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重慶長安民生物流股份有限公司

Changan Minsheng APLL Logistics Co., Ltd.*

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 01292)

Results Announcement for the year ended 31 December 2020

FINANCIAL HIGHLIGHTS

- For the year ended 31 December 2020, the audited consolidated revenue of the Group was approximately RMB4,685,655,000, representing an increase of approximately 8% from the previous year.
- For the year ended 31 December 2020, the audited profit attributable to equity holders of the Company was approximately RMB421,000, representing an increase of 101% from loss of RMB55,967,000 in 2019.
- For the year ended 31 December 2020, the audited basic earnings per share was RMB0.00 (in 2019: negative RMB0.35).

ANNUAL RESULTS

The board of directors of Changan Minsheng APLL Logistics Co., Ltd. (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2020 and the comparative figures for the corresponding period of 2019 as follows:

CHANGAN MINSHENG APLL LOGISTICS CO., LTD.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|-------|--------------------|--------------------|
| REVENUE | 5 | 4,685,655 | 4,341,585 |
| Cost of sales | | <u>(4,448,434)</u> | <u>(4,158,920)</u> |
| Gross profit | | 237,221 | 182,665 |
| Other income and gains | 5 | 56,385 | 72,054 |
| Selling and distribution expenses | | (48,529) | (52,849) |
| Administrative expenses | | (204,822) | (205,527) |
| Other expenses | | (8,911) | (25,197) |
| Finance costs | 7 | (6,292) | (8,500) |
| Share of profits and losses of: | | | |
| Joint venture | | 476 | 322 |
| Associate | | <u>(2,287)</u> | <u>335</u> |
| PROFIT/(LOSS) BEFORE TAX | 6 | 23,241 | (36,697) |
| Income tax expense | 10 | <u>(9,451)</u> | <u>(7,840)</u> |
| PROFIT/(LOSS) FOR THE YEAR | | <u>13,790</u> | <u>(44,537)</u> |
| Attributable to: | | | |
| Owners of the Company | | 421 | (55,967) |
| Non-controlling interests | | <u>13,369</u> | <u>11,430</u> |
| | | <u>13,790</u> | <u>(44,537)</u> |
| EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | | | |
| Basic and diluted: | | | |
| - For profit/(loss) for the year | 12 | <u>RMB0.00</u> | <u>RMB(0.35)</u> |

CHANGAN MINSHENG APLL LOGISTICS CO., LTD.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|--|--------|----------------------|------------------------|
| PROFIT/(LOSS) FOR THE YEAR | | <u>13,790</u> | <u>(44,537)</u> |
| OTHER COMPREHENSIVE INCOME | | | |
| Other comprehensive income that will not be reclassified to profit or loss in subsequent periods: | | | |
| Equity investments designated at fair value through other comprehensive income: | | | |
| Changes in fair value | 20, 40 | 68 | 21,976 |
| Income tax effect | 29 | <u>(10)</u> | <u>(3,296)</u> |
| Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods | | <u>58</u> | <u>18,680</u> |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | | <u>58</u> | <u>18,680</u> |
| TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | | <u><u>13,848</u></u> | <u><u>(25,857)</u></u> |
| Attributable to: | | | |
| Owners of the Company | | 479 | (37,287) |
| Non-controlling interests | | <u>13,369</u> | <u>11,430</u> |
| | | <u><u>13,848</u></u> | <u><u>(25,857)</u></u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | 582,808 | 618,420 |
| Investment properties | 14 | 42,157 | 24,107 |
| Right-of-use assets | 15(a) | 295,735 | 323,316 |
| Goodwill | 16 | 5,016 | 5,016 |
| Other intangible assets | 17 | 21,724 | 28,231 |
| Investment in a joint venture | 18 | 12,521 | 13,045 |
| Investment in an associate | 19 | 82,634 | 84,931 |
| An equity investment designated at fair value through other comprehensive income | 20 | 67,068 | 67,000 |
| Deferred tax assets | 29 | 67,963 | 69,423 |
| Other non-current assets | 21 | 47,379 | 51,532 |
| Total non-current assets | | <u>1,225,005</u> | <u>1,285,021</u> |
| CURRENT ASSETS | | | |
| Inventories | 22 | 2,896 | 10,876 |
| Trade and bills receivables | 23 | 865,343 | 753,841 |
| Prepayments, other receivables and other assets | 24 | 156,439 | 76,752 |
| Due from related parties | 37 | 1,050,447 | 1,591,306 |
| Pledged deposits | 25 | 200,156 | 15,587 |
| Cash and cash equivalents | 25 | 894,340 | 826,203 |
| Total current assets | | <u>3,169,621</u> | <u>3,274,565</u> |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 26 | 1,700,853 | 1,682,016 |
| Other payables and accruals | 27 | 388,205 | 449,100 |
| Due to related parties | 37 | 167,799 | 239,213 |
| Interest-bearing bank and other loans | 28 | 6,000 | 13,564 |
| Lease liabilities | 15(b) | 30,524 | 18,024 |
| Bank advances for discounted bills | 39 | - | 14,411 |
| Tax payable | | (641) | (3,659) |
| Total current liabilities | | <u>2,292,740</u> | <u>2,412,669</u> |
| NET CURRENT ASSETS | | <u>876,881</u> | <u>861,896</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>2,101,886</u> | <u>2,146,917</u> |

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CHANGAN MINSHENG APLL LOGISTICS CO., LTD.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2020

| | Notes | RMB'000 | RMB'000 |
|--|-------|------------------|------------------|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>2,101,886</u> | <u>2,146,917</u> |
| NON-CURRENT LIABILITIES | | | |
| Lease liabilities | 15(b) | 39,805 | 79,791 |
| Deferred tax liabilities | 29 | 6,050 | 6,189 |
| Deferred income | 30 | <u>15,532</u> | <u>22,183</u> |
| Total non-current liabilities | | <u>61,387</u> | <u>108,163</u> |
| Net assets | | <u>2,040,499</u> | <u>2,038,754</u> |
| EQUITY | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | 31 | 162,064 | 162,064 |
| Reserves | 32 | <u>1,756,268</u> | <u>1,755,431</u> |
| | | 1,918,332 | 1,917,495 |
| Non-controlling interests | | <u>122,167</u> | <u>121,259</u> |
| Total equity | | <u>2,040,499</u> | <u>2,038,754</u> |

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Director

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Director

CHANGAN MINSHENG APLL LOGISTICS CO., LTD.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

| | Attributable to owners of the Company | | | | | Retained profits RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
|---|---------------------------------------|----------------------------------|--|--|--|-----------------------------|------------------|--------------------------------------|-------------------------|
| | Share capital RMB'000 (note 31) | Share premium account RMB'000 | Statutory reserve funds RMB'000 (note 32(a)) | Safety fund surplus reserve RMB'000 (note 32(b)) | Fair value reserve of financial assets at fair value through other comprehensive income RMB'000 | | | | |
| At 1 January 2019 | 162,064 | 66,907 | 85,867 | 6,073 | - | 1,648,903 | 1,969,814 | 121,767 | 2,091,581 |
| Total comprehensive loss for the year | - | - | - | - | 18,680 | (55,967) | (37,287) | 11,430 | (25,857) |
| Provision for safety fund surplus reserve | - | - | - | 5,875 | - | - | 5,875 | 560 | 6,435 |
| Utilisation of safety fund surplus reserve | - | - | - | (4,762) | - | - | (4,762) | (203) | (4,965) |
| Final 2018 dividends declared | - | - | - | - | - | (16,206) | (16,206) | - | (16,206) |
| Changes in safety fund surplus reserve of an associate | - | - | - | 61 | - | - | 61 | - | 61 |
| Dividends paid to the non-controlling shareholder by a subsidiary | - | - | - | - | - | - | - | (12,295) | (12,295) |
| At 31 December 2019 | <u>162,064</u> | <u>66,907*</u> | <u>85,867*</u> | <u>7,247*</u> | <u>18,680*</u> | <u>1,576,730*</u> | <u>1,917,495</u> | <u>121,259</u> | <u>2,038,754</u> |

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CHANGAN MINSHENG APLL LOGISTICS CO., LTD.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2020

| | Attributable to owners of the Company | | | | | Retained profits RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
|---|---------------------------------------|-------------------------------------|--|--|--|-----------------------------|------------------|--------------------------------------|-------------------------|
| | Share capital RMB'000 (note 31) | Share premium account RMB'000 | Statutory reserve funds RMB'000 (note 32(a)) | Safety fund surplus reserve RMB'000 (note 32(b)) | Fair value reserve of financial assets at fair value through other comprehensive income RMB'000 | | | | |
| At 1 January 2020 | 162,064 | 66,907 | 85,867 | 7,247 | 18,680 | 1,576,730 | 1,917,495 | 121,259 | 2,038,754 |
| Total comprehensive income for the year | - | - | - | - | 58 | 421 | 479 | 13,369 | 13,848 |
| Provision for safety fund surplus reserve | - | - | - | 7,368 | - | - | 7,368 | 686 | 8,054 |
| Utilisation of safety fund surplus reserve | - | - | - | (7,000) | - | - | (7,000) | (531) | (7,531) |
| Changes in safety fund surplus reserve of an associate | - | - | - | (10) | - | - | (10) | - | (10) |
| Derecognition of non-controlling interest upon deregistration of a subsidiary | - | - | - | - | - | - | - | (1,066) | (1,066) |
| Dividends paid to the non-controlling shareholder by a subsidiary | - | - | - | - | - | - | - | (11,550) | (11,550) |
| At 31 December 2020 | <u>162,064</u> | <u>66,907*</u> | <u>85,867*</u> | <u>7,605*</u> | <u>18,738*</u> | <u>1,577,151*</u> | <u>1,918,332</u> | <u>122,167</u> | <u>2,040,499</u> |

* These reserve accounts comprise the consolidated reserves of RMB1,756,268,000 (2019: RMB1,755,431,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|-------|-----------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit/(loss) before tax | | 23,241 | (36,697) |
| Adjustments for: | | | |
| Finance costs | 7 | 6,292 | 8,500 |
| Share of profits and losses of a joint venture and an associate | | 1,811 | (657) |
| Interest income | | (13,405) | (11,290) |
| Dividend income from an equity investment designated at fair value through other comprehensive income | 6 | (1,995) | (1,753) |
| Gain on disposal of items of property, plant and equipment | 6 | (493) | (8,094) |
| Gain on lease modification | 6 | (5,113) | - |
| Depreciation of property, plant and equipment | 13 | 87,535 | 85,496 |
| Depreciation of investment properties | 14 | 1,157 | 893 |
| Depreciation of right-of-use assets | 15(a) | 40,316 | 32,699 |
| Amortisation of other intangible assets | 17 | 22,394 | 18,211 |
| Reversal of impairment of trade and other receivables | 6 | (15,912) | (6,352) |
| Impairment of amounts due from related parties | 6 | 11,054 | 25,110 |
| Impairment of inventories | 6 | - | 300 |
| Impairment of investment properties | 6 | 1,395 | - |
| Deferred income released to profit or loss | 30 | (6,804) | (6,434) |
| Unrealised foreign exchange gains, net | | (1,072) | (97) |
| | | <u>150,401</u> | <u>99,835</u> |
| Decrease in inventories | | 7,980 | 6,363 |
| Increase in trade and bills receivables | | (114,413) | (83,206) |
| (Increase)/decrease in prepayments | | (327) | 18,273 |
| Increase in pledged deposits | | (184,569) | (13,778) |
| Increase in deposits and other receivables | | (80,656) | (129) |
| Decrease/(increase) in amounts due from related parties | | 529,805 | (90,738) |
| Increase in trade and bills payables | | 18,837 | 50,105 |
| Decrease in other payables and accruals | | (61,757) | (36,220) |
| (Decrease)/increase in amounts due to related parties | | (71,414) | 10,797 |
| Increase in safety fund surplus reserve | | <u>523</u> | <u>1,470</u> |
| Cash generated from/(used in) operations | | 194,410 | (37,228) |
| Income taxes paid | | <u>(5,122)</u> | <u>(9,097)</u> |
| Net cash flows from/(used in) operating activities | | <u>189,288</u> | <u>(46,325)</u> |

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CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2020

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|-------|-----------------------|-----------------------|
| Net cash flows from/(used in) operating activities | | <u>189,288</u> | <u>(46,325)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | 13,405 | 11,290 |
| Dividends received from an equity investment designated at fair value through other comprehensive income | 6 | 1,995 | 1,753 |
| Dividends received from a joint venture | | 1,000 | - |
| Increase in an equity investment designated at fair value through other comprehensive income | 20 | - | (16,124) |
| Purchases of items of property, plant and equipment | | (53,519) | (150,674) |
| Proceeds from disposal of items of property, plant and equipment | | 1,606 | 10,394 |
| Receipt of government grants for property, plant and equipment | 30 | 153 | 19,013 |
| Proceeds from disposal of other intangible assets | | 114 | - |
| Additions to other intangible assets | | (5,531) | (16,913) |
| Additions to right-of-use assets | | (108) | (7,864) |
| Additions to other non-current assets | | <u>(6,317)</u> | <u>(1,138)</u> |
| Net cash flows used in investing activities | | <u>(47,202)</u> | <u>(150,263)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from bank and other loans | | 6,000 | 4,000 |
| Proceeds from bank advances for discounted bills | | - | 14,411 |
| Repayment of bank and other loans | | (13,564) | (19,124) |
| Repayment of bank advances for discounted bills | | (14,411) | (114,266) |
| Principal portion of lease payments | | (35,000) | (15,279) |
| Dividends paid | | - | (16,206) |
| Dividends paid to the non-controlling shareholder by subsidiaries | | (11,754) | (12,091) |
| Interest paid | 7 | <u>(6,292)</u> | <u>(8,500)</u> |
| Net cash flows used in financing activities | | <u>(75,021)</u> | <u>(167,055)</u> |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents at beginning of year | | 826,203 | 1,189,749 |
| Effect of foreign exchange rate changes, net | | <u>1,072</u> | <u>97</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | <u><u>894,340</u></u> | <u><u>826,203</u></u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION

Changan Minsheng APLL Logistics Co., Ltd. (the “Company”) is a limited liability company incorporated in the People’s Republic of China (the “PRC”) on 27 August 2001. In 2002, the Company was converted to a Sino-foreign equity joint venture. On 31 December 2004, the Company was transformed into a joint stock limited liability company. The H shares of the Company were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM”) on 23 February 2006, and have been transferred and traded on the Main Board since 18 July 2013. The registered office of the Company is located at No.1881, Jinkai Avenue, Yubei District, Chongqing, the PRC.

The principal activities of the Company and its subsidiaries (together the “Group”) are the rendering of transportation services for finished vehicles, supply chain management services for automobile raw materials, components and parts, transportation services for non-automobile commodities, the sale of packaging materials and the processing of tyres.

