE Tao *(Chief Executive Officer)*
LUO Liuyu

Independent Non-Executive Directors

CHEN Guiyi
WANG, Michael Chou
JIP Ki Chi

AUTHORISED REPRESENTATIVE

YE Tao

COMPANY SECRETARY

WONG Cheung Ki Johnny,
FCPA, FCG (CS, CGP), FCS (CS, CGP)

AUDIT COMMITTEE

JIP Ki Chi *(Chairman)*
CHEN Guiyi
WANG, Michael Chou

REMUNERATION COMMITTEE

WANG, Michael Chou *(Chairman)*
CHEN Guiyi
JIP Ki Chi

NOMINATION COMMITTEE

YE Fan *(Chairman)*
JIP Ki Chi
WANG, Michael Chou

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

13th Floor, Unit A1
Tian An Tech Industry Building
Huangjin Road
Nancheng District, Dongguan
Guangdong, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2404
24th Floor, World-Wide House
19 Des Voeux Road Central
Hong Kong

AUDITOR

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

HW Lawyers

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

China Construction Bank (Asia) Corporation Limited
Bank of China (Hong Kong) Limited

STOCK CODE

1268

COMPANY'S WEBSITE

www.meidongauto.com

LETTER TO SHAREHOLDERS

What is not surrounded by uncertainty cannot be the truth. — Richard Feynman

Dear Shareholders:

On January 30, 2020, a few days into the Chinese New Year vacation, our key management team assembled online for an emergency meeting. We came off a successful 2019, hitting on all cylinders in financial performance: fast growth in revenue, profit, and cash flow. Managers had just started their long, well-deserved, and hopefully undisturbed Chinese festivities. Yet, they were called upon to discuss the least-festive topic: how long we could survive as a company without any sales. It was the onset of the COVID-19 pandemic and, in a matter of days, humanity suddenly froze in China. We had to plan for no sales and no cash flow as a very real scenario.

We survived those dreadful months and we survived well. The market froze in February and most of March. In the subsequent recovery in April, our efficiency and organizational strength enabled us to recover more quickly than the rest of the industry, and more quickly than even our own expectations. We had a decent first half of 2020, and set a cautious tone for the second half. With many friends around us losing their jobs, businesses, and, in some cases, sanities, being hopeful yet cautious seemed to be the right attitude.

The market in the second half of 2020 surprised us. We are now sitting on the lowest inventory levels of our company's history, having experienced the strongest automobile luxury market we have seen in years, maybe ever. The shift into luxury consumption seems to be accelerating, especially in lower-tier cities. We experienced strong foot traffic, sales volumes, and gross margins. Ever since we went public, we have operated in an environment of mostly headwinds. A tailwind is therefore a welcome change, however brief a time we may have to enjoy it.

The past few years, especially 2020, have taught us that extreme gyrations are normal, black swans are swans, and uncertainties are certain. Business conditions are either icy cold or oven hot, and nothing in between. This forces us to look deep into our core to ask two fundamental questions again and again: what is our strength and is it sustainable in the world of uncertainties?

We believe our strength is still our efficiency, derived from our ability to keep inventory low and turns high. Efficiency and low inventory enable us to optimize cash flow and maximize asset returns, and, more importantly, allow us to generate profits consistently and predictably. We talked about these subjects in previous letters, and, in this letter, plan to elaborate in greater detail.

Let us first look at our 2020 operations.

OPERATIONAL SUMMARY 2020

We delivered good results in 2020. Revenue grew by 24.7% to 20,207.4 million RMB, and net profit by 38.2%, to 770.6 million RMB. The gross margin of new car sales improved from 5.0% to 5.5%, and the gross margin for services stayed essentially flat at 46.3%, resulting in an increase of our overall margin from 9.6% to 10.1%. Our expense ratio continued to trend downward, with significant improvements in total expenses as a percentage of sales, from 6.2% to 5.6%. We declared another record dividend payout of 0.3861 RMB per share, representing 64.0% of our 2020 profit.

We took an exchange loss of 80.2 million RMB, due to the 1,262.4 million HKD we raised and put on the balance sheet in the June placement. Without this one-time non-cash loss, we would have seen a profit growth of 52.6%. We did not take action to hedge. Our rationale at the time was that we would incur no cash loss, and hedging was expensive with inconclusive results. True to our “direct” culture, we have been debating internally on whether we should have hedged the exchange risks.

We continued to become more efficient as we grew. Cash flow from operations exceeded 1,445.8 million RMB. The net margin was 3.8% in 2020, higher than 3.4% in 2019. ROE and ROA stayed at high levels of 23.04% and 9.92%, respectively. Inventory came down to 9 days from 17 days in the beginning of the year and 12 days in the mid-year. We highlight these numbers because we believe that it is of vital importance that we try to enhance our efficiency all the time. As we grow, we want our efficiency to pull further away from, not regress to[1], the average (mean) of the industry. When and only when we achieve this consistently, our revenue growth will become financially valuable, organizationally meaningful, and, most importantly, intellectually satisfying.

We built five new stores: one Porsche, two Lexus, and two BMW, with a 8.6% new store growth rate. We took two important baby steps in M&A: buying a Lexus store in Nanjing and a single-city-single-store BMW in Guang’an, a fourth-tier city in Sichuan Province. Both purchases met our criteria: familiar brands, familiar locations, and reasonable prices. The manager we put in charge of M&A proved herself to be as capable and quick learning as any of our senior managers. For her work in 2020, she received much praise, a big bonus, and no headcount. We trust her to continue to be productive as a one-woman show. Throughout the year, we built a reasonable pipeline with big and small targets, and plan to work through them one by one with a lot of patience and no deadline.

We kicked off CRR effort in August, delayed a few months due to COVID-19. The results are not yet conclusive or quantifiable because of the long lead time (~8 months) for customers’ repeat visits. The in-process data looks lovely, with much higher interactions between our customers and us. Normally, we are the ones serving snacks to our customers, but when we visited our stores recently, we sampled snacks our happy customers made us. Not only was this surprising but tasty, too. We have learned and gained a lot during the past few months by simply focusing on each and every customer. We look forward to sharing more details about customer engagement, hopefully quantifiable details, in the future.

1 Regression to the mean (regression to the mediocrity) refers to the tendency to get back to the average as things get bigger or more numerous.

A SIMULATION: INVENTORY, EFFICIENCY, AND UNCERTAINTY

When we ask our new managers to name the benefits of maintaining a low inventory, the first and often only response is "low interest expense." While low interest expense is indeed a benefit, it is probably the least significant one. The benefits of maintaining a low inventory are numerous, substantial, and mostly underappreciated. In this section, we would like to take a deep and quantitative dive into this subject.

Let us simulate a 4S store selling only two cars: Turtles and Rabbits. Rabbits are popular and we have an 80% chance of selling them within a month. Turtles are less popular and the chance is only a quarter of Rabbits, at 20%. We further assume Rabbits are high volume, of which we order 80 per month, and Turtles are low volume, at 20 per month. To keep things simple, we start with no inventory. In the first month, we sell 64 Rabbits and 4 Turtles, with an ending inventory of 16 Rabbits and 16 Turtles. In the second month, we order 80 Rabbits and 20 Turtles, start the month with an inventory of 96 Rabbits and 36 Turtles, sell 77 Rabbits and 7 Turtles, and end the month with 19 Rabbits and 29 Turtles.

If we run the simulation for a few more months, we will see that the inventory is quickly dominated by slow-selling Turtles. Turtles are 75% of the inventory (59 out of 79) in month six and 79% in month twelve. Varying the ordering sizes for Rabbits and Turtles yields the same result: the slow-moving Turtles always wind up dominating the inventory and dominating rather quickly. Rabbits move in and out of the inventory at a crisp speed, while Turtles move in at a crisp speed but crawl out like, well, turtles.

Compared with Rabbits, Turtles sell much more slowly than what first appears intuitively. Intuition indicates that a Turtle is four times more difficult to sell and four times more likely to stay in the inventory than a Rabbit. But it is only true in the first month. Starting in month two, the difficulty of selling a Turtle explodes. The likelihood of a Turtle still being in the inventory at the end of month two is 64%, while a Rabbit is only 4% likely[2]. At the end of the year, a Rabbit is certainly somewhere with a happy customer, while there is a 7% chance a Turtle still sits in the inventory waiting for its anniversary candle to be lit. Therefore, it is without exception that Turtles are always what is left in the inventory, just like vegetable dishes are always what is left untouched at the end of our family meals (which was a major sore point for our mother).

At the end of the first year, the aggregate inventory days is about one month, indicative of a healthy operation. Or is it? Inventory days for Rabbits is 0.25 months — healthy indeed. Inventory days for Turtles is 4 months — anything but healthy. The store is actually unhealthy because Turtles are clogging up the inventory. The aggregate inventory days is misleading because it is obtained by dividing inventory (mostly Turtles) with sales (mostly Rabbits), akin to dividing apples by oranges. Therefore, the key to examining inventory is to look at the slow-moving cars — the bottlenecks — not the aggregate.

[2] Assume independent probability from one month to another.

Let us discuss what the simulation reveals thus far. First, selling is a probabilistic process because a sale is only meaningful within a certain time frame. When a time frame is used to normalize a sale and a probabilistic model is understood, managers think in terms of "how fast". Many managers, however, believe that cars will be sold eventually. This deterministic view is harmful in practice because eventuality is not a time frame within which a business can operate. Managers with this view look at car sales in light of "how many", not "how fast". The difference between these two assumptions seems subtle and minor but, in reality, drives significantly and substantially different managerial behaviors.

Secondly, inventory is gated and bottlenecked by slow-moving cars. To reduce inventory, we need to focus on selling Turtles only and selling them quickly. Doubling the probability of selling Turtles from 20% to 40%, for example, results in a 1.5 months Turtle year-end inventory — a 63% drop from the original 4 months. Focusing on only the bottleneck simplifies the problem and allows the focus of resources. Relieving the bottleneck — selling Turtles quickly — creates an amplified reduction in overall inventory. Here is a real example. We told investors at the beginning of 2020 that we would reduce the inventory days further from the then-record-low average of 17 days. The confidence of our prediction came from the fact that we were focusing on selling slow-moving cars (whose inventory was far above the average). We succeeded in reducing this inventory and, six months later, our average stood at 12 days, a 30% drop from 17.

Next, let us look at cash flow. We pay cash on day one to buy cars and, for Rabbits, are 96% likely to get the cash back by the second month. Cash flow for Rabbits is certain and predictable. Cash flow for Turtles, on the other hand, is uncertain, irregular, and unpredictable; statistically, we are able to collect only 20% by the first month and 74% by the sixth, and we still have 7% uncollectible after a year. For this 4S store, therefore, Rabbits are the cash generator and Turtles the cash-draining blackhole. Failing to recognize the cash-draining nature of Turtles is one of the biggest reasons this 4S store could get into cash trouble.

Profit is also vastly different for Rabbits and Turtles. Let us assume that the market average margins at the start for Rabbits and Turtles are the same: 10%. A Rabbit is very likely to generate a margin around 10% because the sale occurs soon. A Turtle is a different story: its sale is uncertain and likely occurs far into the future. Estimating the profit margin for a Turtle becomes inherently difficult — akin to predicting the weather of London six months from now. The burden of heavy inventory, irregular cash flow, and unpredictable gross margin often, in practice, results in clearance sales with huge discounts, further aggravating the uncertainty in profits.

The real-world business is of course far more complex and complicated than the simulation. We have to sell both fast-moving and slow-moving cars to support our partners. Factors influencing the selling of cars are not always under our control. We sell so many car models with so many variations that identifying bottlenecks is often difficult. Even when we discover bottlenecks, we often forget that they are dynamic and shifting in nature. But the key lessons of this simulation hold true: slow-moving cars dominate inventory, selling these cars quickly results in low and healthy inventory, and selling these cars quickly minimizes or even eliminates uncertainties in our business. A more important lesson is that car selling (or retail in general) should be viewed and managed as a probabilistic process, not a deterministic one.

In conclusion, this simulation, simple as it may be, allows us to ask and answer the key question: what is the most important issue and absolute necessity in our business? While managers all live and breathe in the complex and complicated real world, we believe that good managers should develop the ability, as demonstrated in this simulation, to “eliminate the unnecessary so that the necessary may speak” (as the painter Hans Hofmann once said).

Let us now summarize the benefits of low inventory.

The major benefits of low inventory are the enhancement of cash flow, profit, and asset efficiency. The way to achieve low inventory involves discovering, focusing, and relieving bottlenecks. Over the past few years, these benefits are more understood and appreciated, for which we would love to claim some credit.

Another major benefit of low inventory is the minimizing of uncertainty. This benefit is not yet understood or appreciated. We are a strong company because our profit, cash flow, and asset efficiency are not only growing in magnitude but also becoming more predictable, less uncertain, and, therefore, of higher quality.

ANOTHER COVID-19 STORY

On March 18, 2020, we met to discuss the operations of our Wuhan Porsche and Huanggang (a city near Wuhan) BMW stores. Both cities were under airtight lockdowns, and both stores had closed for two months. Knowing that all businesses were suffering, the local government advised businesses to pay employees minimum stipends much smaller than their salaries.

In the meeting, we decided to instead pay those store employees their full salaries and bonuses.

This decision turned out to benefit our company. There was an outpouring of employee messages showering us with appreciation. Both stores recovered more quickly than their peers and the rest of our company. They ended the year profitably and surpassed their original goals.

At the time of the meeting, however, it was not an obvious or easy decision to make. Both stores were incurring heavy losses with no customers, no sales, and no end in sight. The rational and logical decision would have been to heed the government's advice.

Yet paying our employees in full felt like the right thing to do at the time. It still feels like the right thing to do now. In running the company, we make many decisions based on logic and quantifiable rationale — weighing benefits against costs to optimize efficiencies. However, there are also times when we rely on our intuition and common sense to guide us. We believe this intuition and common sense reflect our culture and values as much as our tangible financial numbers. Whether to pay these employees in full was one of those intuition-driven decisions — and we are glad we did it, with or without the later benefits.

Thank you for reading this letter and thank you for your support.

Tao and Fan Ye

MANAGEMENT DISCUSSION AND ANALYSIS

Despite the impact of COVID-19 in the first half of 2020, China's automobile industry recovered quickly after the pandemic, with sales volume recording a strong rebound in the second half, leading to a slight decline for the year. According to the statistics from China Association of Automobile Manufacturers, total sales volume of passenger vehicles in China in 2020 was 20.2 million units, representing a year-on-year ("**yoy**") decrease of 6.0%. In particular, sales volume of basic passenger vehicles (sedans) was 9.3 million units, representing a yoy decrease of 9.9%, whereas sales volume of sport utility vehicles (SUVs) was 9.5 million units, representing a yoy increase of 0.7%. Yet, benefiting from consumption upgrade as well as the rather inelastic demand of luxury brands, the luxury vehicle market has maintained a strong growth since April 2020. Based on the statistics from China Passenger Car Association, retail sales of luxury vehicles in December 2020 increased by 26% yoy, significantly higher than that of the overall market. Such growth, driven by the structural change is expected to sustain.

BUSINESS AND FINANCIAL REVIEW

For the year ended 31 December 2020 (the "**Year**"), China MeiDong Auto Holdings Limited (the "**Company**"), together with its subsidiaries (collectively the "**Group**") maintained its growth momentum despite the extreme market environment. During the Year, the Group recorded satisfactory growth across revenue, gross profit, net profit and operating cash flow. Its inventory turnover days also hit a historic low, reflecting the benefits of its efficiency-driven operating strategies.

Revenue

During the Year, the Group recorded a revenue of approximately RMB20,207.4 million (2019: approximately RMB16,210.0 million), representing an increase of approximately 24.7% yoy. It is mainly attributable to the new store expansion and steady same store sales growth. Revenue from new passenger vehicles sales increased by approximately 24.8% yoy to approximately RMB17,956.2 million (2019: approximately RMB14,383.8 million), accounting for approximately 88.9% (2019: approximately 88.7%) of total revenue. Revenue from after-sales services increased by approximately 23.3% yoy to approximately RMB2,251.3 million (2019: approximately RMB1,826.2 million), accounting for approximately 11.1% (2019: approximately 11.3%) of total revenue.

Cost of Sales

Cost of sales increased by 24.0% from RMB14,652.4 million in 2019 to RMB18,172.0 million for the Year. The increase in cost of goods sold was mainly due to the growth of the Group's two major business operations, namely new passenger vehicles sales and after-sales services. Among which, the cost of sales for new passenger vehicles sales and after-sales services increased by 24.1% and 22.8% respectively.

Gross Profit

During the Year, gross profit increased by approximately 30.7% yoy from approximately RMB1,557.6 million in 2019 to approximately RMB2,035.5 million, driven by the steady growth in total revenue. Overall gross profit margin remained stable, recording a slight increase of 0.5 percentage points to approximately 10.1%. Among which, gross profit margin of new vehicles sales increased significantly by 0.5 percentage point to approximately 5.5% (2019: 5.0%), and that of after-sales services slightly increased by 0.2 percentage points from 46.1% for 2019 to approximately 46.3%.

Costs and Expenses

During the Year, the Group was able to further enhance its operational efficiency. Distribution costs amounted to approximately RMB546.0 million, accounting for 2.7% of total revenue, representing a 0.3 percentage point decrease as compared to the 3.0% for the same period of last year. Administrative expenses amounted to approximately RMB439.0 million, or approximately 2.2% of total revenue, representing a decrease of 0.2 percentage point as compared to the 2.4% for the same period of last year. Meanwhile, finance costs amounted to approximately RMB136.9 million, decreasing by 0.1 percentage point from 0.8% to 0.7% as a percentage of revenue.

Taxation

During the Year, the Group's income tax expenses amounted to approximately RMB281.6 million, representing an increase of approximately 40.9% as compared to approximately RMB199.9 million for the same period of last year. The increase in income tax expenses was mainly due to the increase in profit for the year.

Profit for the Year

The Group achieved considerable revenue and gross profit growth amid the unstable economic environment, and supported by its effective control over expenses, the Group's profit for the Year increased by 38.2% to approximately RMB770.6 million (2019: approximately RMB557.5 million), and profit margin for the Year increased by 0.4 percentage point from approximately 3.4% to approximately 3.8%. However, due to the impact of external factors, the Group incurred a non-operating-related, non-cash one-off exchange loss of approximately RMB80.2 million during the Year. Profit for the year excluding non operating, non cash one off exchange loss was RMB850.8 million, representing a growth of 52.6% compared to the same period of 2019 and a net profit margin of 4.2%

Dividend

The interim dividend for 2020 was RMB0.1451 per ordinary share. The Board of Directors (the "**Board**") of the Company recommended a final dividend of RMB0.2410 per ordinary share for the year ended 31 December 2020 (2019: RMB0.2 per ordinary share). The dividend paid for the Year was RMB0.3861 (2019: RMB0.2610), with payout ratio for the Year reaching 64.0%, representing a yoy increase of 9.0 percentage points (2019: 55.0%).

A Joint Venture

During the Year, share of profit of a joint venture amounted to approximately RMB43.2 million, representing a slight decrease of approximately 1.1% as compared to approximately RMB43.7 million for the same period of last year.

New Passenger Vehicles Sales

During the Year, through new-store expansion and same store sales growth, revenue of new passenger vehicles sales amounted to approximately RMB17,956.2 million (2019: approximately RMB14,383.8 million), indicating an increase of approximately 24.8% as compared to the same period of last year. Luxury brands remained as the major revenue source of the Group, accounting for approximately 84.0% of total new passenger vehicles sales. BMW, Porsche, Lexus and Audi recorded sales of new passenger vehicles of approximately RMB7,144.7 million, RMB3,581.7 million, RMB4,210.1 million and RMB144.3 million respectively, accounting for approximately 39.8%, 19.9%, 23.5% and 0.8% of total new passenger vehicles sales respectively. In terms of sales volume, the Group sold 57,200 new passenger vehicles during the Year, representing an increase of 15.9% yoy, with sales of BMW, Porsche, Lexus and Audi amounting to 20,792 units, 4,467 units, 11,788 units and 541 units respectively.

After-Sales Services

During the Year, driven by new store expansion and same store growth, revenue of after-sales services reached approximately RMB2,251.3 million, representing an increase of 23.3% (2019: approximately RMB1,826.2 million) as compared to the same period of last year. The total number of vehicles served was 513,236, representing an increase of 12.5% yoy. Gross profit margin of the segment remained stable and slightly increased to 46.3%.

Current Network

The Group continued to focus on luxury brands, and execute its highly-effective "Single City Single Store" strategy in further expanding its distribution network. In 2020, the Group opened 5 new stores, with 63 self-operated stores situating in provinces and cities such as Beijing, Hebei, Hubei, Hunan, Jiangxi, Fujian, Guangdong, Gansu and Anhui, which includes a joint venture operated by the Group.

As at 31 December 2020, the number of stores operated by the Group is as follows:

Number of stores under operation	**2020**	2019	**Change**
Porsche	**7**	6	**1**
BMW	**26**	24	**2**
Lexus	**16**	14	**2**
Toyota	**12**	12	**–**
Hyundai	**1**	1	**–**
Audi	**1**	1	**–**
Total	**63**	58	**5**

Financial Resources and Position

As at 31 December 2020, total equity of the Group amounted to approximately RMB3,344.6 million (31 December 2019: approximately RMB1,769.3 million). Current assets of the Group amounted to approximately RMB5,109.6 million (31 December 2019: approximately RMB3,784.9 million), while current liabilities amounted to approximately RMB3,060.6 million (31 December 2019: approximately RMB3,180.2 million).

As at 31 December 2020, the Group's loans and borrowings amounted to RMB951.4 million, representing a decrease of approximately 14.4% as compared to RMB1,111.7 million of last year. Short-term loans and borrowings amounted to RMB729.2 million, whereas long-term loans and borrowings amounted to RMB222.2 million. The Group maintained a net cash position.

As at 31 December 2020, cash and cash equivalents and pledged bank deposits amounted to RMB3,096.6 million. Most of the cash and cash equivalents and pledged bank deposits were denominated in Renminbi and Hong Kong Dollars. Apart from part of the cash that is denominated in Hong Kong Dollars, the Group's business operations in China and major transactions are all denominated in Renminbi. Therefore, the Group expects its foreign exchange risks will have minimal effect on its normal operations and business. For the year ended 31 December 2020, the Group did not employ any significant financial instruments such as forward foreign exchange contracts, nor did it employ any major financial instruments for hedging purposes.

The operating and capital expenditure of the Group is funded by cash flow from operations, internal cash flow and financing agreements with banks and financing companies of automobile manufacturers. The Group has adequate financial resources to meet all contractual obligations and operating requirements.

Contingent Liabilities

As at 31 December 2020, one subsidiary of the Group issued financial guarantee to financial institution and bank in respect of financial facilities granted to a related party of the Group, which amounted to RMB130.0 million (31 December 2019: RMB80.0 million). The financial facilities utilised by the related party amounted to RMB0.0 million (31 December 2019: RMB13.1 million).

As at 31 December 2020, the Directors do not consider it probable that a claim will be made pursuant to the above guarantee.

Treasury Policy

The Group has adopted prudent treasury policies and maintained a healthy liquidity throughout the Year. To manage its liquidity risk, the Board closely monitors its liquidity to ensure that it can meet its assets, liabilities and capital commitments from time to time.

Significant Investments, Material Acquisitions and Disposals

During the Year, save as disclosed in this annual report, the Group had no significant investments held, nor material acquisitions and disposals of subsidiaries, associates or joint ventures.

Pledged Assets of the Group

As at 31 December 2020, the Group used property, plant and equipment, right-of-use assets, inventories, trade and other receivables, and total pledged bank deposits of RMB434.8 million (31 December 2019: approximately RMB492.0 million) as collateral for certain loans and borrowings.

Placing of new shares under general mandate

On 3 June 2020 (before trading hours), the Company, Apex Sail Limited (a company incorporated in the British Virgin Islands with limited liability, holding approximately 56.46% of the issued share capital of the Company as at the date of this annual report, as vendor, the "Vendor"), Goldman Sachs (Asia) L.L.C. and Merrill Lynch (Asia Pacific) Limited (both as placing agents, the "Placing Agents") entered into a placing and subscription agreement (the "Placing and Subscription Agreement"), pursuant to which (i) the Vendor agreed to appoint the Placing Agents, and the Placing Agents agreed on a several basis, to act as agents for the purpose of procuring, as the placing agents of the Vendor, the Placees to purchase, or failing which to purchase themselves, 81,000,000 shares of the Company (the "Placing Shares") at HK$15.84 (the "Placing Price"); and (ii) the Vendor agreed to subscribe for, and the Company agreed to issue to the Vendor, 81,000,000 shares of the Company (the "Subscription Shares") at HK$15.84 (the "Subscription Price", same as the Placing Price), in each case on the terms and subject to the conditions set out in the Placing and Subscription Agreement. The number of the Placing Shares represents: (i) approximately 6.97% of the total number of Shares in issue as at the date 3 June 2020; and (ii) approximately 6.51% of the enlarged total number of Shares in issue upon the completion of the Subscription.

The Subscription Shares were issued under the General Mandate granted to the Directors pursuant to a resolution of the shareholders of the Company passed on 18 May 2020. As such, the allotment and issue of the Subscription Shares was not subject to additional Shareholders' approval.

On 5 June 2020, all Placing Shares were successfully placed at the Placing Price by the Placing Agents to not fewer than six placees (the "Placees") pursuant to the terms and conditions of the Placing and Subscription Agreement. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Placees and their respective ultimate beneficial owners (if any) are professional, institutional, or other investors who are third parties independent of the Company and its connected persons (as defined under the Listing Rules). Subsequently on 10 June 2020 after all the conditions of the Subscription were fulfilled, the Company allotted and issued the Subscription Shares to the Vendor at the Subscription Price. The Subscription Shares represent approximately 6.51% of the issued share capital of the Company as enlarged upon completion of the allotment and issue of the Subscription Shares.

The Subscription Shares are ordinary shares of the Company and carry the aggregate nominal value of HK$8,100,000 at a par value of HK$0.1 per share. On the date of the Placing and Subscription Agreement, the closing market price of the shares of the Company traded on the Stock Exchange was HK$17.58.

For further details on the placing and subscription, please refer to the announcements of the Company dated 3 June 2020 and 10 June 2020.

Use of Proceeds

The net proceeds (after deducting all applicable costs and expenses, including commission and levies) from the Subscription amount to approximately HK$1,262,000,000. It was intended the said net proceeds from the Subscription would be used as follows: (i) approximately HK$883,400,000 (representing approximately 70% of the net proceeds) for opportunistic mergers and acquisitions purpose; and (ii) approximately HK$378,600,000 (representing approximately 30% of the net proceeds) as general working capital of the Group. As at the date of this annual report, none of said net proceeds has been utilised yet.

The unutilized net proceeds from the Subscription is intended to be used as follows:

Intended use of net proceeds	**Percentage of total net proceeds** *(approximately)*	**Unutilized proceeds as at 31 December 2020** *(approximately)*	**Expected timeframe* for utilizing the unutilized proceeds**
Opportunistic mergers and acquisitions	70%	HK$883,400,000	One to two years
General working capital	30%	HK$378,600,000	One to two years
Total	100%	HK$1,262,000,000	

* The expected timeline for utilising the unutilized proceeds is subject to change based on the current and future development of market conditions and opportunities made available to the Group.

PROSPECTS

Through efficient and data-driven management, the Group will continue to maximize its operating efficiency, optimize its revenue mix and improve its service standard, while focusing on luxury brands and "Single City Single Store" strategy to deliver stable growth in the long run. The Group has been gradually executing its merger and acquisition strategy with the criteria of: (1) familiar brands; (2) familiar locations; and (3) reasonable valuation to accelerate its network expansion. From 2021 to date, the Group completed the acquisition of 100% equity interest in a Lexus store in Nanjing and a BMW store in Guangan, Sichuan. In addition, the Group has piloted new after-sales service initiatives in a number of stores during the Year, which have delivered positive initial results with improved customer satisfaction and customer return ratio (CRR). The Group has expended the project to almost all stores with the aim to gradually accelerate the development of after-sales services. By leveraging its sound management system and its persistent pursuit of efficiency, the Group will continue to develop its business, in order to deliver a satisfactory return.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. YE Fan *(Chairman)*
Mr. YE Fan, aged 49, is the founder of the Group. He is the younger brother of Mr. YE Tao, and is the Chairman and an executive Director of the Company. He is primarily responsible for supervising the operations of the Group, planning its business and marketing strategies and overseeing the external relationship with banks, government and other business partners. Mr. YE Fan was awarded a Bachelor degree in Inorganic Non-metallic Materials (無機非金屬材料) from South China University of Technology (華南理工大學) in July 1993. He is a non-permanent Hong Kong resident.

As the founder of the Group, Mr. YE Fan started his career in the automobile sector by joining an automobile distributor in Dongguan, the PRC as general manager from 1995 to 1998. In 1999, he set up 東莞市聚成汽車技術服務有限公司 (Dongguan Jucheng Auto Technical Services Co., Ltd.*) (a private company based in Dongguan, Guangdong which was principally engaged in the automobile distribution business) with a partner. In April 2003, Mr. YE Fan set up 東莞市冠豐汽車有限公司 (Dongguan Guanfeng Auto Co., Ltd.*) ("**Dongguan Guanfeng**"), which is the first member of the Group. This 4S dealership store was opened in May 2004 and held 4S distributorship for 北京現代汽車有限公司 (Beijing Hyundai Motor Company*) vehicles. Before the establishment of 廣東大東汽車集團有限公司 (Guangdong Dadong Auto Group Co., Ltd*) ("**Dadong Group**") in 2007, he made investments in a few enterprises (including members of the Group) which were principally engaged in automobile distribution of various brands. Following the establishment of Dadong Group in 2007, which has been solely owned by Mr. YE Fan, Dadong Group has been making investments in 4S dealership stores of various brands.

Since 2003, Mr. YE Fan has been acting as a director of Dongguan Guanfeng and various PRC members of the Group and has been responsible for supervising their daily operations and planning their business strategies. Mr. YE Fan is currently a director of each of the subsidiaries of the Company.

Mr. YE Tao *(Chief Executive Officer)*

Mr. YE Tao, aged 54, is the elder brother of Mr. YE Fan. He is an executive Director and the Chief Executive Officer of the Company. He is primarily responsible for overseeing the daily operations and management of the Group, planning its business and marketing strategies, supervising investor relationship and serving on the Remuneration Committee and the nomination committee of the Company (the "**Nomination Committee**"). Mr. YE Tao was awarded a Bachelor degree in Mechanics (力學) from Peking University (北京大學) in July 1989. He also obtained a Master of Science degree in Mechanical Engineering and a Master of Science degree in Management, both from Massachusetts Institute of Technology, in June 1996.

Before he joined the Group, Mr. YE Tao worked for Objectiva Software Solutions (Beijing) Inc. (奧博傑天（北京）軟件公司) as the chief executive and legal representative overseeing the overall operations of such company, and in Document Sciences Corporation as the general manager of Asian Operations overseeing the management and operations in the Asia.

In 2008, Mr. YE Tao was invited by Mr. YE Fan to work in the Group as the Chief Executive Officer. Since then, he has been working together with Mr. YE Fan closely in the expansion of the Group's business.

Ms. LUO Liuyu

Ms. LUO Liuyu, aged 37, is an executive Director of the Company. She has been the vice president of human resources and administration unit of the Group's company, Dongguan Meixin Business Consulting Co., Ltd, primarily responsible for the overall human resources management and planning of the Group, including recruitment, job allocation, training, formulating remuneration and fringe benefit policies, etc. Ms. LUO joined the Group as a finance supervisor in September 2007 and was then in charge of the management of the finance department, including fund and assets management, internal auditing, costs control management and financial statements preparation. Before Ms. LUO joined the Group, she worked for Dongguan Zhicheng Trading Company Limited as accounting supervisor, taking charge of the daily operations of finance department and other accounting functions. Ms. LUO completed a three-year professional study programme in Finance in Dongguan University of Technology in 2007 and a financial management degree from Peking University in 2015.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. JIP Ki Chi

Mr. JIP Ki Chi, aged 51, was appointed as an independent non-executive Director of the Company with effect from 15 November 2013. Mr. Jip is currently the chief financial officer and company secretary of Sun Entertainment Group Limited (formerly known as "Sage International Group Limited") (Stock code: 8082.HK) and acts as an independent non-executive director of Hebei Yichen Industrial Group Corporation Limited (Stock Code: 1596.HK). Mr. Jip was awarded a Bachelor degree of Business in Accountancy from Queensland University of Technology, Australia in 1994, and a Master degree in Business Administration from the University of Adelaide, Australia in 2008. Mr. Jip is a Certified Practising

Accountant of CPA Australia (CPA (Aust.)). He obtained his qualification as a fellow member of Hong Kong Institute of Certified Public Accountants in 2007 (FCPA). Mr. Jip has a wealth of experience in accounting, finance, management and company secretarial field, and has worked as the chief financial officer and company secretary of Inventronics Holdings Limited and Zhong Da Mining Limited, the financial controller and company secretary of Hao Tian Resources Group Limited (Stock code 474.HK) (currently known as Hao Tian Development Group Limited) and the financial controller of Wah Shing Group.

Mr. WANG, Michael Chou

Mr. WANG, Michael Chou, aged 51, was appointed as an independent non-executive Director of the Company with effect from 22 June 2015. Mr. Wang was awarded a Master of Business Administration by the Wharton School of Business at the University of Pennsylvania in 1997 and a Bachelor of Arts from Southwestern University in 1992. He is currently the managing partner and president of Abax Global Capital. Mr. Wang is responsible for the overall business management and investment activities at Abax and also focuses on the management of portfolio companies. Mr. Wang is a member of the fund's investment committee and is the Chairman of such firm's operating committee.

Mr. Wang has 20 years of professional advisory experience in the PRC. Prior to joining Abax, Mr. Wang was a Senior Partner in McKinsey & Company's Shanghai office, where he was a leader in its China energy, and industrial practices. As head of the McKinsey Shanghai office, which is now amongst McKinsey's top 10 largest offices globally, he oversaw its growth from 100 to 300 professionals. Mr. Wang is a known expert for performance turnaround at Chinese companies, both state owned and private. He has assisted numerous Chinese clients to improve their performance via growth strategy, operational enhancement and organizational restructuring. Mr. Wang has published numerous articles in International and Chinese media on the performance improvement topic and has been a frequent speaker and guest lecturer at government (including those for State-Owned Assets Supervision and Administration Commission of the State Council and National Development and Reform Commission in the PRC) and industry forums in the PRC and abroad.

Mr. CHEN Guiyi

Mr. CHEN Guiyi, aged 42, was appointed as an independent non-executive Director of the Company with effect from 1 April 2017. From September 1997 to July 2001, Mr. Chen studied at the China Youth University of Political Science where he obtained a bachelor's degree in legal studies. From September 2003 to July 2004, he studied at the University of Groningen of the Netherlands where he obtained a master's degree in laws. From July 2001 to September 2005, he has been an associate director at the newspaper office of Beijing Times of People's Daily. From October 2005 to September 2020, he was one of the partners and lawyers of the law firm, Jingtian & Gongcheng in Beijing and Chengdu, the PRC. From March 2016 to September 2020, he was one of the partners of W&G Investment Management Co., Ltd. From August 2017 to September 2020, he was one of foreign legal consultants of the law firm, Loeb & Loeb LLP in Hong Kong. Since October 2020, he has been one of executive directors of Centurium Capital Management (HK) Ltd. Chen has ample experience in the capital market, specializing in both the domestic and overseas capital market.

SENIOR MANAGEMENT

Ms. YUAN Ying

Ms. YUAN Ying, aged 40, is our Financial Controller and is responsible for the overall financial planning and management of the Group. Ms. Yuan joined the Group in May 2010 as Finance Manager and was in charge of the Finance Department. She was then responsible for the Group's asset management, internal audit, cost control and formulating of financial statements, etc. Ms. Yuan is an accountant and obtained the qualification of accountant by the Ministry of Finance of the PRC in May 2007. Prior to joining the company, she worked for Yong Feng Footwear (Bao An) Company Limited as finance supervisor in charge of audit of the Finance Department.

Ms. WANG Feixue

Ms. WANG Feixue, aged 40, is our vice president of sales and marketing unit. Currently, she is primarily responsible for the overall management of the sales and marketing functions of the Group. Ms. Wang completed a two-year professional study programme in Chinese language and literature in Henan Broadcast Television University. Ms. Wang joined the Group as a sales consultant in July 2004 and was then in charge of sales of new vehicles. Ms. Wang left the Group in July 2006, then rejoined the Group as a corporate planning manager in July 2007. Before Ms. Wang rejoined the Group in July 2007, she worked for Dongguan Zhicheng Trading Company Limited as the sales manager, and was in charge of managing the sales department.

Ms. CHEN Saijin

Ms. CHEN Saijin, aged 40, is our vice president of purchasing and projects unit. Currently, she is primarily responsible for the overall procurement of the Group and supervising internal control matters. Ms. Chen was granted a technical certificate in computer software profession by the Guangdong Labour and Social Security Bureau. Ms. Chen also completed a three-year professional study programme in Accounting in Renmin University of China (中國人民大學) through Internet learning. Ms. Chen joined the Group as an accounting officer in October 2004 and was then in charge of the accounting function of the finance department. Before Ms. Chen joined the Group, she worked for Dongguan Hongyan Vehicle Trading Company Limited as the deputy manager of finance department, taking charge of the auditing of costs and other finance matters.

REPORT OF THE DIRECTORS

The Board has pleasure in presenting the Report of the Directors and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in automobile dealership business authorized by the respective automobile manufacturers of particular brands in the PRC including the sale of new passenger cars, spare parts, service and survey. Particulars of the subsidiaries are set out in note 14 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group during the year ended 31 December 2020 and a discussion on the Group's future business development are provided in the section "Letter to Shareholders" and "Management Discussion and Analysis" of this Annual Report. Description of possible risks and uncertainties that the Group may be facing can be found in the section "Letter to Shareholders". The financial risk management objectives and policies of the Group can be found in note 27 to the consolidated financial statements.

Particulars of important events affecting the Group that have occurred since the end of the financial year ended 31 December 2020 are provided in page 35 of this section and note 32 to the consolidated financial statements of this Annual Report. An analysis of the Group's performance during the year using financial key performance indicators is provided in the "Five-Year Financial Summary" on page 164 of this Annual Report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group recognises the importance of environmental protection and has adopted stringent measures for environmental protection in order to ensure our compliance to the prevailing environmental protection laws and regulations.

The Group has developed environmental protection measures and policies to prevent and control pollution levels and harm caused to the environment in the form of waste gas, waste water, solid waste, dust etc. in the course of production or other activities in accordance with the applicable environmental laws and regulations.

The Group understands that a better future depends on everyone's participation and contribution. It has encouraged all employees to participate in environmental activities which benefit the community.

COMPLIANCE WITH LAWS AND REGULATIONS

As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

RESULTS AND FINAL DIVIDEND

The results of the Group for the year ended 31 December 2020 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on page 58 to page 163 of this Annual Report.

The Directors have recommended the payment of a final cash dividend of RMB0.241 per share (2019: RMB0.2 per share) to the Shareholders whose names are on the register of members of the Company on 7 June 2021. Subject to approval by the Shareholders at the AGM and compliance with the Companies Law of the Cayman Islands, the final dividend will be paid on or about 21 July 2021 and the register of members of the Company will be closed from 2 June 2021 to 7 June 2021, both days inclusive, for determination of entitlement of the final dividend, during which period no transfer of shares will be registered.

There is no arrangement that a shareholder has waived or agreed to waive any dividend.

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2020 are set out in the consolidated statement of changes in equity set out on page 61 of this Annual Report.

The Company's reserves available for distribution to the Shareholders as at 31 December 2020 amounted to RMB915,364,000 (2019: RMB262,566,000), subject to the applicable statutory requirements under the laws of the Cayman Islands.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for each of the five financial years ended 31 December 2020 is set out on page 164 of this Annual Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

For the purpose of disclosing the environmental, social and governance ("**ESG**") information in accordance with the ESG Reporting Guide in Appendix 27 to the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the Company has engaged an external consultant to identify material ESG issues of the Group and assist in the reporting of the Group's performance based on its ESG management approach, strategy, priorities and objective. The ESG report will be dispatched to the shareholder of the Company and will be published on the website of the Company and the Stock Exchange in due course. For details of the Company's environmental policies and performance and its compliance with the relevant laws and regulations in the environmental and social aspects, please refer to the ESG report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant, equipment of the Group during the year ended 31 December 2020 are set out in note 11 to the consolidated financial statements.

TAX RELIEF

The Company is not aware of any tax relief available to the Shareholders by reason of their holdings in the Company's securities.

Under current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by the Company.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year ended 31 December 2020 are set out in note 26(c) to the consolidated financial statements.

DIRECTORS

The Directors during the year ended 31 December 2020 and up to the date of this Annual Report were as follows:

Executive Directors

Mr. YE Fan *(Chairman)*
Mr. YE Tao *(Chief Executive Officer)*
Ms. LUO Liuyu

Independent Non-Executive Directors

Mr. CHEN Guiyi
Mr. JIP Ki Chi
Mr. WANG, Michael Chou

The biographical details of the Directors and senior management of the Company are set out on page 16 to 19 of this Annual Report.

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

Directors' Service Contracts

The executive Directors, Mr. YE Fan and Mr. YE Tao, has entered into a new letter of appointment with the Company commencing with effect from 15 November 2016 and Ms. LUO Liuyu entered into a letter of appointment with the Company commencing with effect from 25 March 2019. Each of them was not appointed for any specific length or proposed length of services and his term of service shall continue unless and until terminated by either party giving not less than three months' notice in writing to the other party.

The independent non-executive Director, Mr. CHEN Guiyi has entered into a letter of appointment with the Company on 1 April 2017. Mr. CHEN Guiyi was not appointed for any specific length or proposed length of services and his term of service shall continue unless and until terminated by either party by not less than three months' notice in writing. The independent non-executive Director, Mr. JIP Ki Chi has entered into a new letter of appointment with the Company on 15 November 2016. Mr. JIP Ki Chi was not appointed for any specific length or proposed length of services and his term of service shall continue unless and until terminated by either party by not less than three months' notice in writing. The independent non-executive Director, Mr. WANG, Michael Chou has entered into a letter of appointment with the Company on 20 June 2018. Mr. WANG, Michael Chou was not appointed for any specific length or proposed length of services and his term of service shall continue unless and until terminated by either party giving not less than three months' notice in writing to the other party. Each of the independent non-executive Directors is subject to the provisions for retirement by rotation and re-election at the AGM in accordance with the articles of association of the Company.

Save as disclosed above, no Director proposed for re-election at the AGM has service agreement with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Remuneration

Details of emoluments of the Directors are set out in note 8 to the consolidated financial statements.

Mr. JIP Ki Chi is entitled to a director's fee of HK$166,560 per annum. Each of Mr. CHEN Guiyi and Mr. WANG, Michael Chou is entitled to a director's fee of HK$100,000 per annum. Save for Director's fees, none of our independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

The Directors' fees are subject to the Shareholders' approval at the AGM. Other emoluments are determined by the Board with reference to the recommendations from the Remuneration Committee taking into account the directors' duties, responsibilities and performance and the results of the Group.