Information about subsidiaries

Particulars of the Company’s subsidiaries are as follows:

| Company name | Corporate category | Place of operations /Country of incorporation and date of incorporation /registration | Paid-in capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---------------------------|---|-----------------|--|----------|---|
| | | | | Direct | Indirect | |
| 重庆长安民生博宇运输有限公司 CMAL Bo Yu Transportation Co., Ltd. (“CMAL Bo Yu”) | Limited liability company | PRC/Mainland China 3 November 2005 | RMB60,000,000 | 100 | - | Rendering of logistics services |
| 南京长安民生住久物流有限公司 Nanjing CMSC Logistics Co., Ltd. (“Nanjing CMSC”) | Limited liability company | PRC/Mainland China 26 July 2007 | RMB100,000,000 | 67 | - | Rendering of logistics services |
| 重庆福集供应链管理有限公司 Chongqing Future Supply Chain Management Co., Ltd. | Limited liability company | PRC/Mainland China 18 March 2009 | RMB30,000,000 | 100 | - | Rendering of logistics services and sale of packaging materials |
| 重庆长安民生鼎捷物流有限公司 Chongqing Changan Minsheng Dingjie Logistics Co., Ltd. | Limited liability company | PRC/Mainland China 30 April 2010 | RMB50,000,000 | 95 | - | Deregistered |
| 重庆长安民生福永物流有限公司 Chongqing Changan Minsheng Fuyong Logistics Co., Ltd. | Limited liability company | PRC/Mainland China 28 April 2011 | RMB5,000,000 | 100 | - | Rendering of logistics services |
| 杭州长安民生物流有限公司 Hangzhou Changan Minsheng Logistics Co., Ltd. (“Hangzhou Changan Minsheng”) | Limited liability company | PRC/Mainland China 17 May 2013 | RMB610,000,000 | 100 | - | Rendering of logistics services and processing of tyres |
| 福路国际物流有限公司 Fulu International Logistics Co., Ltd. | Limited liability company | PRC/Mainland China 9 April 2014 | RMB11,500,000 | 100 | - | Rendering of logistics services |
| 重庆长足飞越科技有限公司 Chongqing Changzu Feiyue Technology Co.Ltd. (previously known as Chongqing Changliang Logistics Technology Co.Ltd.) | Limited liability company | PRC/Mainland China 16 May 2014 | RMB18,000,000 | 55 | - | Sale of packaging materials |

31 December 2020

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

| Company name | Corporate category | Place of operations /Country of incorporation and date of incorporation /registration | Paid-in capital | Percentage of equity attributable to the Company | | Principal activities |
|--|---------------------------|---|-----------------|--|---|--|
| 长安民生(上海)供应链有限公司 Changan Minsheng (Shanghai) Supply Chain Co., Ltd. | Limited liability company | PRC/Mainland China 5 August 2014 | RMB30,000,000 | 100 | - | Rendering of logistics services |
| 武汉长盛港通供应链管理有限公司 Wuhan Changsheng Gangtong Supply Chain Management Co., Ltd. | Limited liability company | PRC/Mainland China 18 August 2010 | RMB23,070,000 | 60 | - | Rendering of logistics services |
| 沈阳长友供应链有限公司 Shenyang Changyou Supply Chain Co., Ltd. | Limited liability company | PRC/Mainland China 6 November 2019 | RMB45,900,000 | 51 | - | Processing of tyres, rendering of logistics services |

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

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

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangement; and
- the Group's voting rights and potential voting rights.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.1 BASIS OF PREPARATION (CONTINUED)

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|--|
| HKAS 1 and HKAS 8 (Amendments) | Definition of Material |
| HKFRS 3 (Amendments) | Definition of a Business |
| Revised Conceptual Framework | Revised Conceptual Framework for Financial Reporting |
| HKFRS 7, HKFRS 9 and HKAS 39 (Amendments) | Interest Rate Benchmark Reform |
| Amendment to HKFRS 16 | Covid-19-Related Rent Concessions (early adopted) |

The adoption of amendments and interpretations to standards does not have any significant impact to the results and financial position of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

| | |
|--|--|
| HKFRS 17 | Insurance Contracts and the related Amendments ¹ |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework ² |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform – Phase 2 ⁴ |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³ |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹ |
| Amendments to HKAS 16 | Property, Plant and Equipment – Proceeds before Intended Use ² |
| Amendments to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract ² |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2018 – 2020 ² |

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

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

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in an associate and a joint venture

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decision about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in an associate and a joint venture are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of the associate and joint venture is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate or joint venture are eliminated to the extent of the Group's investments in the associate or joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of the associate or joint venture is included as part of the Group's investments in the associate or joint venture.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in an associate and a joint venture (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, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

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

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (continued)

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

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

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

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

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

| | |
|--------------------------------------|-------------|
| Buildings | 3.2%-19.4% |
| Plant, machinery and other equipment | 9.7%-50.0% |
| Office equipment | 19.4%-32.3% |
| Motor vehicles | 12.1%-24.3% |

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on the straight-line basis to write off the cost of investment property to its residual value over its estimated useful life. The principal annual rate used for this purpose is as follows:

| | |
|--|-------------|
| Investment property – commercial buildings | 3.23%-4.85% |
|--|-------------|

Subsequent expenditures is charged to the asset's carrying amount only when it is probable that the future economic benefits associated with the item will flow to the Group and the costs can be measured reliably; otherwise, the expenditures are recognised in the statement of profit or loss in the year in which they are incurred.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

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

(a) Customer relationship

Customer relationship acquired in a business combination is recognised at fair value at the acquisition date. The customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship (i.e. 6.5 years).

(b) Software

Acquired software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. The software is amortised over its estimated useful life of 3 to 6 years.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (continued)

(c) Trademark

Acquired trademark is shown at historical cost. Trademark has finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 3 years.

Leases

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

Group as a lessee

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

At inception or on reassessment of a contract that contains a lease component and non-lease components, the Group adopts the practical expedient not to separate non-lease components and to account for the lease component and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

(a) Right-of-use assets

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

| | |
|---------------------|----------------|
| Leasehold land | 30 to 50 years |
| Plant and machinery | 2 to 15 years |
| Motor vehicles | 2 to 4 years |
| Other equipment | 2 to 3 years |

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

(b) Lease liabilities

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Group as a lessee (continued)

(b) (continued)

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

The Group elected to present the lease liabilities separately in the consolidated statement of financial position.

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

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

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

Group as a lessor

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

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

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

Initial recognition and measurement

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

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

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Subsequent measurement (continued)

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

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

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Derecognition of financial assets

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

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

General approach

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

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

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Simplified approach

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and bills payables, other payables, amounts due to related parties, interest-bearing bank and other loans, and bank advances for discounted bills.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

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

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

Income tax

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

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

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

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

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

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

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(a) Sale of products

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

(b) Rendering of services

Revenue from the rendering of services includes rendering of transportation services for finished vehicles, supply chain management services for automobile components, raw materials and parts, and transportation services for non-automobile commodities, is recognised at the point in time when the finished vehicle, automobile components and parts or non-vehicle commodities upon acceptance by the customers. The customers cannot simultaneously receive and consume the benefits provided by the Group's transportation services and supply chain management services as the Group performs, and cannot control any assets during services rendering. The Group also has no enforceable right to payment for the services performed to date. The Group therefore concluded that control of the performance obligation has been transferred to the customers (i.e., service performed) at a point in time when the customers have accepted its services.

Other income

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

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

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

Contract liabilities

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

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pension schemes

The employees of the Group are required to participate in a central pension scheme operated by the local municipal government. The Group is required to contribute 14% to 20% of its payroll cost to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

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

Dividends

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

Foreign currencies

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

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

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

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Principal vs agent

The Group evaluates agreements with clients and vendors in order to determine whether the Group acts as a principal or an agent in the agreement with each party respectively, which it considers in determining if relevant revenue should be reported on a gross or net basis.

The determination is based on an assessment of various factors, including but not limited to whether the Group (i) is the primary obligor in the arrangement; (ii) has latitude in establishing the selling price; (iii) has discretion in supplier selection; (iv) changes the product or performs part of the service, and (v) has involvement in the determination of product or service specifications.

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2020 was RMB5,016,000 (2019: RMB5,016,000). Further details are given in note 16 to the financial statements.

Provision for expected credit losses on trade receivables and due from related parties arising from the rendering of services and the sale of goods

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

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and amounts due from related parties is disclosed in notes 23 and 37 to the financial statements, respectively.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Leases – Estimating the incremental borrowing rate

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

Impairment of non-financial assets (other than goodwill)

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

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profits will be available against which the unused tax losses and the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, tax regulations, market or economic conditions. Further details are given in note 29 to the financial statements.

Fair value of an unlisted equity investment

The unlisted equity investment has been valued based on a market-based valuation technique as detailed in note 40 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of such investment as Level 3. The fair value of the unlisted equity investment at 31 December 2020 was RMB67,068,000. Further details are included in note 20 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group’s operating activities are related to a single operating segment, which engages in the transportation and supply chain management for vehicle commodities, transportation of non-vehicle commodities, processing of tyres and others. Therefore, no analysis by operating segment is presented.

Geographical information

Since the Group solely operates in Mainland China and all of the assets of the Group are located in Mainland China, geographical segment information as required by HKFRS 8 *Operating Segments* is not presented.

NOTES TO FINANCIAL STATEMENTS

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4. OPERATING SEGMENT INFORMATION (CONTINUED)

Information about major customers

Revenue from each of the major customers, which amounted to 10% or more of the total revenue, is set out below:

| | 2020 RMB'000 | 2019 RMB'000 |
|------------|------------------|------------------|
| Customer A | 1,481,935 | 1,416,869 |
| Customer B | <u>1,180,664</u> | <u>1,143,579</u> |

5. REVENUE, OTHER INCOME AND GAINS

(a) An analysis of revenue is as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|--|------------------|------------------|
| <i>Revenue from contracts with customers</i> | <u>4,685,655</u> | <u>4,341,585</u> |

Revenue from contracts with customers

(i) Disaggregated revenue information

| | 2020 RMB'000 | 2019 RMB'000 |
|--|------------------|------------------|
| <i>Sale of industrial products</i> | 453,678 | 413,772 |
| <i>Rendering of logistics services</i> | | |
| Transportation of finished vehicles | 2,503,242 | 2,343,133 |
| Supply chain management for vehicle raw materials, components and parts | <u>1,728,735</u> | <u>1,584,680</u> |
| Total revenue from contracts with customers | <u>4,685,655</u> | <u>4,341,585</u> |

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: | | |
| Rendering of services | <u>1,181</u> | <u>4,107</u> |

NOTES TO FINANCIAL STATEMENTS

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5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

(a) An analysis of revenue is as follows (continued):

(ii) Performance obligations

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

Sale of products

The performance obligation is satisfied upon delivery of the products and payment is generally due within 90 days from delivery.

Rendering of services

The performance obligation is satisfied at the point in time when the finished vehicle, automobile components and parts or non-vehicle commodities are accepted by the customers and payment is generally due within 90 days from the acceptance of the finished vehicle, automobile components and parts or non-vehicle commodities.

(b) Other income and gains

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|--|-------|-----------------|-----------------|
| Bank interest income | 6 | 13,405 | 11,290 |
| Foreign exchange differences, net | | 456 | - |
| Government grants | | 16,814 | 31,583 |
| Penalty on transportation companies | | 8,065 | 4,329 |
| Sales of recycled packages of vehicle spare parts | | - | 3,531 |
| Rental income from investment property operating leases | 15(c) | 2,969 | 2,141 |
| Dividend income from an equity investment designated at fair value through other comprehensive income | 6, 20 | 1,995 | 1,753 |
| Gain on lease modification | 6 | 5,113 | - |
| Gain on disposal of items of property, plant and equipment | | 493 | 8,094 |
| Management services | | 1,030 | 2,073 |
| Others | | 6,045 | 7,260 |
| | | <u>56,385</u> | <u>72,054</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

6. PROFIT/(LOSS) BEFORE TAX

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

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|--------|-----------------|-----------------|
| Cost of inventories sold | | 442,929 | 399,410 |
| Cost of logistics services rendered | | 3,419,808 | 3,225,868 |
| Depreciation of property, plant and equipment | 13 | 87,535 | 85,496 |
| Depreciation of right-of-use assets | 15(a) | 40,316 | 32,699 |
| Depreciation of investment properties | 14 | 1,157 | 893 |
| Amortisation of other intangible assets | 17 | 22,394 | 18,211 |
| Lease payments not included in the measurement of lease liabilities | | 36,104 | 34,890 |
| Auditor's remuneration | | 1,500 | 2,450 |
| Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)): | | | |
| Wages and salaries and relevant benefits | | 477,984 | 496,445 |
| Pension scheme contributions | | 15,999 | 38,277 |
| Termination benefits | | 2,570 | 37,718 |
| | | <u>496,553</u> | <u>572,440</u> |
| Foreign exchange differences, net | | (456) | 451 |
| Reversal of impairment of receivables, net | 23, 24 | (15,912) | (6,352) |
| Impairment of amounts due from related parties, net | | 11,054 | 25,110 |
| Impairment of investment properties | 14 | 1,395 | - |
| Impairment of inventories | | - | 300 |
| Dividend income from an equity investment designated at fair value through other comprehensive income | 5 | (1,995) | (1,753) |
| Bank interest income | 5 | (13,405) | (11,290) |
| Gain on lease modification | | (5,113) | - |
| Gain on disposal of items of property, plant and equipment, net | | <u>(493)</u> | <u>(8,094)</u> |

7. FINANCE COSTS

An analysis of finance costs is as follows:

| | Note | 2020 RMB'000 | 2019 RMB'000 |
|----------------------------------|-------|-----------------|-----------------|
| Interest on bank and other loans | | 553 | 1,624 |
| Interest on lease liabilities | 15(b) | <u>5,739</u> | <u>6,876</u> |
| | | <u>6,292</u> | <u>8,500</u> |

NOTES TO FINANCIAL STATEMENTS

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Fees | <u>500</u> | <u>500</u> |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 1,319 | 1,318 |
| Performance related bonuses | 527 | 621 |
| Pension scheme contributions | <u>264</u> | <u>200</u> |
| | <u>2,110</u> | <u>2,139</u> |
| | <u>2,610</u> | <u>2,639</u> |

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|----------------|-----------------|-----------------|
| Chong Teck Sin | 125 | 125 |
| Poon Chiu Kwok | 125 | 125 |
| Jie Jing | 125 | 125 |
| Zhang Yun | <u>125</u> | <u>125</u> |
| | <u>500</u> | <u>500</u> |

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

(b) Executive directors, non-executive directors, supervisors and the chief executive

| | Salaries, allowances and benefits in kind RMB'000 | Performance related bonuses RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|--------------------------|---|--|---|----------------------------------|
| 2020 | | | | |
| Executive directors: | | | | |
| Xie Shi Kang | 367 | 165 | 68 | 600 |
| Chen Wen Bo | - | - | - | - |
| William K. Villalon | - | - | - | - |
| Shi Jing Gang | 367 | 165 | 68 | 600 |
| Non-executive directors: | | | | |
| Chen Xiao Dong | - | - | - | - |
| Man Hin Wai Paul | - | - | - | - |
| Xia Lijun (i) | - | - | - | - |
| Li Xin (ii) | - | - | - | - |
| Supervisors: | | | | |
| Wang Huai Cheng | - | - | - | - |
| Yang Gang | - | - | - | - |
| Jin Jie | - | - | - | - |
| Deng Li | 271 | 96 | 60 | 427 |
| Deng Gang | 157 | 54 | 34 | 245 |
| Yang Xunping (iv) | 157 | 47 | 34 | 238 |
| | <u>1,319</u> | <u>527</u> | <u>264</u> | <u>2,110</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

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

(b) Executive directors, non-executive directors, supervisors and the chief executive (continued)

| | Salaries, allowances and benefits in kind RMB'000 | Performance related bonuses RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|--------------------------|---|--|---|----------------------------------|
| 2019 | | | | |
| Executive directors: | | | | |
| Xie Shi Kang | 367 | 218 | 50 | 635 |
| Chen Wen Bo | - | - | - | - |
| William K. Villalon | - | - | - | - |
| Shi Jing Gang | 367 | 218 | 50 | 635 |
| Non-executive directors: | | | | |
| Chen Xiao Dong | - | - | - | - |
| Li Xin | - | - | - | - |
| Man Hin Wai Paul | - | - | - | - |
| Supervisors: | | | | |
| Wang Huai Cheng | - | - | - | - |
| Yang Gang (iii) | - | - | - | - |
| Tang Yi Zhong (v) | - | - | - | - |
| Jin Jie | - | - | - | - |
| Deng Li | 271 | 89 | 50 | 410 |
| Deng Gang | 313 | 96 | 50 | 459 |
| | <u>1,318</u> | <u>621</u> | <u>200</u> | <u>2,139</u> |

- (i) Mr.Xia Lijun was appointed as a non-executive director on 30 June 2020.
- (ii) Mr.Li Xin resigned as a non-executive director on 30 June 2020.
- (iii) Mr.Yang Gang was appointed as a supervisor on 28 June 2019.
- (iv) Mr.Yang Xunping was appointed as a supervisor on 30 June 2020.
- (v) Mr.Tang Yi Zhong resigned as a supervisor in June 2019.

There was no arrangement under which a director, a supervisor or the chief executive waived or agreed to waive any remuneration during the year (2019: Nil).

NOTES TO FINANCIAL STATEMENTS

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9. FIVE HIGHEST PAID EMPLOYEES

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

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---------------------|---------------------|
| Salaries, allowances and benefits in kind | 943 | 932 |
| Performance related bonuses | 553 | 522 |
| Pension scheme contributions | <u>200</u> | <u>95</u> |
| | <u><u>1,696</u></u> | <u><u>1,549</u></u> |

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

| | Number of employees | |
|----------------------|---------------------|----------|
| | 2020 | 2019 |
| Nil to HK\$1,000,000 | <u>3</u> | <u>3</u> |

10. INCOME TAX

The Company and its subsidiaries are registered in the PRC and only have operations in Mainland China. They are subject to PRC corporate income tax ("CIT") on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws.

| | 2020 RMB'000 | 2019 RMB'000 |
|-------------------------------|---------------------|---------------------|
| Current - Mainland China | | |
| Charge for the year | 8,140 | 16,093 |
| Deferred tax (note 29) | <u>1,311</u> | <u>(8,253)</u> |
| Total tax charge for the year | <u><u>9,451</u></u> | <u><u>7,840</u></u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

10. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rate for the jurisdiction in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

| | Notes | 2020 | | 2019 | |
|--|-------|---------------|--------|-----------------|--------|
| | | RMB'000 | % | RMB'000 | % |
| Profit/(loss) before tax | | <u>23,241</u> | | <u>(36,697)</u> | |
| Tax at the statutory tax rate | | 5,810 | 25.0 | (9,174) | 25.0 |
| Lower tax rate for specific entities | i | 2,868 | 12.3 | 7,775 | (21.2) |
| Adjustments in respect of current tax of previous years | | (3,917) | (16.8) | (51) | 0.1 |
| Income not subject to tax | ii | (28) | (0.1) | (385) | 1.0 |
| Expenses not deductible for tax | | 165 | 0.7 | 560 | (1.5) |
| Tax losses utilised from previous years | | (1,442) | (6.2) | (686) | 1.9 |
| Tax losses and deductible temporary differences not recognised | | <u>5,995</u> | 25.8 | <u>9,801</u> | (26.7) |
| Tax charge at the Group's effective tax rate | | <u>9,451</u> | 40.7 | <u>7,840</u> | (21.4) |

- (i) According to Caishui (2011) No. 58 jointly issued by the Ministry of Finance, General Administration of Customs and State Administration of Taxation ("SAT") on 27 July 2011, the enterprises in encouraged industries in Western China are eligible for a preferential CIT rate of 15% for the period from 1 January 2011 to 31 December 2020. Pursuant to the Public Notice [2014] No.15 issued by National Development and Reform Commission on 20 August 2014, the Company and its subsidiary, CMAL Bo Yu, satisfy the conditions of the tax incentive, and the applicable CIT rate for both of them is 15%.