Interests In Contracts

Other than as disclosed in this Annual Report or note 30 to the consolidated financial statements, there is no transaction, arrangement or contract of significance to which the Company and/or its subsidiaries was a party and in which a Director or an entity connected with a Director or the controlling shareholders of the Company or its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Competing Business

Save as disclosed in this Annual Report, none of the Directors or their respective close associates (as defined in the Listing Rules) had any interests in any business (apart from the Group's business), which competes or is likely to compete, either directly or indirectly, with the businesses of the Group during the year and up to the date of this Annual Report.

Directors' Interests or Short Positions in Shares and Underlying Shares

As at 31 December 2020, the interests and short positions of the Directors and chief executive in the Shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were required pursuant to: (a) divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") to be notified to the Company and the Stock Exchange, were as follows:

Long Positions or Short Positions in Shares and Underlying Shares

Name of director	Capacity	Interest in shares Personal interest shares	Family interest	Total interest in shares	Interest in underlying Shares pursuant to share options	Approximate percentage of shareholding as at 31 December 2020
Mr. YE Fan (1)	Settlor of trust	–	702,712,000	702,712,000	–	56.46%
Mr. YE Tao	Beneficial Owner	–	–	–	4,000,000	0.32%
Ms. LUO Liuyu	Beneficial Owner	48,000	–	48,000	1,430,000	0.11%
CHEN Guiyi	Beneficial Owner	500,000	–	500,000	500,000	0.08%
JIP Ki Chi	Beneficial Owner	–	–	–	500,000	0.04%
WANG, Michael Chou	Beneficial Owner	288,000	–	288,000	500,000	0.06%

Notes:

(1) Mr. YE Fan is the settlor of the Ye Family Trust, a revocable discretionary family trust. The entire capital of Apex Holdings Enterprises Limited ("**Apex Holdings**") is an asset of such family trust, and Apex Holdings in turn holds the entire issued share capital of Apex Sail Limited ("**Apex Sail**"). Apex Sail directly holds 702,712,000 Shares and by virtue of the SFO, Mr. YE Fan is deemed to be interested in the Shares of Apex Sail.

Details of Directors' interests in share options granted by the Company are set out under the heading "Directors' Rights to Acquire Shares" below.

Directors' Rights to Acquire Shares

Pursuant to the Company's share option scheme adopted by the Shareholders on 13 November 2013 (the "**SOS**"), the Company has granted to certain Directors options to subscribe Shares, details of which as at 31 December 2020 were as follows:

Name of Director	Date of Grant	Exercisable Period	Exercisable price	Number of shares subject to the outstanding options as at 01.01.2020	Granted during the period	Exercised during the period	Cancelled/ Lapsed	Number of shares subject to the outstanding option as at 31.12.2020	Approximate percentage of shareholding
Mr. YE Tao	20.01.2014	01.01.2015–12.11.2023	1.8	500,000				500,000	0.04%
		01.01.2016–12.11.2023	1.8	500,000				500,000	0.04%
		01.01.2017–12.11.2023	1.8	500,000				500,000	0.04%
		01.01.2018–12.11.2023	1.8	500,000				500,000	0.04%
	04.01.2018	04.01.2018–03.01.2028	2.58	500,000				500,000	0.04%
		04.01.2019–03.01.2028	2.58	500,000				500,000	0.04%
		04.01.2020–03.01.2028	2.58	500,000				500,000	0.04%
		04.01.2021–03.01.2028	2.58	500,000				500,000	0.04%
LUO Liuyu	20.01.2014	01.01.2015–12.11.2023	1.8	75,000				75,000	0.01%
		01.01.2016–12.11.2023	1.8	75,000				75,000	0.01%
		01.01.2017–12.11.2023	1.8	75,000				75,000	0.01%
		01.01.2018–12.11.2023	1.8	75,000				75,000	0.01%
	04.01.2018	04.01.2018–03.01.2028	2.58	225,000				225,000	0.02%
		04.01.2019–03.01.2028	2.58	225,000				225,000	0.02%
		04.01.2020–03.01.2028	2.58	225,000				225,000	0.02%
		04.01.2021–03.01.2028	2.58	225,000				225,000	0.02%
	18.07.2019	18.07.2019–17.07.2029	6	57,500				57,500	0.00%
		18.07.2020–17.07.2029	6	57,500				57,500	0.00%
		18.07.2021–17.07.2029	6	57,500				57,500	0.00%
		18.07.2022–17.07.2029	6	57,500				57,500	0.00%

Name of Director	Date of Grant	Exercisable Period	Exercisable price	Number of shares subject to the outstanding options as at 01.01.2020	Granted during the period	Exercised during the period	Cancelled/ Lapsed	Number of shares subject to the outstanding option as at 31.12.2020	Approximate percentage of shareholding
CHEN Guiyi	18.07.2019	18.07.2019–17.07.2029	6	250,000		(250,000)		–	–
		18.07.2020–17.07.2029	6	250,000		(250,000)		–	–
		18.07.2021–17.07.2029	6	250,000				250,000	0.02%
		18.07.2022–17.07.2029	6	250,000				250,000	0.02%
JIP Ki Chi	18.07.2019	18.07.2019–17.07.2029	6	250,000		(250,000)		–	–
		18.07.2020–17.07.2029	6	250,000		(250,000)		–	–
		18.07.2021–17.07.2029	6	250,000				250,000	0.02%
		18.07.2022–17.07.2029	6	250,000				250,000	0.02%
WANG, Michael Chou	18.07.2019	18.07.2019–17.07.2029	6	250,000		(250,000)		–	–
		18.07.2020–17.07.2029	6	250,000		(250,000)		–	–
		18.07.2021–17.07.2029	6	250,000				250,000	0.02%
		18.07.2022–17.07.2029	6	250,000				250,000	0.02%
		Total directors		**8,430,000**	**–**	**(1,500,000)**	**–**	**6,930,000**	**0.56%**

Notes:

(1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

Save as disclosed above, as at 31 December 2020, none of the Directors had any interests or short positions in the Shares or underlying shares 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 under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Arrangements to Purchase Shares or Debentures

Other than the SOS, at no time during the year ended 31 December 2020 was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or any of their spouses or children under the age of 18, was granted any right to subscribe for equity or debt securities of the Company, nor had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2020, the register of substantial Shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of the Directors, the following Shareholders (other than the Directors or chief executives of the Company as disclosed above) had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Name of Shareholder	Capacity	Number of shares held	Approximate percentage of shareholding
Apex Sail (1), (2)	Beneficial owner	702,712,000	56.46%
Apex Holdings (1), (2)	Interest in a controlled corporation	702,712,000	56.46%
Fiducia Suisse SA (1), (2)	Interest in a controlled corporation	702,712,000	56.46%
Mr. David Henry Christopher HILL (1), (2)	Interest in a controlled corporation	702,712,000	56.46%
Ms. HU Huanran (1), (3)	Interest of spouse	702,712,000	56.46%

Note:

(1) This is based on the total Shares in issue as at 31 December 2020, being 1,244,521,114.

(2) Apex Sail is wholly owned by Apex Holdings. The entire issued share capital of Apex Holdings is wholly owned by Fiducia Suisse SA as the trustee of the Ye Family Trust. Fiducia Suisse SA is wholly owned by Mr. David Henry Christopher HILL. The Ye Family Trust is a revocable discretionary family trust founded by Mr. YE Fan as the settlor. The Ye Brothers and certain of their family members are the discretionary objects of the Ye Family Trust.

(3) Mr. YE Fan is the settlor of the Ye Family Trust. By virtue of the SFO, Mr. YE Fan is deemed to be interested in the Shares of Apex Sail. Mr. YE Fan's spouse, Ms. HU Huanran, is deemed to be interested in such 702,712,000 Shares by virtue of the SFO.

Save for the Shareholders as disclosed herein, the Directors are not aware of any person (other than the Directors and chief executives of the Company) who had an interest or a short position in the Shares or underlying shares of the Company as recorded as at 31 December 2020 in the register to be kept by the Company under Section 336 of the SFO.

Short positions in Shares and underlying Shares in the Company

As at 31 December 2020, the Company had not been notified of any short positions being held by any substantial Shareholder in the Shares or underlying Shares of the Company.

Other Persons

As at 31 December 2020, the Company had not been notified of any interests or short positions being held by any person (other than the Directors and chief executives and the substantial Shareholders as disclosed above) in the share capital of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the Listing Rules.

SHARE OPTION SCHEME

Pursuant to the SOS, the Company may, at their discretion, invite full-time or part-time employees of the Group, including Directors and subsidiaries of the Company, and any suppliers, customers, consultants, agents and advisors, whether on a contractual or honorary basis and whether paid or unpaid, who have contributed or will contribute to the Group to take up options to subscribe for Shares. The exercise price of the share option will be determined at the higher of the average of closing prices of the Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option, the closing price of the Shares on the Stock Exchange on the date of grant or the nominal value of the Shares.

The SOS will remain in force for a period of 10 years commencing on 13 November 2013.

The share options under the SOS are exercisable at any time for a period to be determined by the Directors, which shall not be more than 10 years after the date of grant.

The total number of Shares in respect of which options may be granted under the SOS is not permitted to exceed 10% of the Shares in issue on the date of the listing of the Company on 5 December 2013 (the "**Listing Date**") without prior approval from the Shareholders. No option may be granted in any 12-month period to any one employee which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 1% of the number of Shares issued and issuable under all the options which may be granted under the SOS or any other share option schemes at the time it is proposed to grant the relevant options to that employee.

Options granted under the SOS must be taken up within 21 days of the date of grant, upon payment of HK$1.00 per grant.

As at 31 December 2020, the Company had 19,752,500 share option outstanding under the SOS, representing approximately 1.59% of the issued share capital of the Company as at the date of this report. Details of the share options outstanding as at the date of this report are as follows:

Option type	Date of grant	Exercisable period	Exercise price
2014 Options	20.01.2014	01.01.2015-12.11.2023	HK$1.80
	20.01.2014	01.01.2016-12.11.2023	HK$1.80
	20.01.2014	01.01.2017-12.11.2023	HK$1.80
	20.01.2014	01.01.2018-12.11.2023	HK$1.80
2018 Options	04.01.2018	04.01.2018-03.01.2028	HK$2.58
	04.01.2018	04.01.2019-03.01.2028	HK$2.58
	04.01.2018	04.01.2020-03.01.2028	HK$2.58
	04.01.2018	04.01.2021-03.01.2028	HK$2.58
2019 Options	18.07.2019	18.07.2019-17.07.2029	HK$6.00
	18.07.2019	18.07.2020-17.07.2029	HK$6.00
	18.07.2019	18.07.2021-17.07.2029	HK$6.00
	18.07.2019	18.07.2022-17.07.2029	HK$6.00
2020 Options	16.01.2020	16.01.2020-15.01.2030	HK$10.80
	16.01.2020	16.01.2021-15.01.2030	HK$10.80
	16.01.2020	16.01.2022-15.01.2030	HK$10.80
	16.01.2020	16.01.2023-15.01.2030	HK$10.80

The following table discloses movements in the share options of the Company during the period:

Name of Director	Options type	Date of grant	Exercisable period	Exercisable price HK$	Number of Shares subject to the outstanding options as at 01.01.2020	Granted during the period	Exercised during the period	Cancelled/Lapsed during the period	Number of shares subject to the outstanding option as at 31.12.2020	Weighted average closing price of shares immediately before the date on which the options were exercised HK$
Category 1: Directors										
Mr. YE Tao	2014 options	20.01.2014	01.01.2015–12.11.2023	1.80	500,000	–	–	–	500,000	–
		20.01.2014	01.01.2016–12.11.2023	1.80	500,000	–	–	–	500,000	–
		20.01.2014	01.01.2017–12.11.2023	1.80	500,000	–	–	–	500,000	–
		20.01.2014	01.01.2018–12.11.2023	1.80	500,000	–	–	–	500,000	–
	2018 options	04.01.2018	04.01.2018–03.01.2028	2.58	500,000	–	–	–	500,000	–
		04.01.2018	04.01.2019–03.01.2028	2.58	500,000	–	–	–	500,000	–
		04.01.2018	04.01.2020–03.01.2028	2.58	500,000	–	–	–	500,000	–
		04.01.2018	04.01.2021–03.01.2028	2.58	500,000	–	–	–	500,000	–
Ms. LUO Liuyu	2014 options	20.01.2014	01.01.2015–12.11.2023	1.80	75,000	–	–	–	75,000	–
		20.01.2014	01.01.2016–12.11.2023	1.80	75,000	–	–	–	75,000	–
		20.01.2014	01.01.2017–12.11.2023	1.80	75,000	–	–	–	75,000	–
		20.01.2014	01.01.2018–12.11.2023	1.80	75,000	–	–	–	75,000	–
	2018 options	04.01.2018	04.01.2018–03.01.2028	2.58	225,000	–	–	–	225,000	–
		04.01.2018	04.01.2019–03.01.2028	2.58	225,000	–	–	–	225,000	–
		04.01.2018	04.01.2020–03.01.2028	2.58	225,000	–	–	–	225,000	–
		04.01.2018	04.01.2021–03.01.2028	2.58	225,000	–	–	–	225,000	–
	2019 options	18.07.2019	18.07.2019-17.07.2029	6.00	57,500	–	–	–	57,500	–
		18.07.2019	18.07.2020-17.07.2029	6.00	57,500	–	–	–	57,500	–
		18.07.2019	18.07.2021-17.07.2029	6.00	57,500	–	–	–	57,500	–
		18.07.2019	18.07.2022-17.07.2029	6.00	57,500	–	–	–	57,500	–

Name of Director	Options type	Date of grant	Exercisable period	Exercisable price HK$	Number of Shares subject to the outstanding options as at 01.01.2020	Granted during the period	Exercised during the period	Cancelled/Lapsed during the period	Number of shares subject to the outstanding option as at 31.12.2020	Weighted average closing price of shares immediately before the date on which the options were exercised HK$
Mr. JIP Ki Chi	2019	18.07.2019	18.07.2019-17.07.2029	6.00	250,000	–	(250,000)	–	–	12.94
	options	18.07.2019	18.07.2020-17.07.2029	6.00	250,000	–	(250,000)	–	–	26.25
		18.07.2019	18.07.2021-17.07.2029	6.00	250,000	–	–	–	250,000	–
		18.07.2019	18.07.2022-17.07.2029	6.00	250,000	–	–	–	250,000	–
Mr. WANG, Michael Chou	2019	18.07.2019	18.07.2019-17.07.2029	6.00	250,000	–	(250,000)	–	0	26.25
	options	18.07.2019	18.07.2020-17.07.2029	6.00	250,000	–	(250,000)	–	0	26.25
		18.07.2019	18.07.2021-17.07.2029	6.00	250,000	–	–	–	250,000	–
		18.07.2019	18.07.2022-17.07.2029	6.00	250,000	–	–	–	250,000	–
Mr. CHEN Guiyi	2019	18.07.2019	18.07.2019-17.07.2029	6.00	250,000	–	(250,000)	–	0	15.8
	options	18.07.2019	18.07.2020-17.07.2029	6.00	250,000	–	(250,000)	–	0	33.6
		18.07.2019	18.07.2021-17.07.2029	6.00	250,000	–	–	–	250,000	–
		18.07.2019	18.07.2022-17.07.2029	6.00	250,000	–	–	–	250,000	–
Total for Directors					**8,500,000**	**–**	**(1,500,000)**	**–**	**693,000**	
Category 2: employees	2014 options	20.01.2014	01.01.2015–12.11.2023	1.80	395,000	–	(337,500)	–	57,500	11.57
		20.01.2014	01.01.2016–12.11.2023	1.80	395,000	–	(337,500)	–	57,500	11.57
		20.01.2014	01.01.2017–12.11.2023	1.80	395,000	–	(337,500)	–	57,500	11.57
		20.01.2014	01.01.2018–12.11.2023	1.80	395,000	–	(337,500)	–	57,500	11.57
	2018	04.01.2018	04.01.2018–03.01.2028	2.58	1,312,500	–	(942,500)	–	370,000	13.97
	options	04.01.2018	04.01.2019–03.01.2028	2.58	1,312,500	–	(617,500)	–	695,000	13.01
		04.01.2018	04.01.2020–03.01.2028	2.58	2,150,000	–	(930,000)	–	1,220,000	15.80
		04.01.2018	04.01.2021–03.01.2028	2.58	2,150,000	–	–	–	2,150,000	–
	2019	18.07.2019	18.07.2019–17.07.2029	6.00	1,602,500	–	(12,500)	(45,000)	1,545,000	15.80
	options	18.07.2019	18.07.2020–17.07.2029	6.00	1,602,500	–	–	(45,000)	1,557,500	–
		18.07.2019	18.07.2021–17.07.2029	6.00	1,602,500	–	–	(45,000)	1,557,500	–
		18.07.2019	18.07.2022–17.07.2029	6.00	1,602,500	–	–	(45,000)	1,557,500	–
	2020	16.01.2020	16.01.2020–15.01.2030	10.80	–	485,000	–	–	485,000	–
	options	16.01.2020	16.01.2021–15.01.2030	10.80	–	485,000	–	–	485,000	–
		16.01.2020	16.01.2022–15.01.2030	10.80	–	485,000	–	–	485,000	–
		16.01.2020	16.01.2023–15.01.2030	10.80	–	485,000	–	–	485,000	–
Total for Employees					**14,915,000**	**1,940,000**	**(3,852,500)**	**(180,000)**	**12,822,500**	
All Category					**23,345,000**	**1,940,000**	**(5,352,500)**	**(180,000)**	**19,752,500**	

Note:

(1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

CONTINUING CONNECTED TRANSACTION

There were no significant connected transactions.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in normal course of business are set out in note 30 to the consolidated financial statements.

All the related party transactions as disclosed in note 30 to the consolidated financial statement did not constitute connected transactions or continuing connected transactions of the Company which are subject to the reporting, announcement or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

NON-COMPETITION UNDERTAKINGS

Each of the controlling Shareholders has provided to the Company a written confirmation in respect of his/its compliance with the Non-Compete Undertakings dated 13 November 2013 (the "**Non-Compete Undertakings**") for the year ended 31 December 2020. The independent non-executive Directors have also reviewed the status of compliance by each of the controlling Shareholders with the undertakings in the Non-Compete Undertakings and have confirmed that, as far as he/it can ascertain, there is no breach of any of the undertakings in the Non-Compete Undertakings.

BORROWINGS

Particulars of borrowings of the Group as at 31 December 2020 are set out in note 21 to the consolidated financial statements.

DONATIONS

During the year ended 31 December 2020, the Group made charitable and other donations amounting to RMB Nil.

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, there is sufficient public float of not less than 25% of the Shares in issue as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2020, the five largest customers of the Group accounted for approximately 0.06% of the total revenue and sales to the largest customer accounted for approximately 0.02% of the total revenue. The five largest suppliers of the Group in aggregate accounted for about 93.19% of its operating costs for the year ended 31 December 2020. Purchases from the largest supplier accounted for about 30.59% of its operating costs for the year ended 31 December 2020. None of the Directors, their close associates, or any Shareholder (who to the knowledge of the Directors owned more than 5% of the Company's share capital) had any interest in the Group's five largest customers or suppliers.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the Year.

PRE-EMPTIVE RIGHTS

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

EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2020, save as disclosed herein, the Company has not entered into any equity-linked agreement.

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

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the year ended 31 December 2020 and until the date of this report.

EMOLUMENT POLICY

As at 31 December 2020, the Group had a total of 5,085 employees, the majority of whom are situated in the PRC. In addition to offering competitive remuneration packages to employee, discretionary bonuses and share options may also be granted to eligible employees based on individual performance.

The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

The Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics, decides the emoluments of the Directors. No Director, or any of his close associates, and executive, is involved in dealing with his own remuneration.

The Company has adopted the SOS as an incentive to Directors and eligible employees, details of the schemes is set out in note 24 to the consolidated financial statements and under the heading "Share Option Scheme" in this Report of Directors.

DIRECTORS' INDEMNITY

Pursuant to the Articles of Association, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules (the "**Code**") during the year ended 31 December 2020. Details of the corporate governance of the Group are set out in the section headed "Corporate Governance Report" in this Annual Report.

SIGNIFICANT LEGAL PROCEEDINGS

During the year ended 31 December 2020, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company.

EVENTS AFTER THE REPORTING PERIOD

Particulars of important events affecting the Group that have occurred since the end of the year ended 31 December 2020 are provided in note 32 to the consolidated financial statements.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2020 have been audited by KPMG, the Company's external auditors (the "**Auditors**"). A resolution will be proposed at the AGM to re-appoint KPMG as the Auditors.

On behalf of the Board
YE Fan
Chairman

Hong Kong, 25 March 2021

CORPORATE GOVERNANCE REPORT

The Directors and other members of the management team of the Company are dedicated to maintain high standards of corporate governance. They will continue to exercise leadership, enterprise, integrity and judgement so as to achieve continuing prosperity and to act in the best interests of the Company and its Shareholders as a whole in a transparent and responsible manner. Strategic development with prudence and adherence to ethical principles form the core of the Company's corporate governance practices.

The Company continues to devote efforts on promoting good corporate governance so as to ensure its ability to attract investment, protect the rights of the Shareholders and stakeholders, and enhance Shareholders' value.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the Code as its own code on corporate governance practices. The Company has taken various measures to cope with the latest development in the corporate governance regime.

The Company has complied with the code provisions as set out in the Code during the year ended 31 December 2020.

The Board continues to monitor and review the Company's corporate governance practices to ensure compliance.

BOARD OF DIRECTORS

Composition of the Board

As at the date of this Annual Report, the Board comprises six members as follows:

Executive Directors
Mr. YE Fan *(Chairman)*
Mr. YE Tao *(Chief Executive Officer)*
Ms. LUO Liuyu

Independent Non-executive Directors
Mr. CHEN Guiyi
Mr. JIP Ki Chi
Mr. WANG, Michael Chou

All Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each Director are disclosed on pages 16 to 18 of this Annual Report.

The Company has arranged appropriate directors' and officers' liabilities insurance for Directors and officers of the Company. Details of the directors' indemnity are provided in the Report of the Directors on page 32 of this Annual Report. The insurance coverage is reviewed on an annual basis.

Each independent non-executive Director has confirmed, in accordance with the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules that he is independent of the Company and the Company also considers that all of them are independent.

Except for the family relationship between Mr. YE Fan and Mr. YE Tao as disclosed in the biographical details on pages 16 to 17 of this Annual Report, there is no relationship (including financial, business, family or other material/relevant relationship) between any members of the Board.

The list of Directors is disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The executive Directors, Mr. YE Fan and Mr. YE Tao, has entered into a new letter of appointment with the Company commencing with effect from 15 November 2016, and Ms. Luo Liuyu entered into a letter of appointment with the Company commencing with effect from 25 March 2019. Each of them was not appointed for any specific length or proposed length of services and his term of service shall continue unless and until terminated by either party giving not less than three months' notice in writing to the other party.

The independent non-executive Director, Mr. CHEN Guiyi has entered into a letter of appointment with the Company on 1 April 2017. Mr. CHEN Guiyi was not appointed for any specific length or proposed length of services and his term of service shall continue unless and until terminated by either party by not less than three months' notice in writing. The independent non-executive Director, Mr. JIP Ki Chi has entered into a letter of appointment with the Company on 15 November 2016. Mr. JIP Ki Chi was not appointed for any specific length or proposed length of services and his term of service shall continue unless and until terminated by either party by not less than three months' notice in writing. The independent non-executive Director, Mr. WANG, Michael Chou has entered into a letter of appointment with the Company on 20 June 2018. Mr. WANG, Michael Chou was not appointed for any specific length or proposed length of services and his term of service shall continue unless and until terminated by either party giving not less than three months' notice in writing to the other party. Each of the independent non-executive Directors is subject to the provisions for retirement by rotation and re-election at the AGM in accordance with the Articles of Association.

Pursuant to the Articles of Association, at least one-third of the Directors shall retire from office but are eligible for re-election by the Shareholders at each annual general meeting of the Company and each Director shall retire on a rotational basis at least once every three years.

During the year ended 31 December 2020, the Board had at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise pursuant to Rule 3.10 of the Listing Rules and the appointment of independent non-executive Directors representing at least one-third of the Board pursuant to Rule 3.10A of the Listing Rules.

Functions of the Board

The Board, headed by the chairman of the Board (the "**Chairman**"), is responsible for formulation and approval of the Group's development, business strategies, policies, annual budgets and business plans, recommendation of any dividend and supervision of management.

The executive Directors are responsible for day-to-day management of the Company's operations, financial management and conducting meetings with senior management of the Group, at which operational issues and financial performance are evaluated.

The Company considers that internal control system and risk management function are essential, and the Board plays an important role in implementing and monitoring internal control system and risk management function.

Matters specifically decided by the Board and those reserved for the management, such as daily management, administration, operation of the Company and so forth, are reviewed by the Board on a periodic basis. The management shall report back to the Board.

In addition, the Directors may seek independent professional advice in appropriate circumstances at the Company's expenses.

The Articles of Association sets out the responsibilities and proceedings of the Board. The Board meets regularly, at least four times a year, to consider operational reports and policies of the Company. Significant operational policies are discussed and passed by the Board.

BOARD DIVERSITY POLICY

The Board has adopted a policy of the Board diversity (the "**Board Diversity Policy**") which sets out the approach to achieve diversity on the Board. Under the Board Diversity Policy, the Company considers diversity of Board members to be achieved through consideration of a number of aspects, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments are based on merit and contribution, and candidates are considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee is responsible for reviewing and monitoring the implementation of the Board Diversity Policy to ensure the effectiveness of the Board Diversity Policy.

NOMINATION POLICY

The Company has adopted a nomination policy, which establishes written guidelines to nomination committee to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorships with reference to the formulated criteria. The Board is ultimately responsible for selection and appointment of new Directors. The Board, through the delegation of its authority to the nomination committee, has used its best efforts to ensure the Board has a balance of skills, experience, and diversity of perspectives appropriate to the requirements of the Company's business. Collectively, they have competencies in areas which are relevant and valuable to the Group.

DIVIDEND POLICY

The Company has adopted a dividend policy in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, among other things, the following factors:

(a) the Company's current and future operations, actual and expected financial performance;

(b) any corporate development plans;

(c) the Group's liquidity position, working capital and capital expenditure requirements and future expected capital needs;

(d) the level of the Group's debt to equity ratio, return on equity and the relevant financial covenants;

(e) any restrictions on payments of dividends that may be imposed by the Group's lenders or other third parties;

(f) retained earnings and distributable reserves of the Company and each of the members of the Group;

(g) general economic conditions, the business cycle of the Group's business and other internal and external factors that may have an impact on the business or financial performance and position of the Company; and

(h) any other factor that the Board deems appropriate and relevant.

The recommendation of the payment of dividend is subject to the determination of the Board, and, any declaration of final dividend for the year will be subject to the approval of the Shareholders. The payment of dividend is also subject to any restrictions under the Companies Law of the Cayman Islands and any other applicable laws, rule and regulations and amended and restated memorandum and articles of association of the Company.

Corporate Governance Functions

The Board is responsible for performing corporate governance duties that include:

(a) developing and reviewing the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) reviewing and monitoring the training and continuous professional development of the Directors and senior management;

(c) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;

(d) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and the Directors; and

(e) reviewing the Company's compliance with the Code and disclosure in the Corporate Governance Report.

During the year ended 31 December 2020, the Board approved the terms of reference of the Board (with respect to corporate governance duties), and the terms of reference of the Nomination Committee, the audit committee (the "**Audit Committee**") and the Remuneration Committee and the Shareholders communication policy of the Company (the "**Shareholders Communication Policy**").

Directors' Training and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and management to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, companies ordinance/act and corporate governance practices organized by professional bodies so that they can continuously update and further improve their relevant knowledge and skills.

From time to time, the Company updates and provides written training materials on the latest developments of applicable laws, rules and regulations to the Directors.

According to the records provided by the Directors, a summary of training received by the Directors during the year ended 31 December 2020 are as follows:

Name of Directors	**Reading the seminar materials prepared by professional body and circulated by the Company**
Executive Directors	
Mr. YE Fan	✓
Mr. YE Tao	✓
Mr. LUO Liuyu	✓
Independent Non-executive Directors	
Mr. CHEN Guiyi	✓
Mr. JIP Ki Chi	✓
Mr. WANG, Michael Chou	✓

Board Meetings

Code provision A.1.1 of the Code prescribes that at least four regular board meetings should be held in each year at approximately quarterly intervals with active participation of majority of directors, either in person or through electronic means of communication. Due notices and board papers were given to all Directors prior to each meeting in accordance with the Articles of Association and the Code.

During the year ended 31 December 2020, four Board meetings were held. Details of individual attendance of each of the Directors are set out below:

	Attendance/ Number of Meetings Eligible to Attend
Executive directors:	
Mr. YE Fan *(Chairman)*	4/4
Mr. YE Tao *(Chief Executive Officer)*	4/4
Ms. LUO Liuyu	4/4
Independent Non-executive Directors:	
Mr. CHEN Guiyi	4/4
Mr. JIP Ki Chi	4/4
Mr. WANG, Michael Chou	4/4

Board Process

Directors are provided with relevant information to make informed decisions. The Board and each Director have separate and independent access to the Company's senior management for information and making enquiries if necessary. In addition, Directors may seek independent professional advice in appropriate circumstances at the Company's expenses.

Every Director is entitled to have access to the advice and services of the Company Secretary with a view to ensure that the Board procedures, and all applicable rules and regulations, are complied with. All minutes are kept by the Company Secretary and are opened for inspections by any Director during normal office hours by giving reasonable advance notice.

If a substantial Shareholder or a Director has a conflict of interest in a matter before the Board, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent board committee will be set up to deal with the matter.

Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same person. The Chairman is Mr. YE Fan; and the chief executive officer of the Company (the "**Chief Executive Officer**") is Mr. YE Tao. The roles of Chairman and Chief Executive Officer are separate. Such division of responsibilities has been clearly established. It allows a balance of power between the Board and the management of the Group, and ensures the independence and accountability of each of the Board and management of the Group. The Chairman oversees the Board so that it acts in the best interests of the Group. With the support of the executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and that they receive adequate, clear, complete and reliable information in a timely manner. The Chairman has overall responsibility for providing leadership, vision and direction regarding business development of the Group and ensuring that good corporate governance practices and procedures are established.

The Chief Executive Officer, who is assisted by other executive Directors, is responsible for the day-to-day business management and operations of the Group for formulating and successfully implementing policies and maintaining an effective executive support team. The Chief Executive Officer is accountable to the Board for keeping the Chairman and all the Directors fully informed of all major business developments and issues.

Responsibilities of the Directors

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and its Shareholders. Their responsibilities include:

- attending regular Board meetings focusing on business strategy, operational issues and financial performance;
- active participation on the boards of subsidiaries and associated companies;
- approval of annual budgets for each operating company covering strategy, financial and business performance, key risks and opportunities;
- monitoring the quality, timeliness, relevance and reliability of internal and external reporting;
- consideration of misuse of corporate assets and abuse in related party transactions; and
- ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

To enable the Directors to meet their obligations, an appropriate organizational structure is in place with clearly defined responsibilities and limits of authority.

Delegation by the Board

The Company has set out the respective functions and responsibilities reserved to the Board and those delegated to management. The Board delegates day to day operations of the Group to executive Directors and senior management while reserving certain key matters for its approval. Decisions of the Board are communicated to the management through executive Directors who have attended the board meetings.

BOARD COMMITTEES

The Company has set up a number of committees of the Board, including the Remuneration Committee, the Audit Committee and the Nomination Committee, with specific terms of reference relating to their authority and duties, which strengthen the Board's functions and enhance its expertise.

Remuneration Committee

The Remuneration Committee comprise of three independent non-executive Directors, namely Mr. WANG, Michael Chou, Mr. JIP Ki Chi and Mr. CHEN Guiyi. Mr. WANG, Michael Chou is the chairman of the Remuneration Committee.

The written terms of reference of the Remuneration Committee have been adopted by the Board and posted on the websites of the Company and the Stock Exchange.

The Remuneration Committee's responsibilities include but not limited to the review and consideration of the Company's remuneration policy for the Directors and senior management, the recommendations to the Board on the remuneration packages of individual executive Director and senior management including benefits in kind, pension rights and compensation payments, and recommendations relating to remunerations of independent non-executive Directors.

The Remuneration Committee held one meeting during the year ended 31 December 2020 with individual attendance as follows:

Members of the Remuneration Committee	Attendance/ Number of Meetings
Mr. WANG, Michael Chou *(Chairman)*	1/1
Mr. CHEN Guiyi	1/1
Mr. JIP Ki Chi	1/1

The Group remunerates its employees based on their individual performance, job nature and responsibilities. The Group also provides training and various benefits to its employees including medical welfare, provident funds, bonuses and other incentives. The Group also encourages its employees to pursue a balanced life and provides a good working environment to maximize their potential and contribution to the Group.

Audit Committee

The Audit Committee comprises, Mr. CHEN Guiyi, Mr. WANG, Michael Chou and Mr. JIP Ki Chi, all of whom are independent non-executive Directors. Mr. JIP Ki Chi is the chairman of the Audit Committee.

The written terms of reference which were revised and adopted on 12 March 2019, which describe the authority and duties of the Audit Committee have been adopted and posted on the websites of the Company and the Stock Exchange, and are regularly reviewed and updated by the Board.

The Audit Committee reports directly to the Board and reviews financial statements, risk management and internal control system, and to protect the interests of the Shareholders.

The Audit Committee meets regularly with the Auditors to discuss various accounting issues, and reviews the effectiveness of internal controls.

The Audit Committee held two meetings during the year ended 31 December 2020 with individual attendance as follow:

Members of the Audit Committee	**Attendance/ Number of Meetings Eligible to Attend**
Mr. JIP Ki Chi *(Chairman)*	2/2
Mr. CHEN Guiyi	2/2
Mr. WANG, Michael Chou	2/2

A meeting of the Audit Committee was held on 25 March 2021 to review the Group's consolidated financial statements for the year ended 31 December 2020.

Nomination Committee

The Nomination Committee comprises one executive Director, Mr. YE Fan and two independent non-executive Directors, Mr. WANG, Michael Chou, and Mr. JIP Ki Chi.

The written terms of reference of the Nomination Committee which was revised on 12 March 2019 and have been adopted by the Board and are posted on the websites of the Company and the Stock Exchange.

The Nomination Committee's responsibilities include but not limited to formulating policy and making recommendation to the Board on nominations and appointments of Directors and Board succession.

The Nomination Committee is also responsible for reviewing the structure, size and composition of the Board, assessing independence of the independent non-executive Directors and making recommendations on any proposed changes to the Board.

The Nomination Committee held one meeting during the year ended 31 December 2020. The attendance records of the meetings are as follow:

Members of the Nomination Committee	**Attendance/ Number of Meeting**
Mr. YE Fan *(Chairman)*	1/1
Mr. WANG, Michael Chou	1/1
Mr. JIP Ki Chi	1/1

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "**Model Code**") as the code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiries by the Company, that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2020.

EXTERNAL AUDITOR

The Auditors is KPMG, a Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance. KPMG provided services in respect of the audit of Company's consolidated financial statements which were prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the year ended 31 December 2020. KPMG also reviewed the 2020 unaudited interim financial information of the Group prepared in accordance with Hong Kong Accounting Standards 34 "Interim Financial Reporting" issued by the HKICPA.

During the year ended 31 December 2020, total fees charged by KPMG in respect of audit services amounted to RMB5,930,000, including interim review of the financial statement of the Company for the six months ended 30 June 2020.

No non-audit service fees were charged by KPMG during the year ended 31 December 2020.

The statement of the Auditors regarding their reporting responsibilities for the financial statements is set out in the Independent Auditor's Report on pages 50 to 57 of this Annual Report.

DIRECTORS' RESPONSIBILITIES IN PREPARING FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements and ensuring that the preparation of the accounts is in accordance with statutory requirements and applicable accounting standards.

GOING CONCERN

The Directors, having made appropriate enquiries, consider that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

EFFECTIVENESS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Board is responsible for the Company's risk management and internal control systems and for reviewing its effectiveness on an ongoing basis. The Group's internal audit department and senior management conduct reviews of the effectiveness of the risk management and internal control systems of the Group. The Audit Committee reviews the findings and recommendations of the internal audit department and the senior management in their meetings held at least twice a year and reports to the Board on such review.

The risk management and internal control systems are designed to manage, rather than eliminate business risk; to help safeguard the Group's assets against fraud and other irregularities; and to give reasonable, but not absolute, assurance against material financial misstatement or loss. In addition, it should provide a basis for the maintenance of proper and fair accounting records and assist in the compliance with relevant rules and regulations.

In respect of the year ended 31 December 2020, the Board, through the Audit Committee, reviewed the overall effectiveness of the Group's risk management and internal control systems, covering financial, operational and compliance controls and risk management functions, which included the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget.

The Board believes that there are no material internal controls deficiencies that may affect the Shareholders and an effective and adequate risk management and internal control system is in place to safeguard the assets of the Group. The Group will continue to enhance the system to cope with the changes in the business environment.

COMPANY SECRETARY

The Company engages an external service provider to provide company secretarial services and Mr. WONG Cheung Ki Johnny has been appointed as the Company Secretary. The primary contact person in the Company for Mr. Wong in relation to corporate secretarial matters is Ms Yuan Ying, our Financial Controller. Mr. WONG Cheung Ki Johnny has duly complied with the relevant training requirement under Rule 3.29 of the Listing Rules for the Year.

SENIOR MANAGEMENT REMUNERATION BY BAND

The emoluments fell within the following bands:

Emoluments	Number of individuals
Nil to RMB1,500,000	2
RMB4,500,001 to RMB6,000,000	1

CONSTITUTIONAL DOCUMENTS

There were no changes to the memorandum of association of the Company and Articles of Association from the date of its listing on the Stock Exchange (the "**Listing Date**").

A copy of the memorandum and Articles of Association of the Company is posted on the websites of the Company and the Stock Exchange.

COMMUNICATION WITH SHAREHOLDERS

The Directors are aware of the importance of maintaining good relations and communications with the Shareholders. The Board established a Shareholders Communication Policy setting out the principles of the Company in relation to Shareholders' communications, with the objective of ensuring that its communication with the Shareholders are timely and accurate.

The Company uses a range of communication tools, such as annual general meetings, annual reports, various notices, announcements and circulars, to ensure the Shareholders are kept well informed of the Group's key business imperatives.

The Company has maintained a website at www.meidongauto.com which serves as a forum for corporate communications with the Shareholders and the general public. All corporate communications required under the Listing Rules are displayed and archived since the Listing Date on the Company's website and there are established procedures to ensure timely update in compliance with the Listing Rules.

At the AGM, separate resolutions will be proposed by the Chairman in respect of each issue itemized on the agenda, including the re-election of the Directors. The Chairman, the chairman of each of the Remuneration Committee, the Audit Committee and the Nomination Committee and members of senior management, together with representative(s) from the Auditors will attend the AGM to answer questions from the Shareholders.

The notice of the AGM will be distributed to all Shareholders at least 20 clear business days prior to the AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules.

During the year ended 31 December 2020, AGM was held on 18 May 2020, details of individual attendance of each of the Directors are as follows:

	Attendance/Annual General Meeting eligible to attend
Executive Directors	
Mr. YE Fan *(Chairman)*	1/1
Mr. YE Tao *(Chief Executive Officer)*	1/1
Ms. LUO Liuyu	1/1
Independent Non-executive Directors	
Mr. CHEN Guiyi	1/1
Mr. WANG, Michael Chou	1/1
Mr. JIP Ki Chi	1/1

SHAREHOLDERS' RIGHTS

Convening an Extraordinary General Meeting by Shareholders and Putting Forward Proposals

Under the Articles of Association, an extraordinary general meeting ("**EGM**") may be convened by the Board upon requisition by any one or more Shareholders holding not less than one-tenth of the paid up capital of the Company which carries the right of voting at any general meetings. The Shareholder(s) shall make a written requisition to the Board or the Company Secretary at the head office of the Company in Hong Kong, specifying the shareholding information of the Shareholder(s), his/her/their contact details and the proposal regarding any specifying transaction/business and its supporting documents.

If within 21 days of deposit of such written requisition, the Board does not proceed to convene such EGM, the requisitionist(s) himself/herself/themselves may convene an EGM in the same manner as that in which such meeting may be convened by the Board, provided that such meeting so convened shall not be held after the expiration of two months from the date of deposit of such requisition.

Making Enquiries to the Board

Shareholders may send written enquiries to the board, either by post or by facsimiles, together with his/her/its contact details, such as postal address or fax, addressing to the head office of the Company at Room 2404, 24th Floor, World-Wide House, 19 Des Voeux Road Central, Hong Kong or facsimile number (852) 2668 5798.

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report to the shareholders of China MeiDong Auto Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China MeiDong Auto Holdings Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 58 to 163, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**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**") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

Timing of revenue recognition

Refer to note 4 to the consolidated financial statements and the accounting policies on pages 85 to 86.

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue principally comprises sales of passenger motor vehicles and the provision of after-sales services to a significant number of individual customers. Sales of passenger motor vehicles are recognised when the Group satisfies the performance obligation by transferring control of the vehicle promised in the contract to the customer, which is evidenced by the customer's acceptance of the vehicle and signature on the car delivery note. Revenue arising from after-sales services is recognised when the Group satisfies its performance obligation, which is evidenced by signed customer acceptance for after-sales service transaction. The Group manually records revenue according to car delivery notes and signed customer acceptances. We identified the timing of revenue recognition as a key audit matter because manual tracking and recording processes increase the risk of error whereby revenue may not be recognised in the correct financial period.	Our audit procedures to assess the accuracy of timing of revenue recognition included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to the timing of revenue recognition; • inspecting standard sales contracts for sales of passenger motor vehicles and after-sales services to identify terms and conditions which may affect revenue recognition and assessing the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards;

KEY AUDIT MATTERS (continued)

Timing of revenue recognition

Refer to note 4 to the consolidated financial statements and the accounting policies on pages 85 to 86.

The Key Audit Matter	How the matter was addressed in our audit
	• selecting a sample of sales of passenger motor vehicles recorded during the year and after-sales services rendered during the year, plus additional samples of revenue records for one month before and after the year end and comparing details of the selected transactions with the related sales contracts, car delivery notes and evidence of signed customer acceptance for passenger vehicles sales and after-sales service transactions, where applicable, to assess whether the related performance obligations were satisfied and the revenue had been recognised appropriately in the correct accounting period; and • scrutinising all manual journal entries relating to revenue during the year and inspecting underlying documentation for journal entries which were considered to be material or met other specified risk-based criteria.

KEY AUDIT MATTERS (continued)

Recognition of vendor rebates

Refer to notes 6(c) and 18 to the consolidated financial statements and the accounting policies on page 86.