According to Caishui (2020) No.23 "Notice on continuation of the corporate income tax policy for the enterprises in Western China" jointly issued by Ministry of Finance, SAT and National Development and Reform Commission on 28 April 2020, the enterprises in encouraged industries in Western China continue to be eligible for a preferential CIT rate of 15% for the period from 1 January 2021 to 31 December 2030. Accordingly, the Company and CMAL Bo Yu will continue to be subject to the CIT rate of 15%.

- (ii) The share of tax attributable to a joint venture and associate amounting to RMB114,000 (2019: RMB105,000) is included in "Share of profits and losses of a joint venture and an associate" in the consolidated statement of profit or loss.

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11. DIVIDENDS

At a meeting of the Directors held on 30 March 2021, the Directors did not recommend a final dividend for the year ended 31 December 2020 (2019 final dividend: Nil).

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings (2019: loss) per share amount is based on the earnings (2019: loss) for the year attributable to equity holders of the Company, and the weighted average number of ordinary shares of 162,064,000 (2019: 162,064,000) in issue during the year.

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

The calculation of basic earnings/(loss) per share is based on:

| | 2020 RMB'000 | 2019 RMB'000 |
|--|--------------------|--------------------|
| <u>Earnings/(loss)</u> | | |
| Profit/(loss) attributable to owners of the Company, | | |
| used in the basic earnings/loss per share calculation | <u>421</u> | <u>(55,967)</u> |
| <u>Shares</u> | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings/loss per share calculation | <u>162,064,000</u> | <u>162,064,000</u> |

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13. PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Plant, machinery and other equipment RMB'000 | Office equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|----------------------|--|--------------------------------|------------------------------|--|------------------|
| 31 December 2020 | | | | | | |
| Cost: | | | | | | |
| At 1 January 2020 | 734,221 | 192,783 | 70,027 | 195,588 | 17,235 | 1,209,854 |
| Additions | - | 21,918 | 1,313 | 2,381 | 27,907 | 53,519 |
| Disposals | (3,488) | (2,832) | (12,636) | (560) | - | (19,516) |
| Transfers | 24,583 | 4,454 | 3,594 | - | (32,631) | - |
| Transfer to investment properties | (2,810) | - | - | - | - | (2,810) |
| At 31 December 2020 | <u>752,506</u> | <u>216,323</u> | <u>62,298</u> | <u>197,409</u> | <u>12,511</u> | <u>1,241,047</u> |
| Accumulated depreciation: | | | | | | |
| At 1 January 2020 | (274,377) | (107,575) | (51,464) | (156,565) | - | (589,981) |
| Depreciation provided during the year (note 6) | (31,077) | (31,336) | (18,651) | (6,471) | - | (87,535) |
| Disposals | 2,960 | 2,577 | 11,980 | 519 | - | 18,036 |
| Transfer to investment properties | 2,327 | - | - | - | - | 2,327 |
| At 31 December 2020 | <u>(300,167)</u> | <u>(136,334)</u> | <u>(58,135)</u> | <u>(162,517)</u> | <u>-</u> | <u>(657,153)</u> |
| Impairment: | | | | | | |
| At 1 January 2020 | - | - | - | (1,453) | - | (1,453) |
| Disposals | - | - | - | 367 | - | 367 |
| At 31 December 2020 | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,086)</u> | <u>-</u> | <u>(1,086)</u> |
| Net carrying amount: | | | | | | |
| At 1 January 2020 | <u>459,844</u> | <u>85,208</u> | <u>18,563</u> | <u>37,570</u> | <u>17,235</u> | <u>618,420</u> |
| At 31 December 2020 | <u>452,339</u> | <u>79,989</u> | <u>4,163</u> | <u>33,806</u> | <u>12,511</u> | <u>582,808</u> |

As at 31 December 2020, one of the Group's plants with a net carrying amount of approximately RMB6,567,000 was pledged to secure bank loan granted to the Group (note 28).

NOTES TO FINANCIAL STATEMENTS

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13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Buildings RMB'000 | Plant, machinery and other equipment RMB'000 | Office equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|----------------------|--|--------------------------------|------------------------------|--|------------------|
| 31 December 2019 | | | | | | |
| Cost: | | | | | | |
| At 1 January 2019 | 586,679 | 126,207 | 67,326 | 282,005 | 132,431 | 1,194,648 |
| Additions | 83 | 44,162 | 3,772 | 2,388 | 56,849 | 107,254 |
| Disposals | - | (1,126) | (1,071) | (89,851) | - | (92,048) |
| Transfers | 147,459 | 23,540 | - | 1,046 | (172,045) | - |
| At 31 December 2019 | 734,221 | 192,783 | 70,027 | 195,588 | 17,235 | 1,209,854 |
| Accumulated depreciation: | | | | | | |
| At 1 January 2019 | (245,172) | (87,832) | (42,071) | (214,740) | - | (589,815) |
| Depreciation provided during the year (note 6) | (29,205) | (20,350) | (10,426) | (25,515) | - | (85,496) |
| Disposals | - | 607 | 1,033 | 83,690 | - | 85,330 |
| At 31 December 2019 | (274,377) | (107,575) | (51,464) | (156,565) | - | (589,981) |
| Impairment: | | | | | | |
| At 1 January 2019 | - | - | - | (5,354) | - | (5,354) |
| Disposals | - | - | - | 3,901 | - | 3,901 |
| At 31 December 2019 | - | - | - | (1,453) | - | (1,453) |
| Net carrying amount: | | | | | | |
| At 1 January 2019 | 341,507 | 38,375 | 25,255 | 61,911 | 132,431 | 599,479 |
| At 31 December 2019 | 459,844 | 85,208 | 18,563 | 37,570 | 17,235 | 618,420 |

As at 31 December 2019, certain of the Group's machineries with a net carrying amount of approximately RMB9,332,000 were pledged to secure other loans granted to the Group, which have been repaid during the year (note 28).

NOTES TO FINANCIAL STATEMENTS

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14. INVESTMENT PROPERTIES

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-----------------|-----------------|
| Cost: | | |
| At 1 January | 25,733 | 18,233 |
| Additions (from acquisition) | - | 7,500 |
| Transfer from property, plant and equipment | 2,810 | - |
| Additions (from settlement of trade debts) | 20,119 | - |
| | <u>48,662</u> | <u>25,733</u> |
| At 31 December | <u>48,662</u> | <u>25,733</u> |
| Accumulated depreciation: | | |
| At 1 January | (1,626) | (733) |
| Depreciation provided during the year (note 6) | (1,157) | (893) |
| Transfer from property, plant and equipment | (2,327) | - |
| | <u>(5,110)</u> | <u>(1,626)</u> |
| At 31 December | <u>(5,110)</u> | <u>(1,626)</u> |
| Accumulated impairment: | | |
| At 1 January | - | - |
| Impairment provided during the year (note 6) | (1,395) | - |
| | <u>(1,395)</u> | <u>-</u> |
| At 31 December | <u>(1,395)</u> | <u>-</u> |
| Net carrying amount | | |
| At 1 January | <u>24,107</u> | <u>17,500</u> |
| At 31 December | <u>42,157</u> | <u>24,107</u> |

During the year ended 31 December 2020, investment properties of RMB20,119,000 were transferred to the Group to settle trade debts by a customer.

The Group's investment properties consist of fourteen (2019: eight) commercial properties in China. As at 31 December 2020, the total fair value of the investment properties was estimated to be approximately RMB66,710,000 (2019: RMB24,122,000). The fair values of all properties were above their carrying amount except for one of which an impairment loss of RMB1,395,000 has been recognised. The valuation was performed by Beijing Guorongxinghua Assets Appraisal Co, Ltd., an independent professionally qualified valuer. Selection criteria including market knowledge, reputation, independence and whether professional standards are maintained are considered to appoint the external valuer. The valuation was determined with reference to market prices and estimated future market rental of similar properties in the respective areas. The fair value measurement hierarchy of the investment properties requires certain significant unobservable inputs (Level 3).

The investment properties are leased to third party under operating leases or held for rent or for capital appreciation.

15. LEASES

The Group as a lessee

The Group has lease contracts for various items of plant and machinery, motor vehicles and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land with lease periods of 30 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of plant and machinery generally have lease terms between 2 and 15 years, while motor vehicles generally have lease terms between 2 and 4 years. Other equipment generally has lease terms less than 3 years and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

15. LEASES (CONTINUED)

(a) Right-of-use assets

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

| | Plant and machinery | Motor vehicles | Other equipment | Prepaid land lease payments | Total |
|--|------------------------|-------------------|--------------------|-----------------------------------|-----------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| As at 1 January 2019 | 107,975 | 5,027 | 3,374 | 234,726 | 351,102 |
| Additions | 18,681 | 316 | - | - | 18,997 |
| Lease modification | (12,843) | (473) | (768) | - | (14,084) |
| Depreciation charge (note 6) | <u>(24,222)</u> | <u>(1,161)</u> | <u>(1,029)</u> | <u>(6,287)</u> | <u>(32,699)</u> |
| As at 31 December 2019 and 1 January 2020 | 89,591 | 3,709 | 1,577 | 228,439 | 323,316 |
| Additions | 53,691 | 958 | - | - | 54,649 |
| Lease modification | (43,530) | 2,675 | (1,059) | - | (41,914) |
| Depreciation charge (note 6) | <u>(30,777)</u> | <u>(3,302)</u> | <u>(518)</u> | <u>(5,719)</u> | <u>(40,316)</u> |
| As at 31 December 2020 | <u>68,975</u> | <u>4,040</u> | <u>-</u> | <u>222,720</u> | <u>295,735</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

15. LEASES (CONTINUED)

(b) Lease liabilities

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

| | RMB'000 |
|---|-----------------|
| As at 1 January 2019 | 116,562 |
| New leases | 11,133 |
| Accretion of interest recognised during the year (note 7) | 6,876 |
| Payments | (22,155) |
| Lease modification | <u>(14,601)</u> |
| As at 31 December 2019 | <u>97,815</u> |
| Analysed into: | |
| Current portion | 18,024 |
| Non-current portion | <u>79,791</u> |
| | RMB'000 |
| As at 1 January 2020 | 97,815 |
| New leases | 54,541 |
| Accretion of interest recognised during the year (note 7) | 5,739 |
| Payments | (40,739) |
| Lease modification | <u>(47,027)</u> |
| As at 31 December 2020 | <u>70,329</u> |
| Analysed into: | |
| Current portion | 30,524 |
| Non-current portion | <u>39,805</u> |

The maturity analysis of lease liabilities is disclosed in note 41 to the financial statements.

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15. LEASES (CONTINUED)

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

| | 2020 RMB'000 | 2019 RMB'000 |
|---|----------------------|----------------------|
| Interest on lease liabilities | 5,739 | 6,876 |
| Depreciation charge of right-of-use assets | 40,316 | 32,699 |
| Gain on lease modification | (5,113) | - |
| Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2020 | <u>36,104</u> | <u>34,890</u> |
| Total amount recognised in profit or loss | <u><u>77,046</u></u> | <u><u>74,465</u></u> |

The Group as a lessor

The Group leases its investment properties (note 14) consisting of nine (2019: eight) commercial properties in Mainland China under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB2,969,000 (2019: RMB2,141,000), details of which are included in note 5 to the financial statements.

At 31 December 2020, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---------------------|---------------------|
| Within one year | 1,794 | 3,095 |
| After one year but within two years | 753 | 1,342 |
| After two years but within three years | 513 | 708 |
| After three years but within four years | 332 | 422 |
| After four years but within five years | 113 | 296 |
| After five years | <u>-</u> | <u>209</u> |
| | <u><u>3,505</u></u> | <u><u>6,072</u></u> |

31 December 2020

16. GOODWILL

| | Cash-generating units | | Total RMB'000 |
|--|---|--|------------------|
| | Transportation services for finished vehicles RMB'000 | Storage management services RMB'000 | |
| 31 December 2020 and 31 December 2019 | | | |
| Cost: | | | |
| At 1 January and 31 December 2020 and 2019 | 5,016 | 2,441 | 7,457 |
| Accumulated impairment: | | | |
| At 1 January and 31 December 2020 and 2019 | - | (2,441) | (2,441) |
| Net carrying amount: | | | |
| At 1 January and 31 December 2020 and 2019 | 5,016 | - | 5,016 |

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units ("CGU") for impairment testing:

- Transportation services for finished vehicles cash-generating unit; and
- Storage management services cash-generating unit.

The recoverable amount of each CGU has been determined based on value-in-use calculations using cash flow projections based on financial budgets covering a five-year period approved by senior management. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, adjusted by management expectations for the market condition.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit. The discount rate applied to the cash flow projections is 13.5% (2019: 14.0%).

Growth rate – The growth rate used to extrapolate the cash flows beyond the five-year period is 2% (2019: 2.0%), which is based on the estimated growth rate of each unit, taking into account the industry growth rate, past experience and the medium or long term growth target.

The values assigned to the key assumptions on market conditions and the discount rate are consistent with external information sources. In the opinion of the Company's directors, any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount as at 31 December 2020.

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17. OTHER INTANGIBLE ASSETS

| | Software RMB'000 | Customer relationships RMB'000 | Trademark RMB'000 | Total RMB'000 |
|--|---------------------|--------------------------------------|----------------------|------------------|
| 31 December 2020 | | | | |
| Cost: | | | | |
| At 1 January 2020 | 90,084 | 4,174 | 107 | 94,365 |
| Additions | 5,531 | - | - | 5,531 |
| Transfer from non-current assets (note 21) | 10,470 | - | - | 10,470 |
| Disposals | (489) | (4,174) | - | (4,663) |
| At 31 December 2020 | <u>105,596</u> | <u>-</u> | <u>107</u> | <u>105,703</u> |
| Accumulated amortisation: | | | | |
| At 1 January 2020 | (61,853) | (3,532) | (107) | (65,492) |
| Amortisation provided during the year (note 6) | (22,394) | - | - | (22,394) |
| Disposals | 375 | 3,532 | - | 3,907 |
| At 31 December 2020 | <u>(83,872)</u> | <u>-</u> | <u>(107)</u> | <u>(83,979)</u> |
| Accumulated impairment: | | | | |
| At 1 January 2020 | - | (642) | - | (642) |
| Disposals | - | 642 | - | 642 |
| At 31 December 2020 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net carrying amount: | | | | |
| At 1 January 2020 | <u>28,231</u> | <u>-</u> | <u>-</u> | <u>28,231</u> |
| At 31 December 2020 | <u>21,724</u> | <u>-</u> | <u>-</u> | <u>21,724</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. OTHER INTANGIBLE ASSETS (CONTINUED)

| | Software RMB'000 | Customer relationships RMB'000 | Trademark RMB'000 | Wharf lease right RMB'000 | Total RMB'000 |
|--|---------------------|--------------------------------------|----------------------|---------------------------------|------------------|
| 31 December 2019 | | | | | |
| Cost: | | | | | |
| At 1 January 2019 | 73,171 | 4,174 | 107 | - | 77,452 |
| Additions | <u>16,913</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>16,913</u> |
| At 31 December 2019 | <u>90,084</u> | <u>4,174</u> | <u>107</u> | <u>-</u> | <u>94,365</u> |
| Accumulated amortisation: | | | | | |
| At 1 January 2019 | (43,642) | (3,532) | (107) | - | (47,281) |
| Amortisation provided during the year (note 6) | <u>(18,211)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(18,211)</u> |
| At 31 December 2019 | <u>(61,853)</u> | <u>(3,532)</u> | <u>(107)</u> | <u>-</u> | <u>(65,492)</u> |
| Accumulated impairment: | | | | | |
| At 1 January and 31 December 2019 | <u>-</u> | <u>(642)</u> | <u>-</u> | <u>-</u> | <u>(642)</u> |
| Net carrying amount: | | | | | |
| At 1 January 2019 | <u>29,529</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>29,529</u> |
| At 31 December 2019 | <u>28,231</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>28,231</u> |

NOTES TO FINANCIAL STATEMENTS

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18. INVESTMENT IN A JOINT VENTURE

| | 2020 RMB'000 | 2019 RMB'000 |
|---------------------|-----------------|-----------------|
| Share of net assets | <u>12,521</u> | <u>13,045</u> |

The Group's trade receivable balances due from the joint venture are disclosed in note 37 to the financial statements.

Particulars of the Company's joint venture are as follows:

| Name | Particulars of issued shares held | Place of registration and business | Percentage of | | | Principal activities |
|--|---|--|-----------------------|-----------------|-------------------|---|
| | | | Ownership interest | Voting power | Profit sharing | |
| Hangzhou Changan Minsheng Anji Logistics Co., Ltd. ("Hangzhou Anji") | Ordinary shares | PRC/Mainland China | 50 | 50 | 50 | Providing logistics services in Mainland China |

The above investment is directly held by the Company.

The following table illustrates the financial information of Hangzhou Anji:

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-----------------|-----------------|
| Revenue | 86,770 | 73,850 |
| Total expenses | (85,764) | (73,073) |
| Profit for the year | 1,006 | 777 |
| Total comprehensive income for the year | <u>1,006</u> | <u>777</u> |
| Current assets | 64,408 | 67,435 |
| Non-current assets | 245 | 1,400 |
| Current liabilities | (39,611) | (42,800) |
| Non-current liabilities | <u>-</u> | <u>-</u> |
| | 2020 RMB'000 | 2019 RMB'000 |
| Share of the joint venture's profit for the year | 476 | 322 |
| Share of the joint venture's total comprehensive income | 476 | 322 |
| Carrying amount of the Group's investment in the joint venture | <u>12,521</u> | <u>13,045</u> |

NOTES TO FINANCIAL STATEMENTS

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19. INVESTMENT IN AN ASSOCIATE

| | 2020 RMB'000 | 2019 RMB'000 |
|---------------------|-----------------|-----------------|
| Share of net assets | <u>82,634</u> | <u>84,931</u> |

As at 31 December 2020, particulars of the Company's associate are as follows:

| Name | Particulars of issued shares held | Place of incorporation and business | Percentage of ownership interest attributable to the Group | Principal activities |
|--|--------------------------------------|---|---|---|
| Chongqing Guoyuan Ro-Ro Terminal Company Limited ("Chongqing Guoyuangang") | Ordinary shares | PRC/Mainland China | 31 | Providing port operation, freight forwarding and logistics services in Mainland China |

The Group's shareholding in the associate comprises equity shares held by the Company.

The following table illustrates the financial information of the Group's associate:

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-----------------|-----------------|
| Share of the associate's (loss)/profit for the year | (2,287) | 335 |
| Effective portion of changes in special reserves | (10) | 61 |
| Share of the associate's total comprehensive (loss)/income | (2,297) | 396 |
| Carrying amount of the Group's investment in the associate | <u>82,634</u> | <u>84,931</u> |

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20. AN EQUITY INVESTMENT DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-----------------|-----------------|
| An equity investment designated at fair value through other comprehensive income | | |
| Unlisted equity investment, at fair value China South Industries Group Finance Co., Ltd. ("Zhuangbei Finance") | <u>67,068</u> | <u>67,000</u> |

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

On 20 May 2019, the Company and Zhuangbei Finance entered into the Zhuangbei Finance Capital Increase Agreement, to agree upon the capital increase in Zhuangbei Finance on a pro-rata basis. Pursuant to the agreement, the Company injected RMB16,124,000 in Zhuangbei Finance. Immediately after the completion of the capital increase in Zhuangbei Finance, the shareholders and shareholding ratio of Zhuangbei Finance remain the same. During the year ended 31 December 2020, a fair value gain of RMB68,000 (2019: RMB21,976,000) was recognised in other comprehensive income. The fair value measurement of the equity investment designated at fair value through other comprehensive income is categorised within level 3 of the fair value hierarchy.

During the year ended 31 December 2020, the Group received dividends in the amount of RMB1,995,000 (2019: RMB1,753,000) from Zhuangbei Finance.

21. OTHER NON-CURRENT ASSETS

| | Note | 2020 RMB'000 | 2019 RMB'000 |
|---|------|-----------------|-----------------|
| Prepayment for a land use right | (i) | 39,029 | 39,029 |
| Prepayment for purchases of other intangible assets | (ii) | <u>8,350</u> | <u>12,503</u> |
| | | <u>47,379</u> | <u>51,532</u> |

(i) The prepayment was made for the land use right, for which the total consideration was RMB78,010,000.

(ii) Prepayment of RMB10,470,000 was transferred to other intangible assets during the year ended 31 December 2020.

NOTES TO FINANCIAL STATEMENTS

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22. INVENTORIES

| | 2020 RMB'000 | 2019 RMB'000 |
|------------------|-----------------|-----------------|
| Raw materials | 1,301 | 743 |
| Work in progress | 1,400 | 1,650 |
| Finished goods | 195 | 8,783 |
| Impairment | - | (300) |
| | <u>2,896</u> | <u>10,876</u> |

23. TRADE AND BILLS RECEIVABLES

| | 2020 RMB'000 | 2019 RMB'000 |
|-------------------|-----------------|-----------------|
| Bills receivable | 463,831 | 347,818 |
| Trade receivables | 423,776 | 445,495 |
| Impairment | (22,264) | (39,472) |
| | <u>865,343</u> | <u>753,841</u> |

The Group's trading terms with its customers are mainly on credit. The credit period is generally three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

The Group's bills receivable were all aged within one year and were neither past due nor impaired.

As at 31 December 2020, bills receivable amounting to RMB44,923,000 (2019: RMB22,246,000) were pledged by the Group to secure bills payable.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

23. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

| | 2020 RMB'000 | 2019 RMB'000 |
|--------------------|-----------------|-----------------|
| Within 3 months | 376,151 | 365,410 |
| 3 to 6 months | 19,354 | 20,875 |
| 6 months to 1 year | 6,007 | 17,358 |
| Over 1 year | <u>-</u> | <u>2,380</u> |
| | <u>401,512</u> | <u>406,023</u> |

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

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| At beginning of year | 39,472 | 45,899 |
| Reversal of impairment losses, net (note 6) | (17,208) | (6,424) |
| Amount written off as uncollectible | <u>-</u> | <u>(3)</u> |
| At end of year | <u>22,264</u> | <u>39,472</u> |

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2020

| | Current | Past due | | | Total |
|----------------------------------|---------|-----------------------|------------------|------------------|---------|
| | | Less than 3 months | 4 to 9 months | Over 9 months | |
| Expected credit loss rate | 0% | 0% | 15.00% | 100.00% | 5.25% |
| Gross carrying amount (RMB'000) | 376,151 | 19,354 | 7,067 | 21,204 | 423,776 |
| Expected credit losses (RMB'000) | - | - | 1,060 | 21,204 | 22,264 |

As at 31 December 2019

| | Current | Past due | | | Total |
|----------------------------------|---------|-----------------------|------------------|------------------|---------|
| | | Less than 3 months | 4 to 9 months | Over 9 months | |
| Expected credit loss rate | 0.47% | 1.68% | 2.59% | 93.94% | 8.86% |
| Gross carrying amount (RMB'000) | 367,150 | 21,231 | 17,820 | 39,294 | 445,495 |
| Expected credit losses (RMB'000) | 1,740 | 356 | 462 | 36,914 | 39,472 |

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24. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

| | 2020 RMB'000 | 2019 RMB'000 |
|--------------------------------|-----------------|-----------------|
| Prepayments | 12,629 | 12,302 |
| Deposits and other receivables | 147,241 | 66,585 |
| Impairment allowance | <u>(3,431)</u> | <u>(2,135)</u> |
| | <u>156,439</u> | <u>76,752</u> |

The movements in the loss allowance for impairment of deposits and other receivables are as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|----------------------------|-----------------|-----------------|
| At beginning of year | 2,135 | 2,063 |
| Impairment losses (note 6) | <u>1,296</u> | <u>72</u> |
| At end of year | <u>3,431</u> | <u>2,135</u> |

Deposits and other receivables mainly represent deposits with suppliers or clients. Where applicable, an impairment analysis is performed at each reporting date by considering expected credit losses, which are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2020 ranged from 0% to 1.9% (31 December 2019: 0.1% to 4.0%).

25. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

| | 2020 RMB'000 | 2019 RMB'000 |
|--|------------------|-----------------|
| Cash and bank balances | <u>1,094,496</u> | <u>841,790</u> |
| Less: | | |
| Bank balances pledged for bank acceptance bills, letters of credit and bank letters of guarantee | <u>(200,156)</u> | <u>(15,587)</u> |
| Cash and cash equivalents | <u>894,340</u> | <u>826,203</u> |

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB882,097,000 (2019: RMB821,506,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

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26. TRADE AND BILLS PAYABLES

| | 2020 RMB'000 | 2019 RMB'000 |
|----------------|------------------|------------------|
| Bills payable | 663,337 | 204,819 |
| Trade payables | <u>1,037,516</u> | <u>1,477,197</u> |
| | <u>1,700,853</u> | <u>1,682,016</u> |

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

| | 2020 RMB'000 | 2019 RMB'000 |
|--------------------|------------------|------------------|
| Within 3 months | 1,668,554 | 1,613,920 |
| 3 to 6 months | 16,219 | 27,034 |
| 6 months to 1 year | 9,156 | 15,235 |
| 1 to 2 years | 5,270 | 24,811 |
| 2 to 3 years | 817 | 17 |
| Over 3 years | <u>837</u> | <u>999</u> |
| | <u>1,700,853</u> | <u>1,682,016</u> |

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

As at 31 December 2020, bills payable with an aggregate amount of approximately RMB500,768,000 (2019: RMB64,126,000) were secured by the pledged deposits of RMB200,156,000 (2019: RMB15,587,000) and bills receivable of RMB44,923,000 (2019: RMB22,246,000).

27. OTHER PAYABLES AND ACCRUALS

| | 2020 RMB'000 | 2019 RMB'000 |
|----------------------------------|-----------------|-----------------|
| Dividends payable | - | 204 |
| Contract liabilities | 4,105 | 3,471 |
| Other payables | 231,053 | 249,227 |
| Other taxes | 23,607 | 7,342 |
| Accruals for payroll and welfare | <u>129,440</u> | <u>188,856</u> |
| | <u>388,205</u> | <u>449,100</u> |

Other payables are non-interest-bearing and repayable on demand.

NOTES TO FINANCIAL STATEMENTS

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28. INTEREST-BEARING BANK AND OTHER LOANS

| | 2020 | | | 2019 | | |
|-----------------------|-----------------------------|----------|--------------|-----------------------------|---------------|---------------|
| | Effective interest rate (%) | Maturity | RMB'000 | Effective interest rate (%) | Maturity | RMB'000 |
| Current | | | | | | |
| Unsecured loans* | - | - | - | 5.30 | 2020 | 4,000 |
| Other secured loans** | - | - | - | 4.75 | 2020 | 9,564 |
| Secured bank loan*** | 4.15 | 2021 | 6,000 | - | - | - |
| | | | <u>6,000</u> | | | <u>13,564</u> |
| | | | | 2020 | 2019 | |
| | | | | RMB'000 | RMB'000 | |
| Analysed into: | | | | | | |
| Loans repayable: | | | | | | |
| Within one year | | | | <u>6,000</u> | <u>13,564</u> | |

* As at 31 December 2019, the Group's interest-bearing loans from a financial institution bore interest of 5.3% per annum and were repayable in 2020.

** In 2017, the Company and its subsidiary Hangzhou Changan Minsheng Logistics Co., Ltd entered into a sale-leaseback arrangement with a related party to sell and leaseback their two production lines for the processing of tyres. Based on the substance of the sale-leaseback arrangements, the leaseback arrangements were finance leases, whereby the lessor provided finance to the Company and Hangzhou Changan Minsheng, with the production lines as security to the loans.

The sale-leaseback principal of the finance lease was RMB27,390,000, bearing effective interest at a rate of 4.75% per annum. Pursuant to the terms of the sale-leaseback arrangements, the loans are repayable on 31 December 2020. At the end of the lease term, the lessor is obliged to transfer the ownership of the above assets to the Company and Hangzhou Changan Minsheng at a nominal consideration of RMB100, respectively.

Other loans were secured by mortgages over the Group's production lines, which had an aggregate carrying amount as at 31 December 2019 of approximately RMB9,332,000(note 13).

*** As at 31 December 2020, the Group's interest-bearing loan from a bank bore interest of 4.15% per annum and is repayable in 2021. The loan is secured by a plant with carrying amount of approximately RMB6,567,000(note 13).

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29. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

| | Fair value adjustments arising from acquisition of a subsidiary RMB'000 | Fair value adjustments of an equity investment at fair value through other comprehensive income RMB'000 | Right-of-use assets RMB'000 | Total RMB'000 |
|--|---|--|-----------------------------------|------------------|
| At 1 January 2019 | 3,042 | - | 23,548 | 26,590 |
| Deferred tax credited to profit or loss during the year (note 10) | (149) | - | (4,966) | (5,115) |
| Deferred tax charged to other comprehensive income during the year | - | 3,296 | - | 3,296 |
| Gross deferred tax liabilities at 31 December 2019 and 1 January 2020 | 2,893 | 3,296 | 18,582 | 24,771 |
| Deferred tax credited to profit or loss during the year (note 10) | (149) | - | (3,051) | (3,200) |
| Deferred tax charged to other comprehensive income during the year | - | 10 | - | 10 |
| Gross deferred tax liabilities at 31 December 2020 | <u>2,744</u> | <u>3,306</u> | <u>15,531</u> | <u>21,581</u> |

CHANGAN MINSHENG APLL LOGISTICS CO., LTD.

NOTES TO FINANCIAL STATEMENTS

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29. DEFERRED TAX (CONTINUED)

Deferred tax assets

| | Depreciation allowance in excess of related depreciation and amortisation RMB'000 | Impairment of financial assets RMB'000 | Provision for impairment of inventories RMB'000 | Deferred income RMB'000 | Loss available for offsetting against future taxable profits RMB'000 | Accruals RMB'000 | Payroll payable RMB'000 | Lease liabilities RMB'000 | Total RMB'000 |
|--|--|--|--|-------------------------------|---|---------------------|----------------------------|------------------------------|------------------|
| At 1 January 2019 | 18,164 | 12,895 | 63 | 1,385 | - | 6,345 | 20,999 | 25,016 | 84,867 |
| Deferred tax credited/(charged) to profit or loss | | | | | | | | | |
| during the year (note 10) | <u>1,821</u> | <u>2,527</u> | <u>-</u> | <u>2,549</u> | <u>5,461</u> | <u>(767)</u> | <u>(5,196)</u> | <u>(3,257)</u> | <u>3,138</u> |
| Gross deferred tax assets at 31 December 2019 and 1 January 2020 | 19,985 | 15,422 | 63 | 3,934 | 5,461 | 5,578 | 15,803 | 21,759 | 88,005 |
| Deferred tax credited/(charged) to profit or loss during the year (note 10) | <u>(555)</u> | <u>(939)</u> | <u>(63)</u> | <u>(1,161)</u> | <u>-</u> | <u>12,719</u> | <u>(9,209)</u> | <u>(5,303)</u> | <u>(4,511)</u> |
| Gross deferred tax assets at 31 December 2020 | <u>19,430</u> | <u>14,483</u> | <u>-</u> | <u>2,773</u> | <u>5,461</u> | <u>18,297</u> | <u>6,594</u> | <u>16,456</u> | <u>83,494</u> |

NOTES TO FINANCIAL STATEMENTS

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29. DEFERRED TAX (CONTINUED)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

| | 2020 RMB'000 | 2019 RMB'000 |
|--|----------------------|----------------------|
| Gross deferred tax assets recognised | 83,494 | 88,005 |
| Deferred tax liabilities on right-of-use assets recognised | <u>(15,531)</u> | <u>(18,582)</u> |
| Net deferred tax assets | <u><u>67,963</u></u> | <u><u>69,423</u></u> |

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

| | 2020 RMB'000 | 2019 RMB'000 |
|----------------------------------|-----------------------|-----------------------|
| Tax losses | 125,296 | 115,240 |
| Deductible temporary differences | <u>2,185</u> | <u>4,293</u> |
| | <u><u>127,481</u></u> | <u><u>119,533</u></u> |

The above tax losses arising in Mainland China will expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

30. DEFERRED INCOME

| | 2020 RMB'000 | 2019 RMB'000 |
|--------------------------|----------------------|----------------------|
| <i>Government grants</i> | | |
| At 1 January | 22,183 | 9,604 |
| Addition | 153 | 19,013 |
| Released during the year | <u>(6,804)</u> | <u>(6,434)</u> |
| At 31 December | <u><u>15,532</u></u> | <u><u>22,183</u></u> |

Deferred income represents government grants received by the Group in respect of items of property, plant and equipment. The deferred income is released to profit or loss at the annual instalment to match with the expected useful lives of the relevant assets.