The Key Audit Matter	How the matter was addressed in our audit
The Group earns vendor rebates under numerous different arrangements with automobile manufacturers. Rebate arrangements vary between different automobile manufactures and in different fiscal years and principally comprise volume based purchase rebates, sales rebates for certain specific car models, performance rebates and other specific rebates. Volume based purchase rebates and sales rebates are usually granted by the vendors if certain purchase or sales targets are met. Performance rebates are granted by vendors in accordance with their comprehensive assessment of the Group's business performance. In addition, other specific rebates are granted to the Group, which include, but are not limited to regional annual awards. Volume based purchase rebates are recognised as a deduction from the cost of purchase of motor vehicles when the performance conditions associated with them are met. Sales rebates, performance rebates and other specific rebates are recognised as a deduction from costs of sales when the respective conditions associated with them are met.	Our audit procedures to assess the accuracy of recognition of vendor rebates included the following: • obtaining an understanding of the design and implementation of management's key internal controls in relation to the recognition of vendor rebates; • assessing the accounting treatment in respect of the recognition of vendor rebates by inspecting the terms and conditions of vendor rebate arrangements for all automobile manufacturers with reference to the requirements under prevailing accounting standards; • selecting a sample of vendor rebates recognised and settled during the year and comparing the recognised rebate amount with credit notes issued by the vendors or bank payment slips; • for vendor rebate receivables at the reporting date, performing recalculations of the receivable amounts, on a sample basis, based on the terms of the underlying vendor rebate arrangements and relevant inputs, including sales and purchase volume data, rebate rates and other specific criteria as set out in the respective vendor rebate arrangements;

Recognition of vendor rebates

Refer to notes 6(c) and 18 to the consolidated financial statements and the accounting policies on page 86.

The Key Audit Matter	How the matter was addressed in our audit
The Group manually calculates vendor rebates and recognises them when the associated conditions for recognition are met. We identified recognition of vendor rebates as a key audit matter because there are many different kinds of rebate arrangements in place and because manual calculation of the Group's entitlement to such rebates increases the risk that vendor rebates could be recognised before the entitlement conditions have been met.	• evaluating, on a sample basis, the above relevant inputs used to calculate vendor rebates by comparing the inputs with relevant underlying documentation; and • assessing, on a sample basis, whether vendor rebates accrued at the previous financial reporting date were subsequently settled in the current year.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Chan Kim Tak.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

25 March 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

(Expressed in RMB'000)

	Note	2020	2019
Revenue	4	**20,207,446**	16,210,019
Cost of sales		**(18,171,987)**	(14,652,389)
Gross profit		**2,035,459**	1,557,630
Other revenue and other net (loss)/income	5	**95,608**	153,632
Distribution costs		**(546,048)**	(492,608)
Administrative expenses		**(439,021)**	(381,830)
Profit from operations		**1,145,998**	836,824
Finance costs	6(a)	**(136,940)**	(123,161)
Share of profits of a joint venture	15	**43,162**	43,748
Profit before taxation	6	**1,052,220**	757,411
Income tax	7(a)	**(281,642)**	(199,884)
Profit for the year		**770,578**	557,527
Other comprehensive income for the year		**–**	–
Profit and total comprehensive income for the year		**770,578**	557,527
Profit and total comprehensive income attributable to:			
Equity shareholders of the Company		**750,558**	550,811
Non-controlling interests		**20,020**	6,716
Profit and total comprehensive income for the year		**770,578**	557,527
Earnings per share			
Basic (RMB cents)	10(a)	**62.19**	47.67
Diluted (RMB cents)	10(b)	**61.36**	47.27

The notes on pages 63 to 163 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020
(Expressed in RMB'000)

	Note	**31 December 2020**	31 December 2019
Non-current assets			
Property, plant and equipment	11	**1,119,936**	1,035,059
Right-of-use assets	12	**1,286,289**	825,776
Intangible assets	13	**61,445**	65,308
Interest in a joint venture	15	**56,348**	55,140
Other non-current assets	16	**75,301**	104,220
Deferred tax assets	25(b)	**61,410**	54,472
		2,660,729	2,139,975
Current assets			
Inventories	17	**495,302**	540,509
Trade and other receivables	18	**1,517,716**	1,158,815
Pledged bank deposits	19	**558,572**	961,729
Cash and cash equivalents	20	**2,538,030**	1,123,892
		5,109,620	3,784,945
Current liabilities			
Loans and borrowings	21	**729,225**	871,215
Trade and other payables	22	**2,081,911**	2,132,165
Lease liabilities	23	**121,760**	84,694
Income tax payables	25(a)	**127,751**	92,127
		3,060,647	3,180,201
Net current assets		**2,048,973**	604,744
Total assets less current liabilities		**4,709,702**	2,744,719

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020
(Expressed in RMB'000)

	Note	31 December 2020	31 December 2019
Non-current liabilities			
Loans and borrowings	21	**222,182**	240,492
Lease liabilities	23	**1,135,975**	726,178
Deferred tax liabilities	25(b)	**6,970**	8,701
		1,365,127	975,371
NET ASSETS		**3,344,575**	1,769,348
EQUITY			
Share capital	26(c)	**99,245**	91,383
Reserves	26(d)	**3,127,421**	1,620,204
Total equity attributable to equity shareholders of the Company		**3,226,666**	1,711,587
Non-controlling interests		**117,909**	57,761
TOTAL EQUITY		**3,344,575**	1,769,348

Approved and authorised for issue by the board of directors on 25 March 2021.

Ye Fan
Directors

Ye Tao
Directors

The notes on pages 63 to 163 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

(Expressed in RMB'000)

	Attributable to equity shareholders of the Company								
	Share capital RMB'000	**Share premium** RMB'000 *(note 26(d)(i))*	**Capital redemption reserve** RMB'000 *(note 26(d)(ii))*	**Capital reserves** RMB'000 *(note 26(d)(iii))*	**PRC statutory reserves** RMB'000 *(note 26(d)(iv))*	**Retained earnings** RMB'000	**Sub-total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
Balance at 1 January 2020	91,383	39,042	986	(38,567)	248,332	1,370,411	1,711,587	57,761	1,769,348
Profit and total comprehensive income for the year	–	–	–	–	–	750,558	750,558	20,020	770,578
Capital injection by non-controlling interests	–	–	–	–	–	–	–	30,000	30,000
Changes in ownership interests in subsidiaries without change in control	–	–	–	–	–	1,246	1,246	16,854	18,100
Appropriation to reserves	–	–	–	–	60,820	(60,820)	–	–	–
Dividends declared and paid *(note 26(a) and note 26(b))*	–	(412,939)	–	–	–	–	(412,939)	–	(412,939)
Dividends paid to non-controlling interests *(note 26(b))*	–	–	–	–	–	–	–	(6,726)	(6,726)
Equity settled share-based transactions *(note 24)*	–	–	–	10,046	–	–	10,046	–	10,046
Issue of ordinary shares upon exercise of share options *(note 24)*	483	21,763	–	(6,136)	–	–	16,110	–	16,110
Placement of new shares, net of placement expenses *(note 26(c)(ii))*	7,379	1,142,679	–	–	–	–	1,150,058	–	1,150,058
Balance at 31 December 2020	99,245	790,545	986	(34,657)	309,152	2,061,395	3,226,666	117,909	3,344,575
Balance at 1 January, as previously reported	90,978	196,813	986	(46,196)	204,056	932,783	1,379,420	20,816	1,400,236
Impact of change in accounting policy	–	–	–	–	–	(70,655)	(70,655)	(1,202)	(71,857)
Adjusted balance at 1 January 2019	90,978	196,813	986	(46,196)	204,056	862,128	1,308,765	19,614	1,328,379
Profit and total comprehensive income for the year	–	–	–	–	–	550,811	550,811	6,716	557,527
Capital injection by non-controlling interests	–	–	–	–	–	–	–	33,000	33,000
Changes in ownership interests in subsidiaries without change in control	–	–	–	–	–	1,748	1,748	4,252	6,000
Appropriation to reserves	–	–	–	–	44,276	(44,276)	–	–	–
Dividends declared and paid *(note 26(a) and note 26(b))*	–	(168,805)	–	–	–	–	(168,805)	–	(168,805)
Dividends paid to non-controlling interests *(note 26(b))*	–	–	–	–	–	–	–	(5,821)	(5,821)
Equity settled share-based transactions *(note 24)*	–	–	–	10,558	–	–	10,558	–	10,558
Issue of ordinary shares upon exercise of share options *(note 24)*	405	11,034	–	(2,929)	–	–	8,510	–	8,510
Balance at 31 December 2019	91,383	39,042	986	(38,567)	248,332	1,370,411	1,711,587	57,761	1,769,348

The notes on pages 63 to 163 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2020

(Expressed in RMB'000)

	Note	2020	2019
Operating activities:			
Cash generated from operations	20(b)	**1,445,794**	1,087,044
Income tax paid	25(a)	**(254,687)**	(156,369)
Net cash generated from operating activities		**1,191,107**	930,675
Investing activities:			
Payment for the purchase of property, plant and equipment		**(318,422)**	(397,188)
Proceeds from disposal of property, plant and equipment		**126,605**	116,335
Net cash flow from business combination		**–**	(14,824)
Prepayment for purchase of right-of-use assets	20(d)	**(17,138)**	(31,493)
Dividends received from a joint venture	15	**41,954**	32,284
Interest received		**22,026**	11,080
Other cash flows arising from investing activities		**(397)**	347
Net cash used in investing activities		**(145,372)**	(283,459)
Financing activities:			
Capital element of lease rentals paid	20(c)	**(53,754)**	(42,615)
Interest element of lease rentals paid	20(c)	**(69,886)**	(53,440)
Proceeds from loans and borrowings	20(c)	**5,666,907**	2,627,571
Repayment of loans and borrowings	20(c)	**(5,824,106)**	(2,691,085)
Decrease/(Increase) in pledged bank deposits	19	**20,943**	(24,195)
Dividends declared and paid to equity shareholders	26(b)	**(412,939)**	(168,805)
Dividends paid to non-controlling interests	26(b)	**(6,726)**	(5,821)
Proceeds from exercise of share options	24	**16,110**	8,510
Interest paid	20(c)	**(70,923)**	(67,215)
Proceeds from changes in interests in subsidiaries without change in control		**2,900**	–
Acquisition of non-controlling interests		**–**	(6,000)
Repayment of advances from a related party	20(c)	**–**	(50)
Proceeds from placement of new shares, net of placement expense	26(c)(ii)	**1,150,058**	–
Capital injection by non-controlling interests		**30,000**	33,000
Net cash generated from/(used in) financing activities		**448,584**	(390,145)
Net increase in cash and cash equivalents		**1,494,319**	257,071
Cash and cash equivalents at 1 January	20(a)	**1,123,892**	866,821
Effect of foreign exchange rate changes		**(80,181)**	–
Cash and cash equivalents at 31 December	20(a)	**2,538,030**	1,123,892

The notes on pages 63 to 163 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China MeiDong Auto Holdings Limited (the "**Company**") was incorporated in the Cayman Islands on 24 February 2012 as an exempted company with limited liability under the Companies Law (2011 Revision) (as consolidated and revised) of the Cayman Islands. Its registered address is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company and its subsidiaries (together, the "**Group**") are principally engaged in 4S dealership business in the People's Republic of China (the "**PRC**").

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirement of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**the Listing Rules**"). Significant accounting policies adopted by the Group are set out below.

The HKICPA has issued certain amendments HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise the Company and its subsidiaries and the Group's interests in a joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

These consolidated financial statements are presented in Renminbi ("**RMB**") which is the Group's presentation currency, rounded to the nearest thousands, except for earnings per share information.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements (continued)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest Rate Benchmark Reform*
- Amendments to HKAS 1 and HKAS 8, *Definition of Material*

None of these amendments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for the amendment to HKFRS 16, *Covid-19-Related Rent Concessions*, which provides a practical expedient that allows lessees not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Business combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see note 2(e)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. 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. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Subsidiaries and non-controlling interests (continued)

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholder of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholder of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (see note 2(f)).

In the Company's statement of finance position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(j)(iii)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(j)(iii)). At each reporting date, the group assesses whether there is any objective evidence that the investment is impaired. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of comprehensive income, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the ECL model to such other long-term interests where applicable (see note 2(j)(i)).

Unrealised profits and losses resulting from transactions between the Group and its associate and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Associates and joint ventures (continued)

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(g) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses (see note 2(j)(iii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(w)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

— Buildings	15–30 years
— Leasehold improvements	over the shorter of the unexpired term of the lease and the estimated useful lives
— Plant and machinery	5–10 years
— Passenger vehicles	1–5 years
— Office equipment and furniture	3–5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 2(j)(iii)). Capitalisation of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(h) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(j)(iii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Car dealership is amortised from the date of acquisition over its estimated useful life of 20 years. Software is amortised from the date it is available for use over its estimated useful life of 2–10 years. Both the period and method of amortisation are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Right-of-use assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily temporary exhibition halls, parking lots and staff dormitories. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 2(j)(iii)). Depreciation is calculated using the straight-line method over the unexpired term of lease.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Right-of-use assets (continued)

(i) As a lessee (continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("**lease modification**") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 Leases. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

The Group presents right-of-use assets that do not meet the definition of investment property in "right-of-use assets" and presents lease liabilities separately in the statement of financial position. In addition, lease prepayments carried at amortised cost are reclassified as right-of-use assets.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits and trade and other receivables).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Measurement of ECLs (continued)

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Significant increases in credit risk (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Basis of calculation of interest income

Interest income recognised in accordance with note 2(t)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "**holder**") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Credit losses and impairment of assets (continued)

(ii) Credit losses from financial guarantees issued (continued)

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 2(j)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Credit losses and impairment of assets (continued)

(iii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— right-of-use assets, including lease prepayments;

— intangible assets;

— investment in a joint venture; and

— investments in a subsidiary in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Credit losses and impairment of assets (continued)

(iii) Impairment of other non-current assets (continued)

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— *Reversals of impairment losses*

In respect of assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iv) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(j)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Inventories

Inventories are assets which are held for sale in the ordinary course of business or in the form of materials or supplies to be consumed in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated on specific identification or weighted average basis as appropriate and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 2(t)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(m)).

(m) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(j)(i)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(w)).

(o) Trade and other payables

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

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that 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 for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(j)(i).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Employee benefits

(i) Short-term employee benefits

Salaries and annual bonuses are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution retirement plan

Contributions to PRC local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in capital reserve within equity. The fair value is measured at grant date using the binomial option-pricing model, taking into account the terms and condition upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income tax (continued)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Provisions and contingent liabilities

Provisions are recognised when the Group has a 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 expenditure 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 of economic benefits 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 of economic benefits is remote.

(t) Revenue

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue recognition policies are as follows:

(i) Sale of goods

Revenue arising from the sale of goods is recognised when the Group satisfies the performance obligation by transferring control of the goods promised in the contract to the customer. Revenue excludes value added tax and is after deduction of any trade discounts.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Revenue (continued)

(ii) Services income

Revenue arising from services is recognised when the relevant performance obligation is satisfied.

(iii) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset.

(iv) Commission income

Commission income is recognised at point in time when the services have been rendered.

(u) Vendor rebates

Incentive rebates provided by vendors are recognised on an accrual basis based on the expected entitlement earned up to the reporting date pursuant to each relevant supplier contract.

Incentive rebates relating to vehicles purchased and sold are deducted from cost of sales, while incentive rebates relating to vehicle purchased but still held as inventories at the reporting date are deducted from the carrying value of such vehicles so that the cost of inventories is recorded net of applicable rebates.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the statement of financial position date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Related parties

(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 Group or the Group's parent.

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

(i) The entity and 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.

(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 the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgement:

(i) Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is revised as necessary and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Depreciation and amortisation

As described in note 2(g), property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. As described in note 2(h), intangible assets are amortised on a straight-line basis over the estimated useful lives. Management reviews annually the useful lives of the assets and residual values, if any, in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological and other changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(ii) Net realisable value of inventories

As described in note 2(k), net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions.

Management reassesses these estimations at the end of reporting period to ensure inventory is shown at the lower of cost and net realisable value.

(iii) Determining the lease term

As explained in policy note 2(i), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include early termination options exercisable by the Group, the Group evaluates the likelihood of exercising the termination options taking into account all relevant facts and circumstances that create an economic incentive for the Group not to exercise the option, including leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
— Sales of passenger vehicles	**17,956,191**	14,383,828
— After-sales services	**2,251,255**	1,826,191
	20,207,446	16,210,019

All revenue was recognised at a point in time.

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at 31 December 2020, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts for after-sales services is RMB261,887,000 (2019: RMB178,798,000). This amount represents revenue expected to be recognised in the future from pre-completion contracts for after-sales services entered into by the customers with the Group. The Group will recognise the expected revenue in future when the Group satisfied its performance obligation, which is expected to occur over the next 12 to 36 months (2019: next 12 to 36 months).

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for passenger vehicles such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of passenger vehicles that had an original expected duration of one year or less.

4 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the sales of passenger vehicles and provision of after-sales services.

(i) Information about geographical area

All of the Group's revenue is derived from the sales of passenger vehicles and provision of after-sales services in mainland China and the principal non-current assets employed by the Group are located in mainland China. Accordingly, no analysis by geographical segments has been provided for the reporting period.

(ii) Information about major customers

The Group's customer base is diversified and no customer with whom transactions have exceeded 10% of the Group's revenues.

5 OTHER REVENUE AND OTHER NET (LOSS)/INCOME

	2020 RMB'000	2019 RMB'000
Other revenue		
Commission income	**118,953**	116,284
Interest income	**22,293**	10,964
Management service income	**10,720**	11,564
	151,966	138,812

5 OTHER REVENUE AND OTHER NET (LOSS)/INCOME (continued)

	2020 RMB'000	2019 RMB'000
Other net (loss)/income		
Net gain on disposal of property, plant and equipment	**28,122**	16,287
Net foreign exchange loss	**(95,541)**	(6,778)
Others	**11,061**	5,311
	(56,358)	14,820
	95,608	153,632

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Note	2020 RMB'000	2019 RMB'000
(a) Finance costs:			
Interest on			
— loans and borrowings		**54,938**	52,694
— lease liabilities		**69,886**	53,440
Total interest expense		**124,824**	106,134
Other finance costs	(i)	**12,116**	17,027
		136,940	123,161

6 PROFIT BEFORE TAXATION (continued)

	Note	2020 RMB'000	2019 RMB'000
(b) Staff costs:			
Salaries, wages and other benefits		**668,960**	546,122
Equity settled share-based payment expenses	(ii)	**10,046**	10,558
Contributions to defined contribution retirement plans	(iii)	**2,557**	28,688
		681,563	585,368

(i) It represents the interest expenses borne by the Group arising from discount of bills issued to automobile manufacturers.

(ii) The Group recognised an expense of RMB10,046,000 for the year ended 31 December 2020 (2019: RMB10,558,000) in relation to share options granted to certain employees of the Group pursuant to a share option scheme (see note 24).

(iii) Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also operates a Mandatory Provident Fund Scheme (the "**MPF scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

Due to the impact of an outbreak of COVID-19, a number of policies including the relief of social insurance have been promulgated by the government since February 2020 to expedite resumption of economic activities, which contributed to the relief of certain defined contribution plans during the year.

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

6 PROFIT BEFORE TAXATION (continued)

(c) Other items:

	2020 RMB'000	2019 RMB'000
Cost of inventories	18,013,558	14,509,226
Write-down of inventories	—	4,556
Depreciation		
— owned property, plant and equipment	134,983	113,107
— right-of-use assets	89,878	64,817
Amortisation of intangible assets	4,261	4,212
Lease expenses	6,051	9,705
Net foreign exchange loss	95,541	6,778
Auditors' remuneration	5,930	5,600

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of comprehensive income represents:

	2020 RMB'000	2019 RMB'000
Current tax:		
Provision for PRC income tax for the year *(note 25(a))*	290,311	211,179
Deferred tax:		
Origination of temporary differences *(note 25(b))*	(8,669)	(11,295)
	281,642	199,884

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

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

	2020 RMB'000	2019 RMB'000
Profit before taxation	**1,052,220**	757,411
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned (i)	**295,060**	197,976
Tax effect of non-deductible expenses	**2,316**	3,217
Tax effect of non-taxable income on share of profits of a joint venture	**(10,791)**	(10,937)
Reversal of PRC dividend withholding tax (ii)	**–**	(6,500)
Effect of PRC dividend withholding tax (iii)	**–**	16,500
Tax effect of unused tax losses not recognised, net of utilisation of tax losses for which no deferred tax asset was recognised in previous periods	**(4,943)**	(372)
Actual tax expense	**281,642**	199,884

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

No provision for Hong Kong Profits Tax was made for the subsidiary located in Hong Kong as the subsidiary did not have assessable profits subject to Hong Kong Profits Tax during the reporting period. The payments of dividends by companies in Hong Kong are not subject to any Hong Kong withholding tax.

The Group's PRC subsidiaries are subject to income tax at the statutory tax rate of 25%.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates: (continued)

(ii) Under the CIT Law and its relevant regulations, dividends receivable by non-PRC resident enterprises from PRC resident enterprises for earnings accumulated beginning on 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the tax arrangement between the mainland China and Hong Kong Special Administration Region, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest of a PRC resident enterprise is entitled to a reduced dividend withholding tax rate of 5%.

During the year ended 31 December 2019, the Company and China Meidong Auto (HK) Limited, a wholly owned subsidiary of the Group, became qualified as Hong Kong tax residents and are entitled to a reduced dividend withholding tax rate of 5%. Consequently, the Group reversed PRC dividend withholding tax of RMB4,500,000 in relation to declared dividend distribution out of earnings of PRC subsidiaries of RMB90,000,000 in 2018 with withholding tax previously recognised at a rate of 10%. During the year ended 31 December 2019, the Group also reversed deferred tax liabilities of RMB2,000,000 in relation to over-estimated PRC dividend of RMB20,000,000 in 2018 with withholding tax previously recognised at a rate of 10%.

(iii) In 2019, the PRC dividend withholding tax of RMB16,500,000 was provided against the declared dividend distribution out of earnings of PRC subsidiaries of RMB330,000,000. Accordingly, the Group recognised PRC withholding tax of RMB16,500,000 in income tax payables.