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31. SHARE CAPITAL

Shares

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Authorised: | | |
| 162,064,000 (2019: 162,064,000) ordinary shares of RMB1.00 each | <u>162,064</u> | <u>162,064</u> |
| Issued and fully paid: | | |
| 162,064,000 (2019: 162,064,000) ordinary shares of RMB1.00 each | <u>162,064</u> | <u>162,064</u> |

During the year, there was no movement in the Company's issued share capital:

| | Number of shares in issue | Issued capital RMB'000 |
|--|------------------------------|---------------------------|
| At 1 January 2020 and 31 December 2020 | <u>162,064,000</u> | <u>162,064</u> |

32. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 6 of the financial statements.

(a) Statutory reserves of the PRC subsidiaries

In accordance with the Company Law of the PRC and the respective articles of association of the Company and its subsidiaries, each of the Company and its PRC subsidiaries is required to allocate 10% of its profit after tax, as determined in accordance with PRC Generally Accepted Accounting Principles ("PRC GAAP"), to the statutory surplus reserve until such reserve reaches 50% of its registered capital.

(b) Safety fund surplus reserve

Pursuant to a Notice regarding Safety Production Expenditure jointly issued by the Ministry of Finance and the State Administration of Work Safety of the PRC, the Group is required to establish a safety fund surplus reserve. The safety fund can only be used to offset the specific reserve as and when they are incurred, including expenses related to safety protection facilities and equipment improvement and maintenance as well as safety production inspection, appraisal, consultation and training.

33. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of a subsidiary, Nanjing CMSCL, that has material non-controlling interests are set out below:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Percentage of equity interest held by non-controlling interests | 33% | 33% |
| Profit for the year allocated to non-controlling interests | 12,443 | 11,186 |
| Dividends paid to non-controlling interests | 11,550 | 11,895 |
| Accumulated balances of non-controlling interests at the reporting date | <u>101,761</u> | <u>100,840</u> |

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33. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

| | Nanjing CMSCL | |
|--|----------------|----------------|
| | 2020 | 2019 |
| | RMB'000 | RMB'000 |
| Revenue | 488,931 | 465,298 |
| Total expenses | (451,224) | (431,400) |
| Profit for the year | 37,707 | 33,898 |
| Total comprehensive income for the year | <u>37,707</u> | <u>33,898</u> |
| Current assets | 434,462 | 424,759 |
| Non-current assets | 83,569 | 87,841 |
| Current liabilities | (199,745) | (202,370) |
| Non-current liabilities | <u>(9,920)</u> | <u>(4,654)</u> |
| Net cash flows from operating activities | 106,366 | 60,404 |
| Net cash flows used in investing activities | (20,086) | (26,367) |
| Net cash flows used in financing activities | (35,000) | (36,045) |
| Effect of foreign exchange rate changes, net | <u>(43)</u> | <u>(9)</u> |
| Net increase/(decrease) in cash and cash equivalents | <u>51,237</u> | <u>(2,017)</u> |

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB54,541,000 (2019: RMB11,133,000) and RMB54,541,000 (2019: RMB11,133,000), respectively, in respect of lease arrangements for plant and equipment and motor vehicles.

During the year, the Group had non-cash additions to investment properties of RMB20,119,000 (2019: Nil) as disclosed on note 14 to the financial statement.

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34. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Changes in liabilities arising from financing activities:

| | Interest-bearing bank and other loans RMB'000 | Lease liabilities RMB'000 | Bank advances for discounted bills RMB'000 | Total RMB'000 |
|---|--|------------------------------|---|------------------|
| At 1 January 2019 | 28,688 | 116,562 | 114,266 | 259,516 |
| Changes from financing cash flows | (16,748) | (22,155) | (99,855) | (138,758) |
| Other changes: | | | | |
| Interest expenses | 1,624 | 6,876 | - | 8,500 |
| New leases | - | 11,133 | - | 11,133 |
| Lease modification | - | (14,601) | - | (14,601) |
| At 31 December 2019 and 1 January 2020 | 13,564 | 97,815 | 14,411 | 125,790 |
| Changes from financing cash flows | (8,117) | (40,739) | (14,411) | (63,267) |
| Other changes: | | | | |
| Interest expenses | 553 | 5,739 | - | 6,292 |
| New leases | - | 68,224 | - | 68,224 |
| Lease modification | - | (60,710) | - | (60,710) |
| At 31 December 2020 | <u>6,000</u> | <u>70,329</u> | <u>-</u> | <u>76,329</u> |

(c) Total cash outflow for leases

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

| | 2020 RMB'000 | 2019 RMB'000 |
|-----------------------------|-----------------|-----------------|
| Within operating activities | 36,104 | 34,890 |
| Within financing activities | <u>40,739</u> | <u>22,155</u> |
| | <u>76,843</u> | <u>57,045</u> |

35. PLEDGE OF ASSETS

Details of the Group's bank acceptance bills and interest-bearing bank and other loans, which are secured by the assets of the Group, are included in notes 13, 23 and 25, respectively, to the financial statements.

36. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Contracted, but not provided for: | | |
| Plant and machinery | 43,014 | 70,444 |
| Capital contributions payable to equity investment | <u>22,700</u> | <u>22,700</u> |
| | <u>65,714</u> | <u>93,144</u> |
| Authorised, but not provided for: | | |
| Capital contributions payable to a subsidiary (note 42) | <u>14,000</u> | <u>-</u> |

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36. COMMITMENTS (CONTINUED)

In addition, the Group was committed at 31 December 2020 to enter into a new lease of 5 years, that is not yet commenced, the lease payments under which amounted to RMB87,086,000 in total.

37. RELATED PARTY TRANSACTIONS

- (a) For the years ended 31 December 2020 and 2019, related parties, other than the subsidiaries, and their relationship with the Group are as follows:

| Name of related party | Relationship |
|---|------------------------------------|
| China Changan Automobile Group Co., Ltd.("China Changan") | Shareholder |
| APL Logistics Ltd.("APL Logistics") | Shareholder |
| Minsheng Industrial (Group) Co., Ltd.("Minsheng Industrial") | Shareholder |
| APL Logistics (China) Ltd.("APLLC") | Controlled by APL Logistics |
| APL Logistics Storage (Shanghai) Co., Ltd.("APLL Shanghai") | Controlled by APL Logistics |
| China South Industries Group Co.,Ltd.("CSI Group") | Parent company of China Changan |
| Hubei Huazhong Maruili Automobile Lighting Co., Ltd. ("Hubei Huazhong Maruili") | Ultimately controlled by CSI Group |
| Chongqing Naishite Steering System Co., Ltd.("Chongqing Naishite") | Ultimately controlled by CSI Group |
| Chengdu Lingchuan Vehicle Oil Tank Co., Ltd.("Lingchuan Tank") | Ultimately controlled by CSI Group |
| Chongqing Jianshe Automobile Air-Conditioner Co., Ltd. ("Chongqing Jianshe Auto-Air") | Ultimately controlled by CSI Group |
| Chengdu Wanyou Filter Co., Ltd.("Chengdu Wanyou") | Ultimately controlled by CSI Group |
| Hubei Xiaogan Huazhong Automotive Lighting Co., Ltd.("Hubei Xiaogan") | Ultimately controlled by CSI Group |
| Chongqing Dajiang Xinda Vehicles Shares Co., Ltd.("Dajiang Xinda") | Ultimately controlled by CSI Group |
| Chongqing Changfeng Jiquan Machinery Co., Ltd.("Changfeng Jiquan") | Ultimately controlled by CSI Group |
| Yunnan Xiyi Industrial Co., Ltd.("Yunnan Xiyi") | Ultimately controlled by CSI Group |
| Chongqing Shangfang Automobile Fittings Co., Ltd.("Shangfang Fitting") | Ultimately controlled by CSI Group |
| Sichuan Hongguang Machinery and Electrics Co., Ltd.("Sichuan Hongguang") | Ultimately controlled by CSI Group |
| Chongqing Chang'an Industry(Group)Co.,Ltd.("Changan Industry Company") | Ultimately controlled by CSI Group |
| Tiannake Lingchuan Chongqing Exhaust System Co., Ltd. ("Tiannake Lingchuan") | Ultimately controlled by CSI Group |
| Sichuan Huaqing Machinery Co., Ltd.("Sichuan Huaqing") | Ultimately controlled by CSI Group |
| Chongqing Yihong Engineering Plastic Products Co., Ltd.("Yihong Plastic") | Ultimately controlled by CSI Group |
| Chongqing Changrong Machinery Co., Ltd.("Changrong Machinery") | Ultimately controlled by CSI Group |
| Chongqing Dajiang Jiexin Forging Co., Ltd.("Dajiang Jiexin") | Ultimately controlled by CSI Group |
| Chongqing Changjiang Electrical Appliances Industries Group Co., Ltd.("Chongqing Changjiang Electric") | Ultimately controlled by CSI Group |
| Chengdu Jialing Huaxi Optical & Precision Machinery Co., Ltd. ("Chengdu Jialing Huaxi") | Ultimately controlled by CSI Group |
| Chongqing Jianshe Industrial (Group) Co., Ltd.("Jianshe Industrial") | Ultimately controlled by CSI Group |
| Chongqing Changan Property Management Co., Ltd.("Changan Property") | Ultimately controlled by CSI Group |
| Chongqing Changxin Construction Co., Ltd. ("Chongqing Changxin") | Ultimately controlled by CSI Group |
| Chongqing Changan Construction Co., Ltd. ("Chongqing Changan Construction") | Ultimately controlled by CSI Group |
| China South Industries Group Finance Co., Ltd.("Zhuangbei Finance") | Ultimately controlled by CSI Group |
| Chongqing Construction Toneluck Industrial Co., Ltd ("Chongqing Jianshe Toneluck") | Ultimately controlled by CSI Group |
| China South Industries Group Factoring Co., Ltd.("Zhuangbei Factoring") | Ultimately controlled by CSI Group |
| Chongqing Dajiang Industry Group Xingchen Logistics Co., Ltd. ("Dajiang Xingchen") | Ultimately controlled by CSI Group |
| Chongqing Changan Automobile Co., Ltd.("Changan Automobile") | Ultimately controlled by CSI Group |
| Chongqing Anfu Automobile Marketing Co., Ltd.("Chongqing Anfu") | Controlled by China Changan |
| Harbin Dongan Automotive Engine Manufacturing Co., Ltd.("Harbin DAE") | Controlled by China Changan |
| Harbin Dongan Automotive Power Co., Ltd.("Harbin DAP") | Controlled by China Changan |
| Chongqing Wanyou Economic Development Co., Ltd.("Wanyou Economic") | Controlled by China Changan |
| CSGC TRW Chassia Systems Co., Ltd.("CTCS") | Controlled by China Changan |
| Anhui Jian'an Chassis System Co., Ltd.("Anhui Jian'an") | Controlled by China Changan |

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37. RELATED PARTY TRANSACTIONS (CONTINUED)

- (a) For the years ended 31 December 2020 and 2019, related parties, other than the subsidiaries, and their relationship with the Group are as follows: (continued)

| Name of related party | Relationship |
|--|--|
| Chengdu Huachuan Electric Equipment Co., Ltd. ("Chengdu Huachuan") | Controlled by China Changan |
| Chengdu Ningjiang SHOWA Automobile Parts Co., Ltd. ("Ningjiang Showa") | Controlled by China Changan |
| South Inter Air-Conditioner Co., Ltd. ("South Air") | Controlled by China Changan |
| Sichuan Ningjiang Shanchuan Machinery Co., Ltd. ("Ningjiang Shock") | Controlled by China Changan |
| Zhonghui Futong Finance Lease (Shenzhen) Co., Ltd. ("Zhonghui Futong") | Controlled by China Changan |
| China Changan Automobile Group Hangzhou Investment Co., Ltd. ("Hangzhou Investment") | Controlled by China Changan |
| Hafei Automobile Co., Ltd. ("Hafei Automobile") | Controlled by China Changan |
| Sichuan Jian'an Industrial Co., Ltd. ("Sichuan Jian'an") | Controlled by China Changan |
| Chongqing Wanyou Longrui Auto Sales and Service Co., Ltd. ("Wanyou Longrui") | Controlled by China Changan |
| Yunnan Wanyou Auto Sales and Service Co., Ltd. ("Yunnan Wanyou") | Controlled by China Changan |
| Dehong Wanfu Automobile Sales & Service Co., Ltd. ("Dehong Wanfu") | Controlled by China Changan |
| Guizhou Wanfu Automobile Sales & Service Co., Ltd. ("Guizhou Wanfu") | Controlled by China Changan |
| Chongqing Wanyou Ducheng Automobile Sales Service Co., Ltd. ("Chongqing Wanyou Ducheng") | Controlled by China Changan |
| Guizhou Wanyou Automotive Sales Service Co., Ltd. ("Guizhou Wanyou") | Controlled by China Changan |
| Chengdu Wanyou Eco-Tech Development Corporation ("Chengdu Wanyou Eco-Tech") | Controlled by China Changan |
| Nanchang Lufeng Motor Marketing Co., Ltd. ("Nanchang Lufeng Motor") | Controlled by China Changan |
| Guangxi Wanyou Auto Sales and Service Co., Ltd. ("Guangxi Wanyou") | Controlled by China Changan |
| Nanning Wanyou Auto Sales and Service Co., Ltd. ("Nanning Wanyou") | Controlled by China Changan |
| Liupanshui Wanfu Automobile Sales & Service Co., Ltd. ("Liupanshui Wanfu") | Controlled by China Changan |
| China Changan Automobile Group Ningbo Dongxiang Sales Co., Ltd. ("Ningbo Dongxiang") | Controlled by China Changan |
| Minsheng Logistics Co., Ltd. ("Minsheng Logistics") | Ultimately controlled by Minsheng Industrial |
| Minsheng International Container Transportation Co., Ltd. ("Minsheng International Container") | Ultimately controlled by Minsheng Industrial |
| Minsheng International Freight Co., Ltd. ("Minsheng International Freight") | Ultimately controlled by Minsheng Industrial |
| Tianjin Minsheng International Shipping Agencies Co., Ltd. ("Tianjin Minsheng Shipping") | Ultimately controlled by Minsheng Industrial |
| Shanghai Minsheng International Freight Co., Ltd. ("Shanghai Minsheng International Freight") | Ultimately controlled by Minsheng Industrial |
| Chongqing Minsheng Customs Clearance Co., Ltd. ("Chongqing Minsheng Custom") | Ultimately controlled by Minsheng Industrial |
| Chongqing Minsheng Comprehensive Logistics Co., Ltd. ("Minsheng Comprehensive") | Ultimately controlled by Minsheng Industrial |
| Guangzhou Minsheng International Freight Forwarding Co., Ltd. ("Minsheng Industry") | Ultimately controlled by Minsheng Industrial |
| Shanghai Minsheng Shipping Co., Ltd. ("Shanghai Minsheng Shipping") | Controlled by Minsheng Industrial |
| Ming Sung Industrial Company (Hong Kong) Limited ("Ming Sung (HK)") | Controlled by Minsheng Industrial |
| Minsheng Shipping Co., Ltd. ("Minsheng Shipping") | Controlled by Minsheng Industrial |
| Baoding Changan Bus Manufacture Co., Ltd. ("Changan Bus") | Controlled by Changan Automobile |
| Chongqing Changan Special Automobile Sales Co., Ltd. ("Changan Special") | Controlled by Changan Automobile |
| Chongqing Changan Connected Car Technology Co., Ltd. ("Changan Connected") | Controlled by Changan Automobile |
| Hefei Changan Yixing Technology Co., Ltd. ("Hefei Changan Yixing") | Controlled by Changan Automobile |
| Hebei Changan Automobile Co., Ltd. ("Hebei Changan") | Controlled by Changan Automobile |
| Nanjing Changan Automobile Co., Ltd. ("Nanjing Changan") | Controlled by Changan Automobile |
| Hefei Changan Automobile Co., Ltd. ("Hefei Changan") | Controlled by Changan Automobile |
| Chongqing Changan International Sales and Services Co., Ltd. ("Changan International Sales") | Controlled by Changan Automobile |
| Chongqing Changan Automobile Supporting Service Co., Ltd. ("Changan Service") | Controlled by Changan Automobile |
| Chongqing Changan New Energy Vehicle Co., Ltd. ("Changan New Energy") | Controlled by Changan Automobile |
| Chongqing Changan Suzuki Automobile Co., Ltd. ("Changan Suzuki") | Controlled by Changan Automobile |

continued/...