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Year ended 31 December 2020

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments *(note (i))* RMB'000	Total RMB'000
Executive directors							
Mr. YE Fan	–	605	2,536	1	3,142	–	3,142
Mr. YE Tao	–	2,419	2,320	1	4,740	121	4,861
Ms. LUO Liu Yu	–	725	486	1	1,212	242	1,454
Non-executive directors							
Mr. WANG, Michael Chou	84	–	–	–	84	408	492
Mr. JIP Ki Chi	140	–	–	–	140	408	548
Mr. CHEN Guiyi	84	–	–	–	84	408	492
	308	3,749	5,342	3	9,402	1,587	10,989

8 DIRECTORS' EMOLUMENTS (continued)

Year ended 31 December 2019

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments *(note (i))* RMB'000	Total RMB'000
Executive directors							
Mr. YE Fan	–	605	2,500	6	3,111	–	3,111
Mr. YE Tao	–	2,418	2,020	–	4,438	302	4,740
Ms. LIU Xuehua (retired with effect from 25 March 2019)	–	331	511	–	842	162	1,004
Ms. LUO Liu Yu (appointed with effect from 25 March 2019)	–	166	717	4	887	385	1,272
Non-executive directors							
Mr. WANG, Michael Chou	90	–	–	–	90	1,083	1,173
Mr. JIP Ki Chi	149	–	–	–	149	1,083	1,232
Mr. CHEN Guiyi	90	–	–	–	90	1,083	1,173
	329	3,520	5,748	10	9,607	4,098	13,705

(i) These represent the estimated value of share options granted to the directors under the Company's share option scheme adopted on 13 November 2013. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(q)(iii) and, in accordance with that policy, includes adjustments to reverse amounts accrued where grants of equity instruments are forfeited prior to vesting. The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in report of the directors and note 24.

No directors of the Company waived or agreed to waive any remuneration during the year.

During the year, there were no amounts paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2019: three) are directors whose emoluments is disclosed in note 8. The aggregate of the emoluments in respect of the other two (2019: two) individuals are as follows:

	2020 **RMB'000**	2019 RMB'000
Salaries, allowance and benefits in kind	**441**	949
Share-based payments	**4,787**	1,131
	5,228	2,080

The emoluments of the two (2019: two) individuals with the highest emoluments are within the following bands:

	2020 **Number of individuals**	2019 Number of individuals
HK$		
1,000,001 — 1,500,000	**1**	2
4,500,001 — 5,000,000	**1**	—

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB750,558,000 (2019: RMB550,811,000) and the weighted average of 1,206,967,000 ordinary shares in issue (2019: 1,155,404,000 shares) during the year ended 31 December 2020.

Weighted average number of ordinary shares

	2020	2019
Issued ordinary shares at 1 January	**1,158,169,000**	1,153,544,000
Effect of exercise of share options *(note 24)*	**3,651,000**	1,860,000
Effect of placement of new shares *(note 26(c)(ii))*	**45,147,000**	—
Weighted average number of ordinary shares at 31 December	**1,206,967,000**	1,155,404,000

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB750,558,000 (2019: RMB550,811,000) and the weighted average of 1,223,261,000 ordinary shares (2019: 1,165,210,000 ordinary shares) in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's employee share option scheme during the year ended 31 December 2020.

10 EARNINGS PER SHARE (continued)

(b) Diluted earnings per share (continued)

Weighted average number of shares (diluted)

	2020	2019
Weighted average number of ordinary shares for the year ended 31 December	**1,206,967,000**	1,155,404,000
Effect of deemed issue of shares under the employee share option scheme *(note 24)*	**16,294,000**	9,806,000
Weighted average number of ordinary shares (diluted) at 31 December	**1,223,261,000**	1,165,210,000

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Passenger vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2019	519,099	181,516	156,600	155,676	94,190	12,198	1,119,279
Additions	–	60,287	22,228	168,698	28,285	110,787	390,285
Transfer	–	97,947	228	–	747	(98,922)	–
Disposals	–	–	(1,527)	(136,601)	(16,401)	–	(154,529)
At 31 December 2019	519,099	339,750	177,529	187,773	106,821	24,063	1,355,035
At 1 January 2020	**519,099**	**339,750**	**177,529**	**187,773**	**106,821**	**24,063**	**1,355,035**
Additions	**–**	**46,723**	**34,063**	**179,483**	**19,135**	**38,939**	**318,343**
Transfer	**–**	**36,117**	**5,972**	**–**	**–**	**(42,089)**	**–**
Disposals	**–**	**(61)**	**(2,868)**	**(134,940)**	**(1,321)**	**–**	**(139,190)**
At 31 December 2020	**519,099**	**422,529**	**214,696**	**232,316**	**124,635**	**20,913**	**1,534,188**

11 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings	Leasehold improvements	Plant and machinery	Passenger vehicles	Office equipment and furniture	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accumulated depreciation:							
At 1 January 2019	95,574	38,806	42,971	36,507	47,492	–	261,350
Charge for the year	19,916	22,921	13,097	41,791	15,382	–	113,107
Written back on disposals	–	–	(820)	(38,711)	(14,950)	–	(54,481)
At 31 December 2019	115,490	61,727	55,248	39,587	47,924	–	319,976
At 1 January 2020	115,490	61,727	55,248	39,587	47,924	–	319,976
Charge for the year	19,916	29,190	18,792	47,963	19,122	–	134,983
Written back on disposals	–	(27)	(2,200)	(37,403)	(1,077)	–	(40,707)
At 31 December 2020	135,406	90,890	71,840	50,147	65,969	–	414,252
Net book value:							
At 31 December 2020	383,693	331,639	142,856	182,169	58,666	20,913	1,119,936
At 31 December 2019	403,609	278,023	122,281	148,186	58,897	24,063	1,035,059

The Group's property, plant and equipment are located in the PRC.

The Group has yet to obtain property ownership certificates of certain buildings with an aggregate net book value of RMB248,361,000 as at 31 December 2020 (2019: RMB259,109,000). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial title to these buildings as at 31 December 2020.

Property, plant and equipment with net book value of RMB65,694,000 are pledged as security for bank loans (see note 21(b)(i)) as at 31 December 2020 (2019: RMB60,781,000).

12 RIGHT-OF-USE ASSETS

	Land use rights carried at cost (i)	Properties and Land leased for own use carried at cost (ii)	Total
	RMB'000	RMB'000	RMB'000
Cost:			
At 1 January 2019	117,514	633,280	750,794
Additions	—	139,799	139,799
At 31 December 2019	117,514	773,079	890,593
Additions	—	550,391	550,391
At 31 December 2020	117,514	1,323,470	1,440,984
Accumulated amortisation:			
At 1 January 2019	—	—	—
Charge for the year	(3,402)	(61,415)	(64,817)
At 31 December 2019	(3,402)	(61,415)	(64,817)
Charge for the year	(3,491)	(86,387)	(89,878)
At 31 December 2020	(6,893)	(147,802)	(154,695)
Net book value:			
At 31 December 2020	110,621	1,175,668	1,286,289
At 31 December 2019	114,112	711,664	825,776

12 RIGHT-OF-USE ASSETS (continued)

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2020 RMB'000	2019 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Land use rights	3,491	3,402
Properties and land leased for own use	86,387	61,415
	89,878	64,817
Interest on lease liabilities *(note 6(a))*	69,886	53,440
Expense relating to short-term leases and other leases with remaining lease term ended on or before 31 December 2019 *(note 6(c))*	7,194	9,705
COVID-19-related rent concessions received	(1,143)	—

During the year, additions to right-of-use assets were RMB550,391,000 (2019: RMB139,799,000). This amount was primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases, the maturity analysis of lease liabilities and the future cash outflows arising from leases that are not yet commenced are set out in notes 20(d), 23 and 28, respectively.

As disclosed in note 2(c), the Group has early adopted the Amendment to HKFRS 16, *Leases, Covid-19-Related Rent Concessions*, and applies the practical expedient introduced by the Amendment to all eligible rent concessions received by the Group during the period.

12 RIGHT-OF-USE ASSETS (continued)

(i) Land use rights

Land in respect of land use rights are all located in the PRC with a lease period of 34–40 years when granted.

Land use rights with net book value of RMB64,433,000 are pledged as security for bank loans (see note 21(b)(i)) as at 31 December 2020 (2019: RMB83,870,000).

(ii) Properties and land leased for own use

The Group has obtained the right to use other properties and land through tenancy agreements. The leases typically run for an initial period of 2 to 20 years.

Some leases include an option to terminate the lease before the end of the contract term. The Group considers it reasonably certain not to exercise the option to early terminate at lease commencement date.

During 2020 the Group received rent concessions in the form of a discount on fixed payments during the period of severe social distancing and travel restriction measures introduced to contain the spread of COVID-19.

13 INTANGIBLE ASSETS

The Group

	Car dealership RMB'000	Software RMB'000	Total RMB'000
Cost:			
At 1 January 2019	73,047	8,403	81,450
Additions	—	245	245
At 31 December 2019	73,047	8,648	81,695
At 1 January 2020	73,047	8,648	81,695
Additions	—	398	398
At 31 December 2020	73,047	9,046	82,093
Accumulated amortisation:			
At 1 January 2019	(8,829)	(3,346)	(12,175)
Charge for the year	(3,652)	(560)	(4,212)
At 31 December 2019	(12,481)	(3,906)	(16,387)
At 1 January 2020	(12,481)	(3,906)	(16,387)
Charge for the year	(3,652)	(609)	(4,261)
At 31 December 2020	(16,133)	(4,515)	(20,648)
Net book value:			
At 31 December 2020	56,914	4,531	61,445
At 31 December 2019	60,566	4,742	65,308

The car dealership arises from the Group's relationship with the automobile manufacturer, with an estimated useful life of 20 years. The fair value of the car dealership as at the acquisition date was determined by using the multiple-period excess earning method.

14 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and business and nature of legal entity	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activity
China MeiDong Auto International Limited ("**MeiDong International**") (中國美東汽車國際有限公司)	British Virgin Islands, limited company	100 shares of USD1 each	100%	100%	–	Investment holding
China Meidong Auto (HK) Limited ("**MeiDong HK**") (中國美東汽車 (香港) 有限公司)	Hong Kong, limited company	10,000 shares	100%	–	100%	Investment holding
Dongguan Meixin Business Consulting Co., Ltd. ("**Dongguan Meixin**") (東莞美信企業管理諮詢有限公司)	The PRC, limited liability company	RMB 200,000,000	100%	–	100%	Investment holding
Beijing Zhongye Toyota Auto Sales and Services Co., Ltd. (北京中業豐田汽車銷售服務有限公司)	The PRC, limited liability company	RMB20,000,000	100%	–	100%	Automobile dealership
Dongguan Guanfeng Auto Co., Ltd. (東莞市冠豐汽車有限公司)	The PRC, limited liability company	RMB10,000,000	100%	–	100%	Automobile dealership
Dongguan Dongbu Toyota Auto Sales and Services Co., Ltd. (東莞市東部豐田汽車銷售服務有限公司)	The PRC, limited liability company	RMB50,000,000	100%	–	100%	Automobile dealership
Dongguan Dongmei Toyota Auto Sales and Services Co., Ltd. (東莞東美豐田汽車銷售服務有限公司)	The PRC, limited liability company	RMB50,000,000	100%	–	100%	Automobile dealership

14 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation and business and nature of legal entity	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Dongguan Dongxin Auto Sales and Services Co., Ltd. (東莞市東鑫汽車銷售服務有限公司)	The PRC, limited liability company	RMB 50,000,000	100%	–	100%	Automobile dealership
Xiamen Meidong Auto Sales and Services Co., Ltd. (廈門美東汽車銷售服務有限公司)	The PRC, limited liability company	RMB 20,000,000	100%	–	100%	Automobile dealership
Zhuzhou Meibaohang Auto Sales and Services Co., Ltd. (株洲市美寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB 30,000,000	100%	–	100%	Automobile dealership
Quanzhou Meidong Toyota Auto Sales and Services Co., Ltd. (泉州美東豐田汽車銷售服務有限公司)	The PRC, limited liability company	RMB 30,000,000	100%	–	100%	Automobile dealership
Lanzhou Meidong Lexus Auto Sales and Services Co., Ltd. (蘭州美東雷克薩斯汽車銷售服務有限公司)	The PRC, limited liability company	RMB 30,000,000	100%	–	100%	Automobile dealership
Yiyang Dongxin Auto Sales and Services Co., Ltd. (益陽市東鑫汽車銷售服務有限公司)	The PRC, limited liability company	RMB 20,000,000	100%	–	100%	Automobile dealership
Hengyang Meibaohang Auto Sales and Services Co., Ltd. (衡陽市美寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB30,000,000	100%	–	100%	Automobile dealership
Chengde Meibaohang Auto Sales and Services Co., Ltd. (承德美寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB30,000,000	100%	–	100%	Automobile dealership

14 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation and business and nature of legal entity	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Beijing Meibaohang Auto Sales and Services Co., Ltd. (北京美寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB50,000,000	70%	–	70%	Automobile dealership
Foshan Dongbao Auto Sales and Services Co., Ltd. (佛山東保汽車銷售服務有限公司)	The PRC, limited liability company	RMB30,000,000	100%	–	100%	Automobile dealership
Changsha Meidong Lexus Auto Sales and Services Co., Ltd. (長沙美東雷克薩斯汽車銷售服務有限公司)	The PRC, limited liability company	RMB30,000,000	100%	–	100%	Automobile dealership
Dongguan Dongyue Used Vehicles Co., Ltd. (東莞市東粵二手車有限公司)	The PRC, limited liability company	RMB5,000,000	100%	–	100%	Used vehicle trading
Changde Meibaohang Auto Sales and Services Co., Ltd. (常德市美寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB30,000,000	100%	–	100%	Automobile dealership
Shantou Dongbao Auto Sales and Services Co., Ltd. (汕頭市東保汽車銷售服務有限公司)	The PRC, limited liability company	RMB52,000,000	100%	–	100%	Automobile dealership
Longyan Meidong Lexus Auto Sales and Services Co., Ltd. (龍岩美東雷克薩斯汽車銷售服務有限公司)	The PRC, limited liability company	RMB30,000,000	100%	–	100%	Automobile dealership
Yueyang Meibaohang Auto Sales and Services Co., Ltd. (岳阳市美寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB20,000,000	100%	–	100%	Automobile dealership

14 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation and business and nature of legal entity	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Jingdezhen Meibaohang Auto Sales and Services Co., Ltd. (景德鎮美寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB20,000,000	100%	–	100%	Automobile dealership
Xinyu Dongbu Toyota Auto Sales and Services Co., Ltd. (新余東部豐田汽車銷售服務有限公司)	The PRC, limited liability company	RMB30,000,000	100%	–	100%	Automobile dealership
Zhuhai Meidong Lexus Auto Sales and Services Co., Ltd. (珠海美東雷克薩斯汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000	100%	–	100%	Automobile dealership
Huanggang Baoxinhang Auto Sales and Services Co., Ltd. (黃岡寶鑫行汽車銷售服務有限公司)	The PRC, limited liability company	RMB15,000,000	100%	–	100%	Automobile dealership
Foshan Meixin Lexus Auto Sales and Services Co., Ltd. (佛山美興雷克薩斯汽車銷售服務有限公司)	The PRC, limited liability company	RMB30,000,000	60%	–	60%	Automobile dealership
Yangjiang Meibaohang Auto Sales and Services Co., Ltd. (陽江美寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB15,000,000	100%	–	100%	Automobile dealership
Guangzhou Meibaohang Auto Sales and Services Co., Ltd. (廣州美寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB50,000,000	100%	–	100%	Automobile dealership
Beijing Huibaohang Auto Sales and Services Co., Ltd. (北京匯寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB50,000,000	100%	–	100%	Automobile dealership

14 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation and business and nature of legal entity	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Liuyang Meibaohang Auto Sales and Services Co., Ltd. (瀏陽美寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB20,000,000	100%	–	100%	Automobile dealership
Qingyuan Meidong Lexus Auto Sales and Services Co., Ltd. (清遠美東雷克薩斯汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000	100%	–	100%	Automobile dealership
Zhuzhou Meidong Lexus Auto Sales and Services Co., Ltd. (株洲美東雷克薩斯汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000	100%	–	100%	Automobile dealership
Jiujiang Dongbu Toyota Auto Sales and Services Co., Ltd. (九江東部豐田汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000	100%	–	100%	Automobile dealership
Yongzhou Meibaohang Auto Sales and Services Co., Ltd. (永州美寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB8,000,000	100%	–	100%	Automobile dealership
Shangrao Meibaohang Auto Sales and Services Co., Ltd. (上饒美寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB20,000,000	100%	–	100%	Automobile dealership
Dongguan Meiyue Auto Sales and Services Co., Ltd. (東莞美悅汽車銷售服務有限公司)	The PRC, limited liability company	RMB12,000,000	100%	–	100%	Automobile dealership
Yangjiang Meidong Lexus Auto Sales and Services Co., Ltd. (陽江美東雷克薩斯汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000	100%	–	100%	Automobile dealership

14 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation and business and nature of legal entity	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Ganzhou Xinbao Auto Sales and Services Co., Ltd. (贛州鑫保汽車銷售服務有限公司)	The PRC, limited liability company	RMB50,000,000	100%	–	100%	Automobile dealership
Tangxia Meidong Lexus Auto Sales and Services Co., Ltd. (塘厦美東雷克薩斯汽車銷售服務有限公司)	The PRC, limited liability company	RMB20,000,000	69%	–	69%	Automobile dealership
Doumen Meidong Lexus Auto Sales and Services Co., Ltd. (斗门美東雷克薩斯汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000	71%	–	71%	Automobile dealership
Langfang Guanbaohang Auto Sales and Services Co., Ltd. (廊坊冠寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB30,000,000	100%	–	100%	Automobile dealership
Tongling Meibaohang Auto Sales and Services Co., Ltd. (銅陵美寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000	100%	–	100%	Automobile dealership
Chizhou Meibaohang Auto Sales and Services Co., Ltd. (池州美寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000	100%	–	100%	Automobile dealership
Huangshan Meibaohang Auto Sales and Services Co., Ltd. (黃山美寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000	100%	–	100%	Automobile dealership
Suzhou Meibaohang Auto Sales and Services Co., Ltd. (宿州美寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000	100%	–	100%	Automobile dealership

14 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation and business and nature of legal entity	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Dongguan Meibaohang Auto Sales and Services Co., Ltd. (東莞美寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB30,000,000	70%	–	70%	Automobile dealership
Wuhan Xinbao Auto Sales and Services Co., Ltd. (武漢鑫保汽車銷售服務有限公司)	The PRC, limited liability company	RMB50,000,000	100%	–	100%	Automobile dealership
Nanchang Jubao Auto Sales and Services Co., Ltd. (南昌聚保汽車銷售服務有限公司)	The PRC, limited liability company	RMB50,000,000	100%	–	100%	Automobile dealership
Heyuan Guanao Auto Sales and Services Co., Ltd. (河源冠奧汽車銷售服務有限公司)	The PRC, limited liability company	RMB40,000,000	100%	–	100%	Automobile dealership
Bazhou Guanbaohang Auto Sales and Services Co., Ltd. (霸州冠寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000	100%	–	100%	Automobile dealership
Huaibei Meibaohang Auto Sales and Services Co., Ltd. (淮北美寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000	100%	–	100%	Automobile dealership
Chuzhou Meibaohang Auto Sales and Services Co., Ltd. (滁州美寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000	100%	–	100%	Automobile dealership
Bazhou Guanyue Auto Sales and Services Co., Ltd. (霸州市冠悅汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000	100%	–	100%	Automobile dealership

14 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation and business and nature of legal entity	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Hengyang Meidong Lexus Auto Sales and Services Co., Ltd. (衡陽美東雷克薩斯汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000	100%	–	100%	Automobile dealership
Beijing Meidong Lexus Auto Sales and Services Co., Ltd. (北京美東雷克薩斯汽車銷售服務有限公司)	The PRC, limited liability company	RMB20,000,000	100%	–	100%	Automobile dealership
Jinan Jubao Auto Sales and Services Co., Ltd. (濟南聚保汽車銷售服務有限公司)	The PRC, limited liability company	RMB70,000,000	70%	–	70%	Automobile dealership
Xinyu Meibaohang Auto Sales and Services Co., Ltd. (新餘美寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000	100%	–	100%	Automobile dealership
Shaoguan Meidong Lexus Auto Sales and Services Co., Ltd. (韶關美東雷克薩斯汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000	100%	–	100%	Automobile dealership
Guangzhou Dongbao Auto Sales and Services Co., Ltd. (廣州東保汽車銷售服務有限公司)	The PRC, limited liability company	RMB200,000,000/ 140,000,000	70%	–	70%	Automobile dealership
Jiujiang Huibaohang Auto Sales and Services Co., Ltd. (九江匯寶行汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000	100%	–	100%	Automobile dealership
Jiangmen Meidong Lexus Auto Sales and Services Co., Ltd. (江門美東雷克薩斯汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000	100%	–	100%	Automobile dealership

14 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation and business and nature of legal entity	Particulars of issued and paid up capital	Proportion of ownership interest Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Nanchang Dongbu Toyota Auto Sales and Services Co., Ltd. (南昌東部豐田汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000	100%	–	100%	Automobile dealership
Langfang Meidong Lexus Auto Sales and Services Co., Ltd. (廊坊美東雷克薩斯汽車銷售服務有限公司)	The PRC, limited liability company	RMB10,000,000/nil	100%	–	100%	Automobile dealership

Note: Except for MeiDong International and MeiDong HK, the official names of the companies established in the PRC are in Chinese.

15 INTEREST IN A JOINT VENTURE

	2020 RMB'000	2019 RMB'000
Share of net assets	**56,348**	55,140

Details of the Group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

				Proportion of ownership interest			
Name of Joint venture	Form of business structure	Place of incorporation and business and nature of legal entity	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Dongguan Meidong Automotive Service Co., Ltd. ("**Dongguan Meidong**")	Incorporated	The PRC, Limited liability company	RMB22,000,000	49%	–	49%	Automobile dealership

Dongguan Meidong is structured as a separate vehicle and provides the Group rights to the net assets of the entity. Accordingly, the Group has classified the investment in Dongguan Meidong as a joint venture.

Dongguan Meidong, the only joint venture in which the Group participates, is an unlisted corporate entity whose quoted market price is not available.

15 INTEREST IN A JOINT VENTURE (continued)

Summarised financial information of the joint venture and reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	2020 RMB'000	2019 RMB'000
Gross amounts of Dongguan Meidong's		
Current assets	**187,746**	190,646
Non-current assets	**19,286**	18,519
Current liabilities	**(92,036)**	(96,634)
Equity	**(114,996)**	(112,531)
Included in the above assets and liabilities:		
Cash and cash equivalents	**139,420**	110,467
Current financial liabilities (excluding trade and other payables and provisions)	**(7,053)**	(13,069)
Revenue	**1,140,903**	978,381
Profit and total comprehensive income	**88,086**	89,282
Profit distribution to Dongguan Meixin	**41,954**	32,284
Included in the above profit:		
Depreciation and amortisation	**(3,013)**	(3,197)
Interest income	**1,124**	1,042
Interest expense	**(1)**	(1)
Income tax expense	**(29,462)**	(30,030)
Reconciled to the Group's interest in Dongguan Meidong		
Gross amounts of Dongguan Meidong's net assets	**114,996**	112,531
Group's effective interest	**49%**	49%
Group's share of Dongguan Meidong's net assets and carrying amount in the consolidated financial statements	**56,348**	55,140

16 OTHER NON-CURRENT ASSETS

	2020 RMB'000	2019 RMB'000
Prepayments for property, plant and equipment, intangible assets and right-of-use assets	**11,368**	49,859
Long-term deposits and receivables	**63,933**	54,361
	75,301	104,220

17 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2020 RMB'000	2019 RMB'000
Motor vehicles	**375,721**	431,954
Others	**119,581**	108,555
	495,302	540,509

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2020 RMB'000	2019 RMB'000
Carrying amount of inventories sold	**18,013,558**	14,509,226
Write-down of inventories	**—**	4,556

Inventories with carrying amount of RMB98,131,000 have been pledged as security for loans and borrowings (see note 21(b)(i)) as at 31 December 2020 (2019: RMB148,872,000).

Inventories with carrying amount of RMB162,940,000 have been pledged as security for bills payable (see note 22(b)) as at 31 December 2020 (2019: RMB195,803,000).

18 TRADE AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	**129,076**	151,831
Prepayments	**671,657**	350,616
Other receivables and deposits	**711,907**	649,670
Amounts due from third parties	**1,512,640**	1,152,117
Amounts due from related parties *(note 30(c))*	**5,076**	6,698
Trade and other receivables	**1,517,716**	1,158,815

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

Trade and other receivables with carrying amount of RMB178,719,000 have been pledged as security for loans and borrowings (see note 21(b)(i)) as at 31 December 2020 (2019: RMB149,671,000).

Trade and other receivables with carrying amount of RMB212,090,000 have been pledged as security for bills payable (see note 22(b)) as at 31 December 2020 (2019: RMB103,089,000).

As of the end of the reporting period, the ageing analysis of trade receivables (which are included in trade and other receivables) based on the invoice date that are neither individually nor collectively considered to be impaired is as follows:

	2020 RMB'000	2019 RMB'000
Within 1 month	**115,010**	127,021
1 to 2 months	**8,348**	10,684
2 to 3 months	**1,570**	9,316
Over 3 months	**4,148**	4,810
	129,076	151,831

Details on the Group's credit policy are set out in note 27(a).

19 PLEDGED BANK DEPOSITS

	2020 RMB'000	2019 RMB'000
Restricted bank deposits pledged in respect of loans and borrowings *(note 21(b)(i))*	27,831	48,774
Restricted bank deposits pledged in respect of bills payable *(note 22(b))*	530,741	912,955
	558,572	961,729

The pledged bank deposits will be released upon the settlement of relevant loans and borrowings and bills payable.

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2020 RMB'000	2019 RMB'000
Cash at bank and in hand	2,538,030	1,123,892

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2020 RMB'000	2019 RMB'000
Profit before taxation		**1,052,220**	757,411
Adjustments for:			
— Depreciation of property, plant and equipment	6(c)	**134,983**	113,107
— Depreciation of right-of-use assets	6(c)	**89,878**	64,817
— Amortisation of intangible assets	6(c)	**4,261**	4,212
— Net gain on disposal of property, plant and equipment	5	**(28,122)**	(16,287)
— Write down of inventories	6(c)	**—**	4,556
— Finance costs	6(a)	**136,940**	123,161
— Share of profits of a joint venture		**(43,162)**	(43,748)
— Interest income	5	**(22,293)**	(10,964)
— Equity settled share-based payment expenses	6(b)	**10,046**	10,558
— Net foreign exchange loss		**77,080**	2,803
— COVID-19-related rent concessions received	12	**(1,143)**	—
Changes in working capital:			
Decrease in inventories		**45,207**	293,791
Increase in trade and other receivables		**(343,435)**	(273,740)
Decrease/(increase) in pledged bank deposits		**382,214**	(520,169)
(Decrease)/increase in trade and other payables		**(39,308)**	588,226
Increase in other non-current assets		**(9,572)**	(10,690)
Cash generated from operations		**1,445,794**	1,087,044

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(c) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans and other borrowings RMB'000 *(Note 1)*	Lease liabilities RMB'000 *(Note 23)*	Interest payables RMB'000 *(Note 2)*	Other payables due to a related party RMB'000 *(Note 30(c))*	Total RMB'000
At 1 January 2020	1,111,707	810,872	4,594	5,574	1,932,747
Changes from financing cash flows:					
Proceeds from loans and borrowings	5,666,907	–	–	–	5,666,907
Repayment of loans and borrowings	(5,824,106)	–	–	–	(5,824,106)
Capital element of lease rentals paid	–	(53,754)	–	–	(53,754)
Interest element of lease rentals paid	–	(69,886)	–	–	(69,886)
Interest paid	–	–	(70,923)	–	(70,923)
Total changes from financing cash flows	(157,199)	(123,640)	(70,923)	–	(351,762)
Exchange adjustments	(3,101)	–	–	–	(3,101)
Other changes:					
Increase in lease liabilities from entering into new leases during the period	–	501,760	–	–	501,760
COVID-19-related rent concessions received *(note 12)*	–	(1,143)	–	–	(1,143)
Interest expenses *(note 6(a))*	–	69,886	67,054	–	136,940
Distribution costs	–	–	–	91	91
Total other changes	–	570,503	67,054	91	637,648
At 31 December 2020	951,407	1,257,735	725	5,665	2,215,532

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(c) Reconciliation of liabilities arising from financing activities: (continued)

Note 1: Bank loans and other borrowings consist of bank loans and borrowings from other financial institutions and a related party as disclosed in note 21.

Note 2: Interest payables is recorded in trade and other payables as disclosed in note 22.

	Bank loans and other borrowings RMB'000 *(Note 1)*	Lease liabilities RMB'000 *(Note 23)*	Interest payables RMB'000 *(Note 2)*	Other payables due to a related party RMB'000 *(Note 30(c))*	Total RMB'000
At 1 January 2019	1,172,418	713,688	2,088	5,624	1,893,818
Changes from financing cash flows:					
Proceeds from loans and borrowings	2,627,571	–	–	–	2,627,571
Repayment of loans and borrowings	(2,691,085)	–	–	–	(2,691,085)
Repayment of advances from a related party	–	–	–	(50)	(50)
Capital element of lease rentals paid	–	(42,615)	–	–	(42,615)
Interest element of lease rentals paid	–	(53,440)	–	–	(53,440)
Interest paid	–	–	(67,215)	–	(67,215)
Total changes from financing cash flows	(63,514)	(96,055)	(67,215)	(50)	(226,834)
Exchange adjustments	2,803	–	–	–	2,803
Other changes:					
Increase in lease liabilities from entering into new leases during the period	–	139,799	–	–	139,799
Interest expenses *(note 6(a))*	–	53,440	69,721	–	123,161
Total other changes	–	193,239	69,721	–	262,960
At 31 December 2019	1,111,707	810,872	4,594	5,574	1,932,747

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(c) Reconciliation of liabilities arising from financing activities: (continued)

Note 1: Bank loans and other borrowings consist of bank loans and borrowings from other financial institutions and a related party as disclosed in note 21.

Note 2: Interest payables is recorded in trade and other payables as disclosed in note 22.

(d) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2020 RMB'000	2019 RMB'000
Within operating cash flows	7,194	9,705
Within investing cash flows	17,138	31,493
Within financing cash flows	123,640	96,055
	147,972	137,253

These amounts relate to the following:

	2020 RMB'000	2019 RMB'000
Lease rentals paid	130,834	105,760
Prepayment for purchase of right-of-use assets	17,138	31,493
	147,972	137,253

21 LOANS AND BORROWINGS

(a) At 31 December 2020, loans and borrowings were repayable as follows:

	2020 RMB'000	2019 RMB'000
Within 1 year or on demand (i)	**729,225**	871,215
After 1 year but within 2 years (i)	**114,682**	86,332
After 2 years but within 5 years (i)	**107,500**	154,160
	222,182	240,492
	951,407	1,111,707

(i) Loans and borrowings of RMB712,066,000 repayable within 1 year were guaranteed by related parties as at 31 December 2020 (2019: RMB574,979,000) (see note 30(d)).

Loans and borrowings of RMB114,682,000 repayable after 1 year but within 2 years were guaranteed by a related party as at 31 December 2020 (2019: RMB86,332,000) (see note 30(d)).

Loans and borrowings of RMB107,500,000 repayable after 2 years but within 5 years were guaranteed by a related party as at 31 December 2020 (2019: RMB154,160,000) (see note 30(d)).

21 LOANS AND BORROWINGS (continued)

(b) At 31 December 2020, loans and borrowings were secured as follows:

	2020 RMB'000	2019 RMB'000
Unsecured borrowings from other financial institutions	–	5,528
Unsecured borrowings from a related party *(note 30(c))*	–	44,789
	–	50,317
Secured bank loans (i)	604,222	814,457
Secured borrowings from other financial institutions (i)	347,185	246,933
	951,407	1,061,390
	951,407	1,111,707

(i) Loans and borrowings were secured by the following assets of the Group:

	2020 RMB'000	2019 RMB'000
Inventories	98,131	148,872
Trade and other receivables	178,719	149,671
Property, plant and equipment	65,694	60,781
Right-of-use assets	64,433	83,870
Pledged bank deposits	27,831	48,774
	434,808	491,968

22 TRADE AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables	**190,274**	151,503
Bills payable	**905,771**	1,211,847
	1,096,045	1,363,350
Contract liabilities (i)	**763,082**	552,777
Other payables and accruals	**216,406**	208,025
Amounts due to third parties	**2,075,533**	2,124,152
Amounts due to related parties *(note 30(c))*	**6,378**	8,013
Trade and other payables	**2,081,911**	2,132,165

(i) The amount of revenue recognised in the year that was included in the contract liabilities balance at the beginning of the year was RMB373,979,000 (2019: RMB322,721,000).

(a) All trade and other payables are expected to be settled within one year.

(b) Bills payable were secured by the following assets of the Group:

	2020 RMB'000	2019 RMB'000
Pledged bank deposits	**530,741**	912,955
Inventories	**162,940**	195,803
Trade and other receivables	**212,090**	103,089
	905,771	1,211,847

As at 31 December 2020, bills payable of RMB421,921,000 were guaranteed by a related party (2019: RMB908,668,000) (see note 30(d)).

22 TRADE AND OTHER PAYABLES (continued)

(c) As of the end of the reporting period, the ageing analysis of trade payables and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	2020 RMB'000	2019 RMB'000
Within 3 months	1,005,784	1,326,106
After 3 months but within 6 months	90,261	37,244
	1,096,045	1,363,350

23 LEASE LIABILITIES

At 31 December 2020, the lease liabilities were repayable as follows:

	2020 RMB'000	2019 RMB'000
Within 1 year	121,760	84,694
After 1 year but within 2 years	126,659	82,777
After 2 years but within 5 years	375,264	228,608
After 5 years	634,052	414,793
	1,135,975	726,178
	1,257,735	810,872

24 EQUITY SETTLED SHARE-BASED TRANSACTIONS

(i) Share options granted on 20 January 2014:

Pursuant to a resolution of the board of directors of the Company passed on 20 January 2014, 11,400,000 share options were granted to certain eligible employees of the Group under the share option scheme adopted by the Company on 13 November 2013, to subscribe for 11,400,000 shares of the Company in aggregate with an exercise price of HK$1.8, among which 2,000,000 and 2,150,000 share options were granted to Mr. Ye Tao and Ms. Liu Xuehua (retired with effect from 25 March 2019), the executive directors of the Company, respectively.

Each option gives the holder the right to subscribe for one ordinary share of HK$0.1 each of the Company. Each 25% of these share options will vest on 1 January 2015, 1 January 2016, 1 January 2017, and 1 January 2018, respectively, and be exercisable until 12 November 2023.

During the year ended 31 December 2020, 1,350,000 options were exercised (2019: 2,900,000) at a subscription price of HK$1.8 per ordinary share for a total consideration of HK$2,430,000 (equivalent to RMB2,179,000) and consequently, RMB121,000 and RMB2,058,000 was recorded in share capital and share premium account respectively. Accordingly, the fair value of these share options in an aggregate amount of RMB771,000 previously recognised in the capital reserve was transferred to the share premium account upon the exercise of share options.

The number of options granted on 20 January 2014 still outstanding at 31 December 2020 are 2,530,000 (2019: 3,880,000) which have an exercise price of HK$1.8 (2019: HK$1.8) and a remaining contractual life of 2.87 years (2019: 3.87 years).

(ii) Share options granted on 4 January 2018:

Pursuant to a resolution of the board of directors of the Company passed on 4 January 2018, 11,980,000 share options were granted to certain eligible employees of the Group under the share option scheme adopted by the Company on 13 November 2013, to subscribe for 11,980,000 shares of the Company in aggregate with an exercise price of HK$2.58, among which 2,000,000 and 2,150,000 share options were granted to Mr. Ye Tao and Ms. Liu Xuehua (retired with effect from 25 March 2019), the executive directors of the Company, respectively.

24 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(ii) Share options granted on 4 January 2018: (continued)

Each option gives the holder the right to subscribe for one ordinary share of HK$0.1 each of the Company. Each 25% of these share options will vest on 4 January 2018, 4 January 2019, 4 January 2020 and 4 January 2021, respectively, and be exercisable until 3 January 2028.

During the year ended 31 December 2020, 2,490,000 options were exercised (2019: 1,725,000) at a subscription price of HK$2.58 per ordinary share for a total consideration of HK$6,424,000 (equivalent to RMB5,844,000) and consequently, RMB227,000 and RMB5,617,000 was recorded in share capital and share premium account respectively. Accordingly, the fair value of these share options in an aggregate amount of RMB1,794,000 previously recognied in the capital reserve was transferred to the share premium account upon the exercise of share option.

The Group recorded equity settled share-base payment expenses of RMB435,000 for the year ended 31 December 2020 (2019: RMB1,366,000) (see note 6(b)(ii)).

The number of options granted on 4 January 2018 still outstanding at 31 December 2020 are 7,335,000 (2019: 9,825,000) which have an exercise price of HK$2.58 (2019: HK$2.58) and a remaining contractual life of 7.01 years (2019: 8.01 years).

(iii) Share options granted on 18 July 2019:

Pursuant to a resolution of the board of directors of the Company passed on 18 July 2019, 9,700,000 share options were granted to certain eligible employees of the Group under the share option scheme adopted by the Company on 13 November 2013, to subscribe for 9,700,000 shares of the Company in aggregate with an exercise price of HK$6.00, among which 230,000 share options were granted to Ms. LUO Liuyu (appointed as an executive director of the Company with effect from 25 March 2019) and 1,000,000 share options each were granted to Mr. CHEN Guiyi, Mr. WANG, Michael Chou, and Mr. JIP Ki Chi, the independent non-executive directors of the Company.

Each option gives the holder the right to subscribe for one ordinary share of HK$0.1 each of the Company. Each 25% of these share options will vest on 18 July 2019, 18 July 2020, 18 July 2021 and 18 July 2022, respectively, and be exercisable until 17 July 2029.

24 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(iii) Share options granted on 18 July 2019: (continued)

During the year ended 31 December 2020, 1,512,500 options were exercised (2019: Nil) at a subscription price of HK$6.00 per ordinary share for a total consideration of HK$9,075,000 (equivalent to RMB8,087,000) and consequently, RMB135,000 and RMB7,952,000 was recorded in share capital and share premium account respectively. Accordingly, the fair value of these share options in an aggregate amount of RMB3,571,000 previously recognised in the capital reserve was transferred to the share premium account upon the exercise of share option.

The Group recorded equity settled share-base payment expenses of RMB5,406,000 for the year ended 31 December 2020 (2019: RMB9,192,000) (see note 6(b)(ii)).

The number of options granted on 18 July 2019 still outstanding at 31 December 2020 are 7,947,500 (2019: 9,640,000) which have an exercise price of HK$6.00 (2019: HK$6.00) and a remaining contractual life of 8.54 years (2019: 9.54 years).

(iv) Share options granted on 16 January 2020

Pursuant to a resolution of the board of directors of the Company passed on 16 January 2020, 1,940,000 share options were granted to certain eligible employees under the share option scheme adopted by the Company on 13 November 2013, to subscribe for 1,940,000 shares of the Company in aggregate with an exercise price of HK$10.80.

Each option gives the holder the right to subscribe for one ordinary share of HK$0.1 each of the Company. Each 25% of these share options will vest on 16 January 2020, 16 January 2021, 16 January 2022 and 16 January 2023, respectively, and be exercisable until 15 January 2030.

The Group recorded equity settled share-base payment expenses of RMB4,205,000 for the year ended 31 December 2020 (see note 6(b)(ii)).

The number of options granted on 16 January 2020 still outstanding at 31 December 2020 are 1,940,000 which have an exercise price of HK$10.80 and a remaining contractual life of 9.05 years.

24 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(a) The term and conditions of the grants are as follows:

	Number of Instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
— On 20 January 2014	4,150,000	25% on 1 January 2015 25% on 1 January 2016 25% on 1 January 2017 25% on 1 January 2018	9.82 years
— On 4 January 2018	4,150,000	25% on 4 January 2018 25% on 4 January 2019 25% on 4 January 2020 25% on 4 January 2021	10.00 years
— On 18 July 2019	3,230,000	25% on 18 July 2019 25% on 18 July 2020 25% on 18 July 2021 25% on 18 July 2022	10.00 years
Options granted to employees:			
— On 20 January 2014	7,250,000	25% on 1 January 2015 25% on 1 January 2016 25% on 1 January 2017 25% on 1 January 2018	9.82 years
— On 4 January 2018	7,830,000	25% on 4 January 2018 25% on 4 January 2019 25% on 4 January 2020 25% on 4 January 2021	10.00 years

24 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(a) The term and conditions of the grants are as follows: (continued)

	Number of Instruments	Vesting conditions	Contractual life of options
— On 18 July 2019	6,470,000	25% on 18 July 2019 25% on 18 July 2020 25% on 18 July 2021 25% on 18 July 2022	10.00 years
— On 16 January 2020	1,940,000	25% on 16 January 2020 25% on 16 January 2021 25% on 16 January 2022 25% on 16 January 2023	10.00 years
Total share options granted	35,020,000		

(b) The number and weighted average exercise prices of share options are as follows:

	2020		2019	
	Exercise price	**Number of options**	Exercise price	Number of options
Outstanding at the beginning of the year	**HK$3.86**	**23,345,000**	HK$2.30	18,660,000
Exercised during the year	**HK$3.35**	**(5,352,500)**	HK$2.09	(4,625,000)
Forfeited during the year	**HK$6.00**	**(180,000)**	HK$3.11	(390,000)
Granted during the year	**HK$10.80**	**1,940,000**	HK$6.00	9,700,000
Outstanding at the end of the year	**HK$4.66**	**19,752,500**	HK$3.86	23,345,000
Exercisable at the end of the year	**HK$3.80**	**10,692,500**	HK$3.08	10,365,000

24 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) The number and weighted average exercise prices of share options are as follows: (continued)

The weighted average share price at the date of exercise for share options exercised during the year was HK$16.18 (2019: HK$6.11).

The options outstanding at 31 December 2020 has an exercise price of HK$1.80, HK$2.58, HK$6.00 or HK$10.80 (2019: HK$1.80, HK$2.58 or HK$6.00) and a weighted average remaining contractual life of 7.30 years (2019: 7.95 years).

(c) Fair value of share options and assumptions:

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measure based on a binomial option-pricing model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option-pricing model.