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37. RELATED PARTY TRANSACTIONS (CONTINUED)

- (a) For the years ended 31 December 2020 and 2019, related parties, other than the subsidiaries, and their relationship with the Group are as follows: (continued)

| Name of related party | Relationship |
|---|-------------------------------------|
| Chongqing Changan New Energy Automobile Technology Co., Ltd. ("Changan New Energy Technology") | Controlled by Changan Automobile |
| Changan Ford Automobile Co., Ltd. ("Changan Ford") | Joint venture of Changan Automobile |
| Changan Mazda Automobile Co., Ltd. ("Changan Mazda") | Joint venture of Changan Automobile |
| Changan Mazda Engine Co., Ltd. ("Changan Mazda Engine") | Joint venture of Changan Automobile |
| Jiangling Motors Corporation, Ltd. ("Jiangling Motors") | Associate of Changan Automobile |
| Jiangling Holding Co., Ltd. ("Jiangling Holding") | Associate of Changan Automobile |
| Changan Automobile Finance Co., Ltd. ("Changan Automobile Finance") | Associate of Changan Automobile |
| Nanjing Chelai Travel Technology Co., Ltd. ("Nanjing Chelai ") | Associate of Changan Automobile |
| Chongqing Changan Kuayue Automobile Co., Ltd. ("Changan Kuayue") | Associate of Changan Automobile |
| Chongqing Ante Import and Export Trading Co., Ltd. ("Chongqing Ante") | Subsidiary of Changan Ford |
| Changan Ford New Energy Automobile Sale Service Co., Ltd. ("Shenzhen New Energy") | Subsidiary of Changan Ford |
| Changan Ford New Energy Automobile Sale Service Co., Ltd. ("Guangzhou New Energy") | Subsidiary of Changan Ford |
| Changan Ford (Hangzhou) Trading Co., Ltd. ("Hangzhou Trading") | Subsidiary of Changan Ford |
| Hangzhou Changan Minsheng Anji Logistics Co., Ltd. ("Hangzhou Anji") | Joint venture of the Company |
| Chongqing Guoyuan Ro-Ro Terminal Company Limited ("Chongqing Guoyuangang") | Associate of the Company |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

37. RELATED PARTY TRANSACTIONS (CONTINUED)

- (b) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

Transactions with a joint venture:

- (i) Revenue from the rendering of supply chain management services for automobile raw materials, components and parts:

| | 2020 RMB'000 | 2019 RMB'000 |
|---------------|-----------------|-----------------|
| Hangzhou Anji | <u>23,890</u> | <u>40,526</u> |

- (ii) Income from the leasing services:

| | 2020 RMB'000 | 2019 RMB'000 |
|---------------|-----------------|-----------------|
| Hangzhou Anji | <u>321</u> | <u>378</u> |

- (iii) Supply chain management services for automobile raw materials, components and parts services provided by a joint venture:

| | 2020 RMB'000 | 2019 RMB'000 |
|---------------|-----------------|-----------------|
| Hangzhou Anji | <u>-</u> | <u>8</u> |

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31 December 2020

37. RELATED PARTY TRANSACTIONS (CONTINUED)

- (b) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year: (continued)

Transactions with an associate

- (i) Supply chain management services for automobile raw materials, components and parts services provided by an associate:

| | 2020 RMB'000 | 2019 RMB'000 |
|-------------------|-----------------|-----------------|
| Chongqing Guoyuan | <u>245</u> | <u>79</u> |

Transactions with other related parties

- (i) Dividend income

| | 2020 RMB'000 | 2019 RMB'000 |
|-------------------|-----------------|-----------------|
| Zhuangbei Finance | <u>1,995</u> | <u>1,753</u> |

- (i) Interest income

| | 2020 RMB'000 | 2019 RMB'000 |
|-------------------|-----------------|-----------------|
| Zhuangbei Finance | <u>2,097</u> | <u>3,284</u> |

- (i) Administrative expenses

| | 2020 RMB'000 | 2019 RMB'000 |
|-------------------|-----------------|-----------------|
| Chongqing Changan | <u>2,374</u> | <u>-</u> |

NOTES TO FINANCIAL STATEMENTS

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37. RELATED PARTY TRANSACTIONS (CONTINUED)

- (b) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year: (continued)

Transactions with other related parties:

- (i) Revenue from the rendering of transportation services for finished vehicles:

| | 2020 RMB'000 | 2019 RMB'000 |
|-------------------------------|------------------|------------------|
| Changan Automobile | 1,273,768 | 1,200,975 |
| Changan Ford | 349,477 | 355,319 |
| Changan Mazda | 259,203 | 226,767 |
| Changan Bus | 164,994 | 193,891 |
| Hebei Changan | 93,377 | 48,635 |
| Changan New Energy Technology | 15,417 | 4,600 |
| Minsheng Logistics | 7,749 | 11,088 |
| Changan Special | 5,796 | - |
| Changan Mazda Engine | 4,844 | - |
| Changan Connected | 1,014 | 820 |
| Changan Suzuki | 679 | - |
| Chongqing Anfu | 165 | 153 |
| Dajiang Xingchen | 140 | 57 |
| Hefei Changan | 129 | 19,218 |
| Nanjing Changan | 96 | - |
| Changan Automobile Finance | 70 | 46 |
| Hubei Huazhong Maruili | 56 | - |
| Ningjiang Showa | 20 | - |
| Sichuan Jian'an | 19 | - |
| Shenzhen New Energy | 14 | 925 |
| China Changan | 8 | - |
| Nanjing Chelai | 3 | - |
| Hefei Changan Yixing | - | 589 |
| Guangzhou New Energy | - | 513 |
| Wanyou Economic | - | 98 |
| Chengdu Huachuan | - | 18 |
| Chongqing Wanyou Ducheng | - | 12 |
| Guangxi Wanyou | - | 3 |
| Nanning Wanyou | - | 3 |
| Changrong Machinery | - | 2 |
| | <u>2,177,038</u> | <u>2,063,732</u> |

- (ii) Revenue from the rendering of supply chain management services for automobile raw materials, components and parts:

| | 2020 RMB'000 | 2019 RMB'000 |
|-----------------------------|-----------------|-----------------|
| Changan Ford | 385,053 | 424,362 |
| Changan Automobile | 208,167 | 210,623 |
| Changan International Sales | 161,092 | 110,736 |
| Changan Mazda | 133,056 | 171,858 |
| Hefei Changan | 50,223 | 27,434 |
| Sichuan Jian'an | 43,204 | 39,655 |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

37. RELATED PARTY TRANSACTIONS (CONTINUED)

- (b) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year: (continued)

Transactions with other related parties: (continued)

- (ii) Revenue from the rendering of supply chain management services for automobile raw materials, components and parts:

| | 2020 RMB'000 | 2019 RMB'000 |
|----------------------------------|------------------|------------------|
| Changan Bus | 15,093 | 15,939 |
| Hangzhou Trading | 11,497 | 24,792 |
| Chengdu Huachuan | 11,319 | 14,047 |
| Changan Service | 8,012 | 11,107 |
| Anhui Jian'an | 6,793 | 4,618 |
| CTCS | 4,250 | 599 |
| Harbin DAE | 2,895 | 1,010 |
| Changan Mazda Engine | 2,248 | 7,416 |
| Nanjing Changan | 1,816 | 2,794 |
| China Changan | 1,337 | 41 |
| Jianshe Industrial | 1,242 | 140 |
| Chengdu Wanyou | 1,195 | 1,800 |
| Hubei Xiaogan | 1,086 | 789 |
| Ningjiang Showa | 1,024 | 1,239 |
| Hebei Changan | 919 | 6,694 |
| Changan New Energy Technology | 757 | - |
| South Air | 605 | 572 |
| Chongqing Jianshe Auto-Air | 579 | 528 |
| Chongqing Jianshe Toneluck | 448 | 48 |
| Ningjiang Shock | 440 | 615 |
| Hubei Huazhong Maruili | 424 | 119 |
| Yunnan Xiyi | 372 | 281 |
| Shangfang Fitting | 319 | 221 |
| Changan Suzuki | 284 | 2,494 |
| Chongqing Naishite | 245 | 564 |
| Minsheng Comprehensive | 163 | 177 |
| Changan Special | 109 | - |
| Sichuan Hongguang | 76 | 74 |
| Dajiang Jiexin | 28 | 24 |
| Jiangling Holding | 26 | 3,174 |
| Tiannake Lingchuan | 16 | 20 |
| Yihong Plastic | 11 | 17 |
| Chengdu Jialing Huaxi | 9 | 10 |
| Wanyou Longrui | 7 | - |
| Minsheng International Container | 4 | 40 |
| Changfeng Jiquan | 1 | 311 |
| Chongqing Ante | - | 36,117 |
| Harbin DAP | - | 790 |
| Minsheng Logistics | - | 456 |
| Lingchuan Tank | - | 77 |
| Sichuan Huaqing | - | 55 |
| Changrong Machinery | - | 28 |
| Nanjing Chelai | - | 22 |
| Dajiang Xinda | - | 19 |
| Changan Property | - | 7 |
| Guizhou Wanfu | - | 5 |
| | <u>1,056,444</u> | <u>1,124,558</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

37. RELATED PARTY TRANSACTIONS (CONTINUED)

- (b) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year: (continued)

Transactions with other related parties: (continued)

- (iii) Revenue from the sale of packaging materials and the processing of tyres and others:

| | 2020 RMB'000 | 2019 RMB'000 |
|-----------------------------|-----------------|-----------------|
| Changan Ford | 446,134 | 363,898 |
| Changan Bus | 1,618 | 1,369 |
| Hebei Changan | 961 | 1,990 |
| Hefei Changan | 560 | 165 |
| Changan Automobile | - | 5,271 |
| Jiangling Holding | - | 1,405 |
| Sichuan Jian'an | - | 889 |
| Changan Suzuki | - | 251 |
| Changan International Sales | - | 240 |
| Nanjing Changan | - | 90 |
| | <u>449,273</u> | <u>375,568</u> |

- (iv) Income from the financing logistics services:

| | 2020 RMB'000 | 2019 RMB'000 |
|---------------------|-----------------|-----------------|
| Zhuangbei Factoring | <u>-</u> | <u>182</u> |

- (v) Purchases of transportation services:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|-----------------|-----------------|
| Minsheng Logistics | 104,530 | 161,623 |
| Shanghai Minsheng Shipping | 45,108 | 21,534 |
| Minsheng Comprehensive | 25,039 | - |
| Sichuan Jian'an | 9,247 | - |
| Minsheng International Freight | 8,206 | 24,514 |
| Minsheng International Container | 7,709 | 2,671 |
| Minsheng Industry | 2,115 | - |
| Hefei Changan | 748 | - |
| Changan Mazda | 555 | 767 |
| Changan Bus | 518 | 206 |
| Hangzhou Investment | 294 | - |
| Changan Automobile | 278 | - |
| Tianjin Minsheng Shipping | 90 | 5 |
| Dajiang Xingchen | 31 | 6,262 |
| Shanghai Minsheng International Freight | 2 | 125 |
| APLL Shanghai | 1 | 30 |
| APLLC | - | 975 |
| Changan Suzuki | - | 343 |
| Chongqing Minsheng Custom | - | 223 |
| Minsheng Shipping | - | 33 |
| Changan Property | - | 12 |
| | <u>204,471</u> | <u>219,323</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

37. RELATED PARTY TRANSACTIONS (CONTINUED)

- (b) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year: (continued)

Transactions with other related parties: (continued)

- (vi) Purchases of construction services:

| | 2020 RMB'000 | 2019 RMB'000 |
|--------------------------------|-----------------|-----------------|
| Chongqing Changan Construction | 2,520 | - |
| Chongqing Changxin | <u>-</u> | <u>1,518</u> |
| | <u>2,520</u> | <u>1,518</u> |

- (vii) Purchases of security and cleaning services:

| | 2020 RMB'000 | 2019 RMB'000 |
|------------------|-----------------|-----------------|
| Changan Property | <u>3,198</u> | <u>7,464</u> |

- (viii) Leases - warehouse and venue:

| | 2020 RMB'000 | 2019 RMB'000 |
|-----------------|-----------------|-----------------|
| Hefei Changan | 675 | 916 |
| Changan Suzuki | 1,043 | 342 |
| Changan Special | - | 63 |
| Hebei Changan | <u>19</u> | <u>21</u> |
| | <u>1,737</u> | <u>1,342</u> |

- (ix) Loans from related parties:

| | 2020 RMB'000 | 2019 RMB'000 |
|-------------------|-----------------|-----------------|
| Zhuangbei Finance | <u>-</u> | <u>4,000</u> |

The interest rate was 5.30% per annum.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) As at 31 December 2020 and 2019, the related party balances were as follows:

Due from related parties:

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-----------------|-----------------|
| <i>Balances from the rendering of services and the sale of goods</i> | | |
| <i>Changan Ford</i> | 434,287 | 482,187 |
| <i>Changan Automobile</i> | 260,803 | 613,270 |
| <i>Changan Mazda</i> | 114,061 | 154,509 |
| <i>Changan Bus</i> | 62,539 | 103,421 |
| <i>Hefei Changan</i> | 58,498 | 49,799 |
| <i>Jiangling Holding</i> | 37,889 | 37,860 |
| <i>Hafei Automobile</i> | 27,666 | 27,666 |
| <i>Sichuan Jian'an</i> | 26,398 | 17,892 |
| <i>Changan New Energy Technology</i> | 17,256 | 4,876 |
| <i>Hebei Changan</i> | 16,315 | 45,063 |
| <i>Jiangling Motors</i> | 15,307 | - |
| <i>Hangzhou Anji</i> | 5,582 | 27,255 |
| <i>Changan Special</i> | 3,630 | - |
| <i>CTCS</i> | 3,619 | 666 |
| <i>Changan Mazda Engine</i> | 3,520 | 2,314 |
| <i>Chengdu Huachuan</i> | 3,332 | 4,070 |
| <i>Anhui Jian'an</i> | 1,766 | 2,737 |
| <i>Changan International Sales</i> | 1,352 | 14,403 |
| <i>Changan Connected</i> | 1,105 | - |
| <i>Changan Service</i> | 1,076 | 4,811 |
| <i>Minsheng International Freight</i> | 1,032 | - |
| <i>Jianshe Industrial</i> | 778 | 149 |
| <i>Hubei Xiaogan</i> | 676 | 742 |
| <i>Harbin DAE</i> | 618 | - |
| <i>Chongqing Ante</i> | 588 | 26,508 |
| <i>Nanjing Changan</i> | 464 | 632 |
| <i>Chongqing Naishite</i> | 436 | 463 |
| <i>Hubei Huazhong Maruili</i> | 408 | 155 |
| <i>Ningjiang Showa</i> | 327 | 329 |
| <i>Shangfang Fitting</i> | 283 | 108 |
| <i>Ningjiang Shock</i> | 234 | 188 |
| <i>Chengdu Wanyou</i> | 208 | 923 |
| <i>Changrong Machinery</i> | 172 | 257 |
| <i>South Air</i> | 166 | 41 |
| <i>APLLC</i> | 154 | - |
| <i>Changan New Energy</i> | 115 | - |
| <i>Nanchang Lufeng Motor</i> | 101 | - |
| <i>Changan Kuayue</i> | 89 | 93 |
| <i>Sichuan Hongguang</i> | 80 | 47 |
| <i>Dajiang Jiexin</i> | 71 | 74 |
| <i>Changan Suzuki</i> | 55 | 619 |
| <i>Chongqing Jianshe Toneluck</i> | 55 | 31 |
| <i>Yunnan Xiyi</i> | 54 | 12 |
| <i>Harbin DAP</i> | 37 | 778 |
| <i>Chongqing Minsheng Custom</i> | 26 | - |
| <i>Minsheng Logistics</i> | 25 | 354 |
| <i>Changfeng Jiquan</i> | 25 | 96 |
| <i>Chengdu Wanyou Eco-Tech</i> | 25 | - |
| <i>Guizhou Wanyou</i> | 14 | - |
| <i>Minsheng International Container</i> | 13 | 9 |
| <i>Chongqing Changjiang Electric</i> | 9 | 10 |
| <i>Minsheng Comprehensive</i> | 7 | 187 |
| <i>Shanghai Minsheng International Freight</i> | 7 | - |
| <i>Chongqing Anfu</i> | 6 | - |
| <i>Yihong Plastic</i> | 5 | 3 |

continued/...

NOTES TO FINANCIAL STATEMENTS

31 December 2020

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) As at 31 December 2020 and 2019, the related party balances were as follows:

Due from related parties : (continued)

| | 2020 RMB'000 | 2019 RMB'000 |
|--|------------------|------------------|
| <i>Balances from the rendering of services and the sale of goods (continued)</i> | | |
| <i>Dajiang Xingchen</i> | 2 | 319 |
| <i>Zhuangbei Factoring</i> | 1 | 7 |
| <i>Lingchuan Tank</i> | 1 | 5 |
| <i>Hangzhou Trading</i> | - | 9,074 |
| <i>Changan Industry Company</i> | - | 67 |
| <i>Sichuan Huaqing</i> | - | 59 |
| <i>China Changan</i> | - | 49 |
| <i>Tiannake Lingchuan</i> | - | 19 |
| <i>Nanjing Chelai</i> | - | 14 |
| <i>Hefei Changan Yixing</i> | - | 7 |
| <i>Wanyou Longrui</i> | - | 5 |
| <i>Chongqing Jianshe Auto-Air</i> | - | 4 |
| <i>Yunnan Wanyou</i> | - | 2 |
| <i>Chengdu Jialing Huaxi</i> | - | 1 |
| <i>Dehong Wanfu</i> | - | 1 |
| <i>Liupanshui Wanfu</i> | - | 1 |
| <i>Ningbo Dongxiang</i> | - | 1 |
| | <u>1,103,368</u> | <u>1,635,242</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) As at 31 December 2020 and 2019, the related party balances were shown as follows: (continued)

Due from related parties: (continued)

| | 2020 RMB'000 | 2019 RMB'000 |
|--|------------------|------------------|
| <i>Deposits and other receivables</i> | | |
| <i>Changan Ford</i> | 4,461 | 4,705 |
| <i>Changan Suzuki</i> | 2,805 | 2,807 |
| <i>Zhonghui Futong</i> | 1,727 | 1,244 |
| <i>Changan Mazda</i> | 1,475 | 1,472 |
| <i>Changan Automobile</i> | 902 | 957 |
| <i>Zhuangbei Factoring</i> | 848 | - |
| <i>Hafei Automobile</i> | 713 | 713 |
| <i>Hebei Changan</i> | 612 | 612 |
| <i>Hangzhou Anji</i> | 577 | 111 |
| <i>Changan Bus</i> | 304 | 304 |
| <i>Nanjing Changan</i> | 164 | 212 |
| <i>Shanghai Minsheng Shipping</i> | 161 | - |
| <i>Sichuan Jian'an</i> | 100 | 100 |
| <i>Hefei Changan</i> | 79 | 79 |
| <i>Chongqing Ante</i> | 44 | 44 |
| <i>Hangzhou Investment</i> | 30 | - |
| <i>Changan Mazda Engine</i> | 13 | 13 |
| <i>Ming Sung (HK)</i> | 10 | 38 |
| <i>Changan Connected</i> | 10 | - |
| <i>Changan Property</i> | 5 | 3 |
| <i>Changan Industry Company</i> | 2 | 5 |
| <i>Chengdu Wanyou Eco-Tech</i> | 1 | - |
| <i>Jiangling Holding</i> | - | 300 |
| <i>Chongqing Changan Construction</i> | - | 82 |
| <i>Minsheng Logistics</i> | - | 20 |
| <i>China Changan</i> | - | 3 |
| <i>Jianshe Industrial</i> | - | 1 |
| | <u>15,043</u> | <u>13,825</u> |
| <i>Prepayments</i> | | |
| <i>Minsheng Shipping</i> | 469 | 122 |
| <i>Changan Automobile</i> | 421 | 1 |
| <i>Changan Connected</i> | 76 | - |
| <i>Hefei Changan</i> | 20 | 6 |
| <i>Changan Industry Company</i> | - | 6 |
| | <u>986</u> | <u>135</u> |
| Less: Loss allowance for impairment of amounts due from related parties | <u>(68,950)</u> | <u>(57,896)</u> |
| | <u>1,050,447</u> | <u>1,591,306</u> |

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31 December 2020

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) As at 31 December 2020 and 2019, the related party balances were shown as follows: (continued)

Due from related parties: (continued)

(i) Balances from the rendering of services and the sale of goods

An ageing analysis of the amounts from the rendering of services and the sale of goods due from related parties as at the end of the reporting period, based on the invoice date and net of impairment losses, is as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|--------------------|------------------|------------------|
| Within 3 months | 1,030,805 | 1,559,200 |
| 3 to 6 months | 5,666 | 9,710 |
| 6 months to 1 year | <u>277</u> | <u>10,856</u> |
| | <u>1,036,748</u> | <u>1,579,766</u> |

The movements in the loss allowance for impairment of amounts due from related parties are as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|------------------------------|-----------------|-----------------|
| At 1 January | 55,476 | 30,678 |
| Impairment losses recognised | <u>11,144</u> | <u>24,798</u> |
| | <u>66,620</u> | <u>55,476</u> |

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, amounts due from related parties from the rendering of services and the sale of goods are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's amounts due from related parties from the rendering of services and the sale of goods using a provision matrix:

As at 31 December 2020

| | Current | Past due | | | Total |
|----------------------------------|-----------|-----------------------|------------------|------------------|-----------|
| | | Less than 3 months | 4 to 9 months | Over 9 months | |
| Expected credit loss rate | 0% | 0% | 15.03% | 100.00% | 6.04% |
| Gross carrying amount (RMB'000) | 1,030,805 | 5,666 | 326 | 66,571 | 1,103,368 |
| Expected credit losses (RMB'000) | - | - | 49 | 66,571 | 66,620 |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) As at 31 December 2020 and 2019, the related party balances were shown as follows: (continued)

Due from related parties: (continued)

(i) Balances from the rendering of services and the sale of goods (continued)

As at 31 December 2019

| | Current | Past due | | | Total |
|----------------------------------|-----------|-----------------------|------------------|------------------|-----------|
| | | Less than 3 months | 4 to 9 months | Over 9 months | |
| Expected credit loss rate | 0.06% | 0.15% | 14.56% | 98.31% | 3.39% |
| Gross carrying amount (RMB'000) | 1,559,196 | 9,715 | 12,771 | 53,560 | 1,635,242 |
| Expected credit losses (RMB'000) | 945 | 15 | 1,860 | 52,656 | 55,476 |

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

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

(ii) Deposits and other receivables

| | 2020 RMB'000 | 2019 RMB'000 |
|--------------------------------|-----------------|-----------------|
| Deposits and other receivables | 15,043 | 13,825 |
| Impairment allowance | <u>(2,330)</u> | <u>(2,420)</u> |
| | <u>12,713</u> | <u>11,405</u> |

Deposits and other receivables mainly represent deposits with related parties. Where applicable, an impairment analysis is performed at each reporting date by considering expected credit losses, which are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2020 ranged from 0% to 8% (2019: 0.1% to 20%).

NOTES TO FINANCIAL STATEMENTS

31 December 2020

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) As at 31 December 2020 and 2019, the related party balances were shown as follows: (continued)

Due to related parties:

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-----------------|-----------------|
| <i>Balances from transportation services provided by related parties</i> | | |
| <i>Minsheng Logistics</i> | 106,327 | 148,765 |
| <i>Changan Automobile</i> | 31,585 | 33,935 |
| <i>Minsheng Comprehensive</i> | 9,509 | - |
| <i>Changan Ford</i> | 4,282 | - |
| <i>Minsheng International Container</i> | 3,970 | 862 |
| <i>Hafei Automobile</i> | 1,105 | 1,106 |
| <i>Shanghai Minsheng Shipping</i> | 883 | 4,279 |
| <i>Minsheng International Freight</i> | 427 | 5,585 |
| <i>Sichuan Jian'an</i> | 156 | 1,751 |
| <i>Jiangling Holding</i> | 100 | 100 |
| <i>Hangzhou Investment</i> | 63 | - |
| <i>Tianjin Minsheng Shipping</i> | 38 | - |
| <i>Hefei Changan</i> | 35 | - |
| <i>Changan Bus</i> | 9 | - |
| <i>Hangzhou Anji</i> | 8 | 8 |
| <i>APLL Shanghai</i> | 6 | 7 |
| <i>Minsheng Shipping</i> | 2 | 5 |
| <i>Dajiang Xingchen</i> | - | 754 |
| <i>Changan Suzuki</i> | - | 361 |
| <i>APLLC</i> | - | 340 |
| <i>Changan Mazda</i> | - | 178 |
| <i>Nanjing Changan</i> | - | 64 |
| <i>Shanghai Minsheng International Freight</i> | - | 9 |
| <i>Chongqing Minsheng Custom</i> | - | 1 |
| | <u>158,505</u> | <u>198,110</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) As at 31 December 2020 and 2019, the related party balances were shown as follows: (continued)

Due to related parties: (continued)

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-----------------------|-----------------------|
| <i>Other payables</i> | | |
| <i>Minsheng Logistics</i> | 4,015 | 3,016 |
| <i>Dajiang Xingchen</i> | 1,000 | 1,000 |
| <i>Changan Property</i> | 939 | 1,903 |
| <i>Chongqing Changan Construction</i> | 888 | 29 |
| <i>Sichuan Jian'an</i> | 615 | 567 |
| <i>Changan Industry Company</i> | 434 | 367 |
| <i>Changan Automobile</i> | 282 | 763 |
| <i>Minsheng Industrial</i> | 248 | 834 |
| <i>China Changan</i> | 179 | 138 |
| <i>APLLC</i> | 115 | 142 |
| <i>Shanghai Minsheng International Freight</i> | 102 | - |
| <i>Shanghai Minsheng Shipping</i> | 100 | - |
| <i>Nanjing Changan</i> | 83 | 55 |
| <i>CSI Group</i> | 79 | - |
| <i>Changan Mazda Engine</i> | 60 | 60 |
| <i>Changan Mazda</i> | 31 | 32 |
| <i>Changan Bus</i> | 28 | 28 |
| <i>Jiangling Holding</i> | 20 | 20 |
| <i>Hebei Changan</i> | 5 | - |
| <i>Changan International Sales</i> | 4 | - |
| <i>Wanyou Economic</i> | 1 | 1 |
| <i>South Air</i> | 1 | 1 |
| <i>Zhuangbei Factoring</i> | - | 24,955 |
| <i>Changan Ford</i> | - | 6,029 |
| <i>Chongqing Changxin</i> | - | 1,006 |
| <i>Changan Service</i> | - | 9 |
| <i>Chengdu Huachuan</i> | - | 8 |
| <i>Minsheng Shipping</i> | - | 1 |
| <i>Hubei Xiaogan</i> | - | - |
| <i>Changfeng Jiquan</i> | - | - |
| | <u>9,229</u> | <u>40,964</u> |
| <i>Contract liabilities</i> | | |
| <i>Minsheng Comprehensive</i> | 50 | - |
| <i>Changfeng Jiquan</i> | 8 | - |
| <i>Chengdu Huachuan</i> | 3 | - |
| <i>Changan Automobile</i> | 3 | 3 |
| <i>Zhuangbei Factoring</i> | 1 | - |
| <i>Changan Suzuki</i> | - | 80 |
| <i>Harbin DAE</i> | - | 56 |
| | <u>65</u> | <u>139</u> |
| | <u><u>167,799</u></u> | <u><u>239,213</u></u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) As at 31 December 2020 and 2019, the related party balances were shown as follows: (continued)

Due to related parties: (continued)

An ageing analysis of the amounts from transportation services provided by related parties as at the end of the reporting period is as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|--------------------|-----------------|-----------------|
| Within 3 months | 126,285 | 163,853 |
| 3 to 6 months | - | 1,585 |
| 6 months to 1 year | 700 | 9,367 |
| 1 to 2 years | 31,402 | 23,302 |
| Over 2 years | <u>118</u> | <u>3</u> |
| | <u>158,505</u> | <u>198,110</u> |

The amounts from transportation services provided by related parties are non-interest-bearing and are normally settled on 90-day terms.

As at 31 December 2020 and 2019, all related party balances above were unsecured.

The carrying values of amounts due from and due to a related party approximate to their fair values due to the short term maturity.

| <u>Deposits</u> | 2020 RMB'000 | 2019 RMB'000 |
|-------------------|-----------------|-----------------|
| Zhuangbei Finance | <u>191,240</u> | <u>344,970</u> |

The interest rates range from 0.46% to 1.89% per annum (2019: 0.46% to 1.89%).

| <u>Loans</u> | 2020 RMB'000 | 2019 RMB'000 |
|-----------------------------|-----------------|-----------------|
| Zhonghui Futong (note 28) | - | 9,564 |
| Zhuangbei Finance (note 28) | <u>-</u> | <u>4,000</u> |
| | <u>-</u> | <u>13,564</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. FINANCIAL INSTRUMENTS BY CATEGORY

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

31 December 2020

Financial assets

| | Financial assets at amortised cost RMB'000 | Financial assets at fair value through other comprehensive income | | Total RMB'000 |
|---|--|--|-----------------------------|------------------|
| | | Equity investments RMB'000 | Debt investments RMB'000 | |
| An equity investment designated at fair value through other comprehensive income | - | 67,068 | - | 67,068 |
| Trade and bills receivables | 401,512 | - | 463,831 | 865,343 |
| Financial assets included in prepayments, other receivables and other assets | 143,810 | - | - | 143,810 |
| Due from related parties | 1,049,461 | - | - | 1,049,461 |
| Pledged deposits | 200,156 | - | - | 200,156 |
| Cash and cash equivalents | 894,340 | - | - | 894,340 |
| | <u>2,689,279</u> | <u>67,068</u> | <u>463,831</u> | <u>3,220,178</u> |

Financial liabilities

| | Financial liabilities at amortised cost RMB'000 |
|---|---|
| Trade and bills payables | 1,700,853 |
| Financial liabilities included in other payables and accruals | 231,053 |
| Due to related parties | 167,734 |
| Lease liabilities | 70,329 |
| Interest-bearing bank and other loans | 6,000 |
| | <u>2,175,969</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

38. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

31 December 2019

Financial assets

| | Financial assets at amortised cost RMB'000 | Financial assets at fair value through other comprehensive income | | Total RMB'000 |
|---|--|--|-----------------------------|------------------|
| | | Equity investments RMB'000 | Debt investments RMB'000 | |
| An equity investment designated at fair value through other comprehensive income | - | 67,000 | - | 67,000 |
| Trade and bills receivables | 406,023 | - | 347,818 | 753,841 |
| Financial assets included in prepayments, other receivables and other assets | 64,450 | - | - | 64,450 |
| Due from related parties | 1,591,171 | - | - | 1,591,171 |
| Pledged deposits | 15,587 | - | - | 15,587 |
| Cash and cash equivalents | 826,203 | - | - | 826,203 |
| | <u>2,903,434</u> | <u>67,000</u> | <u>347,818</u> | <u>3,318,252</u> |

Financial liabilities

| | Financial liabilities at amortised cost RMB'000 |
|---|---|
| Trade and bills payables | 1,682,016 |
| Financial liabilities included in other payables and accruals | 249,227 |
| Due to related parties | 239,074 |
| Lease liabilities | 97,815 |
| Bank advances for discounted bills | 14,411 |
| Interest-bearing bank and other loans | <u>13,564</u> |
| | <u>2,296,107</u> |

39. TRANSFERS OF FINANCIAL ASSETS

Financial assets that are not derecognised in their entirety

At 31 December 2020, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMBNil (2019: RMB14,411,000) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). The Endorsed Bills had a maturity of one to ten months at 31 December 2020. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Bills have a right of recourse against the Group if the PRC banks default. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year to which the suppliers have recourse was RMBNil (2019: RMB14,411,000) as at 31 December 2020.

31 December 2020

39. TRANSFERS OF FINANCIAL ASSETS (CONTINUED)

Financial assets that are derecognised in their entirety

As at 31 December 2020, the Group endorsed certain bills (notes) receivable accepted by banks in Mainland China (the “Derecognised Bills”) to certain of its suppliers in order to settle the trade payables due to these suppliers with a carrying amount in aggregate of RMBNil (referred to as the “Derecognised Bills”, 2019: RMB24,615,000). The Derecognised Bills have a maturity from one to nine months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in Mainland China, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the “Continuing Involvement”). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group’s Continuing Involvement in the Derecognised Bills are not significant.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

The Group’s corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At the end of each reporting period, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair value of an unlisted equity investment designated at fair value through other comprehensive income has been estimated using the comparable transaction method based on assumptions that are not supported by observable market prices or rates. The key ratio used in the computation of fair value is a price to book value (“P/B”) multiple at 1.02. The key assumptions of using the P/B multiple under the comparable transaction method are 1) Zhuangbei Finance is a finance company and lack of comparable public companies; and 2) the P/B multiple matches Zhuangbei Finance’s income composition, which is consistent with the identified comparable samples in the comparable transactions. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

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40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

For the fair value of the unlisted equity investment at fair value through other comprehensive income, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model. The fair value measurement is positively correlated to the P/B ratio. As at 31 December 2020, it is estimated that with all other variables held constant, an increase/decrease in the P/B multiple by 10% would have increased/decreased the fair value by RMB6,707,000.

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2020

| | Fair value measurement using | | | Total RMB'000 |
|--|---|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| Bills receivable measured at fair value through other comprehensive income | - | 463,831 | - | 463,831 |
| An equity investment designated at fair value through other comprehensive income | - | - | 67,068 | 67,068 |
| | - | 463,831 | 67,068 | 530,899 |

As at 31 December 2019

| | Fair value measurement using | | | Total RMB'000 |
|--|---|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| Bills receivable measured at fair value through other comprehensive income | - | 347,818 | - | 347,818 |
| An equity investment designated at fair value through other comprehensive income | - | - | 67,000 | 67,000 |
| | - | 347,818 | 67,000 | 414,818 |

31 December 2020

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other loans, bank advances for discounted bills and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, deposits and other receivables, trade and bills payables, other payables and accruals, and amounts due from/to related parties which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

Interest rate risk

The interest rates and terms of repayment of interest-bearing bank and other loans are disclosed in note 28. The Group does not have any significant exposure to the risk of changes in market interest rates as the Group does not have any significant long term receivables and loans which are subject to floating interest rates.