24 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(c) Fair value of share options and assumptions: (continued)

Fair value of share options and assumptions

	Share options granted on 20 January 2014	Share options granted on 4 January 2018	Share options granted on 18 July 2019	Share options granted on 16 January 2020
Fair value at measurement date (expressed as weighted average fair value under binomial option-pricing model)	HK$0.75	HK$0.87	HK$2.35	HK$4.42
Share price	HK$1.63	HK$2.48	HK$5.71	HK$10.29
Exercise price	HK$1.80	HK$2.58	HK$6.00	HK$10.80
Expected volatility (expressed as weighted average volatility used in the modelling under binomial option-pricing model)	54.34%	48.08%	47.47%	48.08%
Option life (expressed as weighted average life used in the modelling under binomial option-pricing model)	9.82 years	10.00 years	10.00 years	10.00 years
Expected dividends	2.02%	5.75%	2.38%	2.73%
Risk-free interest rate (based on HKMA Hong Kong Exchange Fund Notes)	2.23%	1.85%	1.56%	1.57%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on the historical earning per share and management's estimation of dividend payment. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2020 RMB'000	2019 RMB'000
At the beginning of the year	92,127	37,317
Provision for current income tax for the year	290,311	211,179
Payment during the year	(254,687)	(156,369)
At the end of the year	127,751	92,127

(b) Deferred tax assets and liabilities recognised

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

	Fair value adjustment arising from business combinations RMB'000	Depreciation charge of right-of-use assets RMB'000	Unused tax losses RMB'000	Accruals RMB'000	Inventory provision RMB'000	PRC dividend withholding tax RMB'000	Others RMB'000	Total RMB'000
Deferred tax (liabilities)/ assets arising from:								
At 1 January 2019	(12,534)	23,952	10,275	13,828	686	(2,000)	269	34,476
Credited/(charged) to profit or loss (*note 7(a)*)	749	6,809	427	942	453	2,000	(85)	11,295
At 31 December 2019	(11,785)	30,761	10,702	14,770	1,139	–	184	45,771
At 1 January 2020	(11,785)	30,761	10,702	14,770	1,139	–	184	45,771
Credited/(charged) to profit or loss (*note 7(a)*)	739	8,392	179	(92)	(1,139)	–	590	8,669
At 31 December 2020	(11,046)	39,153	10,881	14,678	–	–	774	54,440

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets and liabilities recognised (continued)

Deferred tax assets in respect of unused tax losses are related to subsidiaries that were established in recent years, which are progressing to their normal operating stage and are expected to derive profits in the foreseeable future. Accordingly, it is considered probable that sufficient taxable profits will be available to utilise their unused tax losses before they expire.

(ii) Reconciliation to consolidated statement of financial position:

	The Group	
	2020	2019
	RMB'000	RMB'000
Representing:		
Net deferred tax assets	**61,410**	54,472
Net deferred tax liabilities	**(6,970)**	(8,701)
	54,440	45,771

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB4,116,000 (2019: RMB23,888,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity before they expire. The PRC deductible tax losses in PRC expire within 5 years from the year when such losses were incurred. The tax losses incurred by MeiDong HK do not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

The Corporate Income Tax Law of the PRC and its relevant regulations also impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings of PRC enterprises accumulated beginning on 1 January 2008. During the year ended 31 December 2020, the Group is entitled to the reduced withholding tax rate of 5%. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. The Group has not recognised deferred tax liabilities as at 31 December 2020 in respect of undistributed earnings of RMB2,020,957,000 (2019: RMB1,291,140,000) as the Company controls the dividend policy of the subsidiaries and it has been determined that these profits will not be distributable in the foreseeable future.

26 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserves RMB'000	(Accumulated losses)/ Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2019	90,978	196,813	986	10,416	(79,336)	219,857
Profit and total comprehensive income for the year	–	–	–	–	283,829	283,829
Dividends declared and paid *(note 26(b))*	–	(168,805)	–	–	–	(168,805)
Equity settled share-based transactions *(note 24)*	–	–	–	10,558	–	10,558
Issue of ordinary shares upon exercise of share options *(note 24)*	405	11,034	–	(2,929)	–	8,510
Balance at 31 December 2019	91,383	39,042	986	18,045	204,493	353,949
Balance at 1 January 2020	**91,383**	**39,042**	**986**	**18,045**	**204,493**	**353,949**
Loss and total comprehensive income for the year	**–**	**–**	**–**	**–**	**(102,615)**	**(102,615)**
Dividends declared and paid *(note 26(b))*	**–**	**(412,939)**	**–**	**–**	**–**	**(412,939)**
Equity settled share-based transactions *(note 24)*	**–**	**–**	**–**	**10,046**	**–**	**10,046**
Issue of ordinary shares upon exercise of share options *(note 24)*	**483**	**21,763**	**–**	**(6,136)**	**–**	**16,110**
Placement of new shares, net of placement expenses *(note 26 (c)(ii))*	**7,379**	**1,142,679**	**–**	**–**	**–**	**1,150,058**
Balance at 31 December 2020	**99,245**	**790,545**	**986**	**21,955**	**101,878**	**1,014,609**

26 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year:

	2020 RMB'000	2019 RMB'000
Interim dividend for the year, approved and paid during the year, of RMB0.1451 per ordinary share (2019: RMB0.061 per ordinary share)	**180,435**	70,648

	2020 RMB'000	2019 RMB'000
Final dividend proposed after the statement of financial position date of RMB0.241 per ordinary share (2019: RMB0.2 per ordinary share)	**299,930**	232,049

The final dividend proposed after the statement of financial position date has not been recognised as a liability at the statement of financial position date.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2020 RMB'000	2019 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.2 per ordinary share (2019: RMB0.0849 per ordinary share)	**232,504**	98,157

26 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends (continued)

(iii) Other dividends

During the year ended 31 December 2020, subsidiaries of the Group declared and paid dividends of RMB6,726,000 (2019: RMB5,821,000) in cash to non-controlling interests.

(c) Share capital

The share capital of the Group as at 31 December 2020 represented the amount of issued and paid-up capital of the Company with details set out below:

Authorised:

			2020		2019	
	Note	Par value HK$	Number of shares (thousand)	Nominal value of ordinary shares HK$'000	Number of shares (thousand)	Nominal value of ordinary shares HK$'000
At 31 December	(i)	0.1	20,000,000	2,000,000	20,000,000	2,000,000

26 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital (continued)

Ordinary shares, issued and fully paid:

	Note	**Number of ordinary shares** (thousand)	**Nominal value of ordinary shares** HK$('000)
At 1 January 2019		1,153,544	115,354
Issue of ordinary shares upon exercise of share options	24	4,625	463
At 31 December 2019 and 1 January 2020		1,158,169	115,817
Issue of ordinary shares upon exercise of share options	24	5,352	535
Placement of new shares	(ii)	81,000	8,100
At 31 December 2020		1,244,521	124,452
RMB equivalent ('000) at 31 December 2020			99,245
RMB equivalent ('000) at 31 December 2019			91,383

(i) Authorised share capital

The Company was incorporated on 24 February 2012 with an authorised share capital of HK$10,000,000 divided into 100,000,000 ordinary shares of HK$0.1 each. Pursuant to a resolution dated 16 October 2013 passed by its sole shareholder, Apex Sail, the authorised share capital of the Company was increased from HK$10,000,000 to HK$2,000,000,000 by the creation of 19,900,000,000 new shares of HK$0.1 each.

26 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital (continued)

(ii) Placement of new shares

On 10 June 2020, the Company placed 81,000,000 new ordinary shares at the subscription price of HK$15.84 per share. The gross proceeds of HK$1,283,040,000 (equivalent to RMB1,168,849,000), net of direct share placement expenses of HK$20,627,000 (equivalent to RMB18,791,000), were raised, of which RMB7,379,000 and RMB1,142,679,000 was credited to share capital and share premium account, respectively.

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Capital redemption reserve

Capital redemption reserve represents the nominal value of the shares repurchased which has been paid out of the share premium of the Company.

(iii) Capital reserves

Capital reserve comprises the following:

— contributions by the Controlling Shareholder at the respective dates;

— balances arising from transactions with owners in their capacity as the equity owners; and

— the portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 2(q)(iii).

26 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Nature and purpose of reserves (continued)

(iv) PRC statutory reserve

Statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before distribution of a dividend to equity shareholders.

For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of equity shareholders, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholder and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as loans and borrowings, bills payable and lease liabilities plus unaccrued proposed dividends, less pledged bank deposits and cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During 2020, the Group's strategy, which was unchanged from 2019, was to maintain the adjusted net debt-to-capital ratio at a range considered reasonable by management. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

26 CAPITAL, RESERVES AND DIVIDENDS (continued)

(e) Capital management (continued)

The Group's adjusted net debt-to-capital ratio at 31 December 2020 and 2019 was as follows:

		The Group	
		2020	2019
	Note	**RMB'000**	RMB'000
Current liabilities:			
Loans and borrowings	21	**729,225**	871,215
Bills payable	22	**905,771**	1,211,847
Lease liabilities	23	**121,760**	84,694
		1,756,756	2,167,756
Non-current liabilities:			
Loans and borrowings	21	**222,182**	240,492
Lease liabilities	23	**1,135,975**	726,178
Total debt		**3,114,913**	3,134,426
Add: Proposed dividends	26(b)	**299,930**	232,049
Less: Pledged bank deposits	19	**(558,572)**	(961,729)
Cash and cash equivalents	20(a)	**(2,538,030)**	(1,123,892)
Adjusted net debt		**318,241**	1,280,854
Total equity		**3,344,575**	1,769,348
Less: Proposed dividends	26(b)	**(299,930)**	(232,049)
Adjusted capital		**3,044,645**	1,537,299
Adjusted net debt-to-capital ratio		**0.10**	0.83

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to cash and cash equivalents, pledged bank deposits, time deposits and trade and other receivables.

The Group's exposure to credit risk arising from cash and cash equivalents, pledged bank deposits and time deposits are limited because the counterparties are banks and financial institutions for which the Group considers to have low credit risk.

Trade receivables

Credit risk in respect of trade receivables is limited since credit sales are offered in rare cases subject to high level management's approval. Trade receivables balances mainly represent mortgage granted by major financial institutions to customers of the Group, insurance commission receivables from insurance companies and warranty receivables from automobile manufacturers. The mortgage is normally settled within one month directly by major financial institutions. While for the receivables from insurance companies and automobile manufacturers, risk of default is considered low, as these are either reputable companies or with good credit rating. Based on past experience, the Group was of the opinion that no provision for impairment was necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable. Normally, the Group does not obtain collateral from customers.

At the end of the reporting period, 61% (2019: 59%) and 30% (2019: 25%) of the total trade receivables were due from the Group's five largest debtors and the largest single debtor respectively.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs. The Group assessed that there is no significant loss allowance recognised in accordance with HKFRS 9 for trade receivables as at 31 December 2020.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

Prepayments and other receivables and deposits

Credit risk in respect of prepayments and other receivables and deposits is limited since the counterparties are mainly reputable automobile manufacturers.

The Group measures loss allowances for prepayments and other receivables and deposits at an amount equal to 12-month ECLs unless there has been a significant increase in credit risk since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs. The Group assessed that there is no significant loss allowance recognised in accordance with HKFRS 9 for prepayments and other receivables and deposits as at 31 December 2020.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor liquidity requirements, and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk (continued)

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

	At 31 December 2020					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 year but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Loans and borrowings	774,061	124,727	111,044	–	1,009,832	951,407
Trade and other payables	2,081,911	–	–	–	2,081,911	2,081,911
Lease liabilities	125,266	130,238	410,974	1,239,486	1,905,964	1,257,735
	2,981,238	254,965	522,018	1,239,486	4,997,707	4,291,053

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk (continued)

	At 31 December 2019					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 year but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Loans and borrowings	918,003	99,450	162,437	–	1,179,890	1,111,707
Trade and other payables	2,132,165	–	–	–	2,132,165	2,132,165
Lease liabilities	87,350	91,390	288,607	774,970	1,242,317	810,872
	3,137,518	190,840	451,044	774,970	4,554,372	4,054,744

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from cash at bank, pledged bank deposits and interest-bearing borrowings. These financial instruments issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

Cash at bank, pledged bank deposits and interest-bearing borrowings are the major types of the Group's financial instruments subject to interest rate risk. Cash at bank and pledged bank deposits are with fixed interest rates ranging from 0.30% to 1.73% per annum as at 31 December 2020 (2019: 0.30% to 3.00%).

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk (continued)

(i) Interest rate profile (continued)

The Group's interest-bearing borrowings and interest rates at the end of the reporting period are set out as follows:

	2020 Effective interest rate %	2020 RMB'000	2019 Effective interest rate %	2019 RMB'000
Fixed rate borrowings				
Bank loans	**3.80–6.18**	**256,944**	3.27–6.18	192,060
Borrowings from a related party	**n/a**	**–**	6.00	44,789
Borrowings from other financial institutions	**7.22–7.68**	**9,345**	n/a	–
Lease liabilities	**4.81–7.05**	**1,257,735**	6.42–7.05	810,872
		1,524,024		1,047,721
Variable rate borrowings				
Bank loans	**3.25–7.84**	**347,278**	3.26–7.83	622,397
Borrowings from other financial institutions	**7.68–8.50**	**337,840**	4.70–8.50	252,461
		685,118		874,858
		2,209,142		1,922,579

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

The Group does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rate at the reporting date would not affect profit or loss.

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis during the reporting period for 2019.

	Increase/ (decrease) in basis points	(Decrease)/ increase in profit after tax and retained profits for the year RMB'000
At 31 December 2020		
Basis points	**100**	**(5,453)**
Basis points	**(100)**	**5,453**
At 31 December 2019		
Basis points	100	(7,129)
Basis points	(100)	7,129

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(d) Currency risk

The Group is exposed to currency risk primarily through financing activities which give rise to cash and cash equivalents and loans and borrowings that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to the risk is primarily Hong Kong dollars.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date.

	Exposure to foreign currencies (expressed in Renminbi)			
	2020		2019	
	Hong Kong Dollars RMB'000	United States Dollars RMB'000	Hong Kong Dollars RMB'000	United States Dollars RMB'000
Cash and cash equivalents	1,003,251	16	243,985	18
Loans and borrowings	(125,942)	–	(160,748)	–
Net exposure arising from recognised assets and liabilities	877,309	16	83,237	18

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(d) Currency risk (continued)

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rate to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2020		2019	
	Increase/ (decrease) in foreign exchange rate	(Decrease)/ increase in profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rate	(Decrease)/ increase in profit after tax and retained profits RMB'000
Hong Kong Dollars	5%	43,865	5%	4,162
	(5)%	(43,865)	(5)%	(4,162)
United States Dollars	5%	1	5%	1
	(5)%	(1)	(5)%	(1)

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for 2019.

(e) Fair value measurement

At 31 December 2020 and 31 December 2019, All of the Group's financial instruments were carried at cost or amortised cost not materially different from their fair value.

28 COMMITMENTS

Capital commitments outstanding at 31 December 2020 not provided for in the consolidated financial statements were as follows:

	The Group	
	2020	2019
	RMB'000	RMB'000
Contracted for	**200,256**	143,022
Authorised but not contracted for	**–**	5,470
	200,256	148,492

29 CONTINGENT LIABILITIES

As at 31 December 2020, one subsidiary of the Group issued financial guarantee to a financial institution in respect of financial facilities granted to Dongguan Meidong amounting to RMB80,000,000 (2019: RMB80,000,000) and the financial facilities utilised by Dongguan Meidong amounted to Nil (2019: RMB13,069,000) as at 31 December 2020 (see note 30(e)).

As at 31 December 2020, one subsidiary of the Group issued financial guarantee to a bank in respect of financial facilities granted to Dongguan Meidong amounting to RMB50,000,000 (2019: Nil) and the financial facilities utilised by Dongguan Meidong amounted to Nil (2019: Nil) as at 31 December 2020 (see note 30(e)).

As at 31 December 2020, the directors do not consider it probable that a claim will be made under the above guarantees taking into account the financial performance of the related parties.

30 MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2020, the directors are of the view that the following companies are related parties of the Group:

Name of party	Relationship
Ye Fan 葉帆	Controlling Shareholder
Ye Tao 葉濤	Close family member of the Controlling Shareholder
Guangdong Dadong Automotive Group Co., Ltd. ("**Dadong Group**")	
廣東大東汽車集團有限公司	Controlled by the Controlling Shareholder
Dongguan Meidong 東莞美東汽車服務有限公司	Joint venture
Apex Sail	Immediate parent company

Notes: The English translation of the company names is for reference only. The official names of the companies established in the PRC are in Chinese.

(a) Recurring transactions

	2020 **RMB'000**	2019 RMB'000
Short-term rental expense:		
Dadong Group	**2,340**	2,340
Management service income:		
Dongguan Meidong	**10,720**	11,564

The Company's directors are of the opinion that the above related party transactions were conducted on terms no less favourable to the Group than terms available to or from independent third parties and in the ordinary course of business.

30 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Non-recurring transactions

	2020 RMB'000	2019 RMB'000
Sales of passenger vehicles:		
Dongguan Meidong	**27,548**	7,238
Purchases of passenger vehicles:		
Dongguan Meidong	**35,227**	14,281
Advance from a related party:		
Ye Fan	**91**	–
Repayment of advance from a related party:		
Ye Fan	**–**	50
Repayment of loans borrowed from a related party:		
Apex Sail (i)	**44,789**	–

(i) During the year ended 31 December 2020, the Company repaid the unsecured loans and borrowings of HK$50,000,000 (equivalent to RMB44,789,000) borrowed from Apex Sail.

30 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

At 31 December 2020, the Group had the following balances with related parties:

	2020 RMB'000	2019 RMB'000
Other receivables due from:		
Dongguan Meidong	5,076	6,698
Other payables due to:		
Dadong Group	684	684
Ye Fan	5,665	5,574
Dongguan Meidong	29	1,755
	6,378	8,013
Loans and borrowings due to:		
Apex Sail	–	44,789

Except for loans and borrowings due to Apex Sail, the amounts due from/to related parties are unsecured, interest free and have no fixed terms of repayment.

30 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(d) Guarantees and securities issued by related parties

	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Guarantees issued by related parties in respect of loans and borrowings borrowed by the Group:		
— Ye Fan (i)	**918,048**	798,371
— Dadong Group (ii)	**16,200**	17,100
	934,248	815,471
Guarantees issued by a related party in respect of bills issued by the Group:		
— Ye Fan (iii)	**421,921**	908,668

(i) Loans and borrowings of RMB918,048,000 as at 31 December 2020 (31 December 2019: RMB798,371,000) were guaranteed by Mr. Ye Fan.

(ii) Loans and borrowings of RMB16,200,000 as at 31 December 2020 (31 December 2019: RMB17,100,000) were guaranteed by Dadong Group.

(iii) Bills payable of RMB421,921,000 as at 31 December 2020 (31 December 2019: RMB908,668,000) were guaranteed by Mr. Ye Fan.

30 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(e) Guarantees issued by the Group

	2020 RMB'000	2019 RMB'000
Guarantees issued by the Group in respect of financial facilities granted to a related party:		
— Dongguan Meidong	**80,000**	80,000
Guarantees issued by the Group in respect of bank loans and borrowings granted to a related party:		
— Dongguan Meidong	**50,000**	—

(f) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2020 RMB'000	2019 RMB'000
Short-term employee benefits	**14,133**	13,459
Equity compensation benefits	**6,489**	5,246
	20,622	18,705

Total remuneration is included in staff costs (see note 6(b)).

30 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(g) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of rental expense and financial assistance as disclosed above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. However those transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

The related party transactions in respect of management service income as disclosed above do not fall under the definition of connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

31 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	31 December 2020	31 December 2019
Non-current assets			
Interests in a subsidiary		**304,725**	304,725
Long-term receivables		**30,718**	30,718
		335,443	335,443
Current assets			
Other receivables		**322,976**	316,963
Cash and cash equivalents		**825,089**	201,926
		1,148,065	518,889
Current liabilities			
Other payables		**342,957**	255,398
Loans and borrowings		**125,942**	244,985
		468,899	500,383
Net current liabilities		**679,166**	18,506
Total assets less current liabilities		**1,014,609**	353,949
NET ASSETS		**1,014,609**	353,949
EQUITY	26		
Share capital		**99,245**	91,383
Reserves		**915,364**	262,566
TOTAL EQUITY		**1,014,609**	353,949

32 NON-ADJUSTING EVENTS THE REPORTING PERIOD

(a) Final dividend

After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 26(b).

(b) Business acquisition

Pursuant to equity transfer agreements signed with Zongshen Industrial Group Co., Ltd. and Leqing Chenyou technology development Co., Ltd. in January 2021, Dongguan Meixin, a wholly owned subsidiary of the Group, acquired 100% equity interest in Guangan Zongshen Baotai Automotive Sales and Service Co., Ltd. and Nanjing Tangshan Xiezhong Lexus Automotive Sales and Service Co., Ltd., respectively.

Total cash consideration for the above acquisitions was RMB310,270,000.

The purpose of above business combinations is to broaden the Group's sales network expansion. The acquisitions will be accounted for under the acquisition method. As at the reporting date, the allocation of purchase price to identifiable assets acquired and liabilities assumed of above business combinations at their respective fair values has not been completed.

33 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2020, the directors consider the immediate parent of the Group to be Apex Sail, which is incorporated under the laws of the British Virgin Islands, and the ultimate controlling party of the Group to be Mr. Ye Fan.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16, Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37, Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to HKFRSs 2018 — 2020 Cycle	1 January 2022

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020 RMB'000**
Revenue	6,263,322	7,682,714	11,067,424	16,210,019	**20,207,446**
Profit before taxation	218,209	377,718	491,234	757,411	**1,052,220**
Taxation	(61,243)	(98,967)	(127,780)	(199,884)	**(281,642)**
Profit for the year	156,966	278,751	363,454	557,527	**770,578**
Profit attributable to equity shareholders of the Company	152,057	275,787	362,929	550,811	**750,558**
Non-controlling interests	4,909	2,964	525	6,716	**20,020**
Profit for the year	156,966	278,751	363,454	557,527	**770,578**
Earnings per share					
Basic (RMB cents)	13.97	25.26	31.57	47.67	**62.19**
Diluted (RMB cents)	13.97	25.23	31.41	47.27	**61.36**

ASSETS AND LIABILITIES

	As at 31 December				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020 RMB'000**
Total Assets	2,591,868	2,973,609	4,174,516	5,924,920	**7,770,349**
Total Liabilities	(1,689,578)	(1,879,994)	(2,774,280)	(4,155,572)	**(4,425,774)**
	902,290	1,093,615	1,400,236	1,769,348	**3,344,575**
Equity attributable to equity shareholders of the Company	864,484	1,055,557	1,379,420	1,711,587	**3,226,666**
Non-controlling interests	37,806	38,058	20,816	57,761	**117,909**
Total Equity	902,290	1,093,615	1,400,236	1,769,348	**3,344,575**