Foreign currency risk

The Group's principal businesses are located in the Mainland China and most of the transactions are conducted in RMB. During the years of 2020 and 2019, almost all of the Group's sales and costs were denominated in RMB, the Group's functional currency. Most of the Group's assets and liabilities are denominated in RMB, except for certain items of cash and cash equivalents that are denominated in US\$ and other currencies.

The Group does not consider that it has any significant exposure to the risk of fluctuation in the exchange rates between US\$, other currencies and RMB as a reasonable possible change of 5% in RMB against US\$ and other currencies would have no significant financial impact on the Group's profit.

Credit risk

The Group trades only with recognised and creditworthy related parties and third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances including amounts due from related parties are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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31 December 2020

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2020

| | 12-month | Lifetime ECLs | | | Total RMB'000 |
|--|----------------------------|--------------------|--------------------|-----------------------------------|------------------|
| | ECLs Stage 1 RMB'000 | Stage 2 RMB'000 | Stage 3 RMB'000 | Simplified approach RMB'000 | |
| Trade receivables* | - | - | - | 423,776 | 423,776 |
| Bills receivable | 463,831 | - | - | - | 463,831 |
| Financial assets included in due from related parties: | | | | | |
| (i) Balances from the rendering of services and the sale of goods* | - | - | - | 1,103,368 | 1,103,368 |
| (ii) Deposits and other receivables | | | | | |
| - Normal** | 12,761 | - | - | - | 12,761 |
| - Doubtful** | - | - | 2,282 | - | 2,282 |
| Financial assets included in prepayments, other receivables and other assets | | | | | |
| - Normal** | 144,254 | - | - | - | 144,254 |
| - Doubtful** | - | - | 2,987 | - | 2,987 |
| Pledged deposits | | | | | |
| - Not yet past due | 200,156 | - | - | - | 200,156 |
| Cash and cash equivalents | | | | | |
| - Not yet past due | 894,340 | - | - | - | 894,340 |
| | <u>1,715,342</u> | <u>-</u> | <u>5,269</u> | <u>1,527,144</u> | <u>3,247,755</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2019

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

As at 31 December 2019

12-month

| | ECLs | | Lifetime ECLs | | Total RMB'000 |
|---|--------------------|--------------------|--------------------|-----------------------------------|------------------|
| | Stage 1 RMB'000 | Stage 2 RMB'000 | Stage 3 RMB'000 | Simplified approach RMB'000 | |
| Trade receivables* | - | - | - | 445,495 | 445,495 |
| Bills receivable | 347,818 | - | - | - | 347,818 |
| Financial assets included in due from related parties: | | | | | |
| (i) Balances from the rendering of services and the sale of goods* | - | - | - | 1,635,242 | 1,635,242 |
| (ii) Deposits and other receivables | | | | | |
| - Normal** | 11,424 | - | - | - | 11,424 |
| - Doubtful** | - | - | 2,401 | - | 2,401 |
| Financial assets included in prepayments, other receivables and other assets | | | | | |
| - Normal** | 64,746 | - | - | - | 64,746 |
| - Doubtful** | - | - | 1,839 | - | 1,839 |
| Pledged deposits | | | | | |
| - Not yet past due | 15,587 | - | - | - | 15,587 |
| Cash and cash equivalents | | | | | |
| - Not yet past due | 826,203 | - | - | - | 826,203 |
| | <u>1,265,778</u> | <u>-</u> | <u>4,240</u> | <u>2,080,737</u> | <u>3,350,755</u> |

* For trade receivables and amounts due from related parties to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 23 and 37 to the financial statements, respectively.

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

Since the Group trades only with recognised and creditworthy related parties and third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty. At the end of the reporting period, the Group had certain concentrations of credit risk as 18% (2019: 29%) and 61% (2019: 67%) of the Group's receivables arising from the rendering of services and the sale of goods (including trade receivables and amounts due from related parties) were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and amounts due from related parties are disclosed in notes 23 and 37 to the financial statements, respectively.

NOTES TO FINANCIAL STATEMENTS

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the settlement from customers and the payment to vendors. Same as 2019, almost all the Group's debts would mature in less than one year as at 31 December 2020 based on the carrying value of loans reflected in the financial statements.

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

2020

| | Within 1 year RMB'000 | 1-2 years RMB'000 | 2-5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
|--|-----------------------------|-------------------------|-------------------------|----------------------------|------------------|
| Trade and bills payables | 1,700,853 | - | - | - | 1,700,853 |
| Financial liabilities included in other payables and accruals | 231,053 | - | - | - | 231,053 |
| Lease liabilities | 34,365 | 29,416 | 11,455 | 434 | 75,670 |
| Due to related parties | 167,734 | - | - | - | 167,734 |
| Interest-bearing bank and other loans | 6,152 | - | - | - | 6,152 |
| | <u>2,140,157</u> | <u>29,416</u> | <u>11,455</u> | <u>434</u> | <u>2,181,462</u> |

2019

| | Within 1 year RMB'000 | 1-2 years RMB'000 | 2-5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
|--|-----------------------------|-------------------------|-------------------------|----------------------------|------------------|
| Trade and bills payables | 1,682,016 | - | - | - | 1,682,016 |
| Financial liabilities included in other payables and accruals | 249,227 | - | - | - | 249,227 |
| Bank advances for discounted bills | 14,411 | - | - | - | 14,411 |
| Lease liabilities | 18,352 | 31,311 | 19,536 | 44,650 | 113,849 |
| Due to related parties | 239,074 | - | - | - | 239,074 |
| Interest-bearing bank and other loans | 13,902 | - | - | - | 13,902 |
| | <u>2,216,982</u> | <u>31,311</u> | <u>19,536</u> | <u>44,650</u> | <u>2,312,479</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2020

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements.

The Group monitors capital using a gearing ratio which is net debt divided by the adjusted capital plus net debt. Net debt includes interest-bearing bank and other loans, bank advances for discounted bills, amounts due to related parties, trade and bills payables and other payables and accruals, less cash and cash equivalents and pledged deposits. Capital represents equity attributable to owners of the Company. The gearing ratios as at the end of the reporting periods were as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|--|------------------|------------------|
| Interest-bearing bank and other loans | 6,000 | 13,564 |
| Bank advances for discounted bills | - | 14,411 |
| Trade and bills payables | 1,700,853 | 1,682,016 |
| Other payables and accruals | 388,205 | 449,100 |
| Due to related parties | 167,799 | 239,213 |
| Less: Cash and cash equivalents | (894,340) | (826,203) |
| Pledged deposits | <u>(200,156)</u> | <u>(15,587)</u> |
| Net debt | <u>1,168,361</u> | <u>1,556,514</u> |
| Equity attributable to owners of the Company | <u>1,918,332</u> | <u>1,917,495</u> |
| Adjusted capital and net debt | <u>3,086,693</u> | <u>3,474,009</u> |
| Gearing ratio | <u>38%</u> | <u>45%</u> |

42. EVENTS AFTER THE REPORTING PERIOD

On 28 January 2021, the Company entered into an investment agreement with Yiqi Logistics Co.,Ltd ("Yiqi Logistics") to set up a company named "Chongqing Changxiang Supply Chain Technology Co., Ltd", in which the Company and Yiqi Logistics will hold a direct interest of 70% and 30% respectively. This subsidiary was incorporated on 24 March 2021 and the share capital of RMB20,000,000 has not been paid-up.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|------------------|------------------|
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 240,568 | 255,902 |
| Investment properties | 42,157 | 24,107 |
| Right-of-use assets | 125,785 | 138,564 |
| Goodwill | 2,222 | 2,222 |
| Other intangible assets | 15,284 | 23,860 |
| Investments in subsidiaries | 955,013 | 900,613 |
| Investment in a joint venture | 10,000 | 10,000 |
| Investments in an associate | 85,072 | 85,072 |
| An equity investment designated at fair value through other comprehensive income | 67,068 | 67,000 |
| Deferred tax assets | 56,695 | 53,952 |
| Other non-current assets | 46,206 | 46,701 |
| Total non-current assets | <u>1,646,070</u> | <u>1,607,993</u> |
| CURRENT ASSETS | | |
| Inventories | - | 2,618 |
| Trade and bills receivables | 582,146 | 567,915 |
| Prepayments, other receivables and other assets | 108,021 | 51,268 |
| Due from related parties | 940,234 | 1,397,781 |
| Pledged deposits | 24,997 | 15,587 |
| Cash and cash equivalents | 381,103 | 519,676 |
| Total current assets | <u>2,036,501</u> | <u>2,554,845</u> |
| CURRENT LIABILITIES | | |
| Trade and bills payables | 918,555 | 868,950 |
| Other payables and accruals | 290,812 | 351,291 |
| Due to related parties | 697,702 | 1,178,601 |
| Interest-bearing loans | - | 4,343 |
| Bank advances for discounted bills | - | 8,070 |
| Lease liabilities | 6,255 | 6,664 |
| Tax payable | (7,242) | (16,487) |
| Total current liabilities | <u>1,906,082</u> | <u>2,401,432</u> |
| NET CURRENT ASSETS | <u>130,419</u> | <u>153,413</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | <u>1,776,489</u> | <u>1,761,406</u> |

continued/...

NOTES TO FINANCIAL STATEMENTS

31 December 2020

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

| | 2020 RMB'000 | 2019 RMB'000 |
|---------------------------------------|------------------|------------------|
| TOTAL ASSETS LESS CURRENT LIABILITIES | <u>1,776,489</u> | <u>1,761,406</u> |
| NON-CURRENT LIABILITIES | | |
| Lease liabilities | 3,821 | 17,780 |
| Deferred tax liabilities | 3,307 | 3,296 |
| Deferred income | <u>9,533</u> | <u>13,604</u> |
| Total non-current liabilities | <u>16,661</u> | <u>34,680</u> |
| Net assets | <u>1,759,828</u> | <u>1,726,726</u> |
| EQUITY | | |
| Share capital | 162,064 | 162,064 |
| Reserves (note) | <u>1,597,764</u> | <u>1,564,662</u> |
| Total equity | <u>1,759,828</u> | <u>1,726,726</u> |

Note:

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

| | Share premium account RMB'000 | Fair value reserve of financial assets at fair value through other comprehensive income RMB'000 | Safety fund surplus reserve RMB'000 | Statutory reserve funds RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|--|--|--|---|--|--------------------------------|------------------|
| Balance at 1 January 2019 | 75,150 | - | - | 85,867 | 1,457,139 | 1,618,156 |
| Total comprehensive loss for the year | - | 18,680 | - | - | (55,968) | (37,288) |
| Establishment for safety fund surplus reserve | - | - | 3,963 | - | - | 3,963 |
| Utilisation of safety fund surplus reserve | - | - | (3,963) | - | - | (3,963) |
| Dividend declared to shareholders | - | - | - | - | (16,206) | (16,206) |
| At 31 December 2019 | <u>75,150</u> | <u>18,680</u> | <u>-</u> | <u>85,867</u> | <u>1,384,965</u> | <u>1,564,662</u> |
| Total comprehensive income for the year | - | 58 | - | - | 33,044 | 33,102 |
| Establishment for safety fund surplus reserve | - | - | 5,225 | - | - | - |
| Utilisation of safety fund surplus reserve | - | - | (5,225) | - | - | - |
| At 31 December 2020 | <u>75,150</u> | <u>18,738</u> | <u>-</u> | <u>85,867</u> | <u>1,418,009</u> | <u>1,597,764</u> |

31 December 2020

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Statutory reserves

In accordance with the PRC Company Law, the Company and its subsidiaries are required to appropriate 10% of its annual statutory net profit, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve before distributing the net profit to shareholders. When the balance of the statutory surplus reserve reaches 50% of a company's registered capital, any further appropriation is at the discretion of shareholders. The statutory surplus reserve can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding, provided that the remaining balance of the statutory surplus reserve after such issue is not less than 25% of registered capital.

As the balance of the statutory surplus reserve amounting to RMB81,032,000 reached 50% of the Company's registered capital, no amount was appropriated to the statutory surplus reserve from net profit for the year ended 31 December 2020 (2019: Nil).

Discretionary surplus reserve

Pursuant to the Articles of Association of the Company, the Company has the discretion to appropriate its annual statutory net profit to the discretionary surplus reserve after the appropriation of statutory surplus reserve upon the approval by shareholders. The discretionary surplus reserve can be used to offset prior years' losses, if any, and may be converted into share capital. As at 31 December 2020, the balance of the discretionary surplus reserve was RMB4,835,000 (2019: RMB4,835,000).

As at 31 December 2020, in the opinion of the Directors, the reserves of the Company available for distribution to shareholders amounted to RMB1,597,847,000 (2019: RMB1,564,662,000).

44. APPROVAL OF THE FINANCIAL STATEMENTS

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

FINANCIAL SUMMARY

Results

Set out below is the summary of the consolidated results of the Group for the five years ended 31 December 2020 (as extracted from the Group's audited consolidated statement of profit or loss and consolidated statement of comprehensive income, which are prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRS")):

| | As at 31 December | | | | |
|---|-----------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue | 4,685,655 | 4,341,585 | 5,112,410 | 6,614,423 | 6,822,195 |
| Profit/(loss) before tax | 23,241 | (36,697) | 101,777 | 218,905 | 188,583 |
| Income tax expense | 9,451 | 7,840 | 35,363 | 57,643 | 48,946 |
| Profit/(loss) for the year | 13,790 | (44,537) | 66,414 | 161,262 | 139,637 |
| Profit attributable to the following parties: | | | | | |
| Non-controlling interest | 13,369 | 11,430 | 20,305 | 33,963 | 26,632 |
| Owners of the Company | 421 | (55,967) | 46,109 | 127,299 | 113,005 |
| | RMB yuan | RMB yuan | RMB yuan | RMB yuan | RMB yuan |
| Earnings per share attributable to ordinary equity holders of the Company | | | | | |
| Basic and diluted-for profit for the year (Note 1) | 0.00 | (0.35) | 0.28 | 0.79 | 0.70 |
| Dividends per share | Nil | Nil | 0.1 | 0.15 | 0.1 |
| | (including tax) (Note 2) | (including tax) | (including tax) | (including tax) | (including tax) |

Note 1: Earnings per share attributable to ordinary equity holders of the Company is calculated by dividing the profit attributable to the owners of the Company for the years ended 31 December 2016, 2017, 2018, 2019 and 2020 by the weighted average number of shares in issue for the respective years ended 31 December 2016, 2017, 2018, 2019 and 2020 respectively, being 162,064,000, 162,064,000, 162,064,000, 162,064,000 and 162,064,000 shares.

Note 2: The Board does not recommend the payment of the final dividend for the year ended 31 December 2020.

Assets and Liabilities

Set out below is the summary of the Group's balance sheet for the five years ended 31 December 2020 (as extracted from the Group's audited consolidated statement of financial position, which are prepared in accordance with the HKFRS):

| | As at 31 December | | | | |
|--|-------------------|-----------|-----------|-----------|-----------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Non-current assets | 1,225,005 | 1,285,021 | 1,121,682 | 973,000 | 992,923 |
| Current assets | 3,169,621 | 3,274,565 | 3,501,435 | 3,832,318 | 3,641,866 |
| Total assets | 4,394,626 | 4,559,586 | 4,623,117 | 4,805,318 | 4,634,789 |
| Non-current liabilities | 61,387 | 108,163 | 21,990 | 28,838 | 12,794 |
| Current liabilities | 2,292,740 | 2,412,669 | 2,509,546 | 2,697,415 | 2,663,682 |
| Total liabilities | 2,354,127 | 2,520,832 | 2,531,536 | 2,726,253 | 2,676,476 |
| Non-controlling interest | 122,167 | 121,259 | 121,767 | 127,862 | 120,299 |
| Equity attributable to owners of the Company | 1,918,332 | 1,917,495 | 1,969,814 | 1,951,203 | 1,838,014 |
| Total equity | 2,040,499 | 2,038,754 | 2,091,581 | 2,079,065 | 1,958,313 |

CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Director(s)") of the Company, I am pleased to present the audited annual results of the Group for the year ended 31 December 2020 to all shareholders of the Company.

Annual Results

2020 is an extraordinary year in the history of new China. Facing with the severe and complicated international and domestic environment, especially with the grave impact caused by the novel coronavirus, the Chinese government stuck to the primacy of people and life, the fundamental work principle of seeking progress while maintaining stability and coordinating virus prevention and controlling with economic and social development. Significant strategic achievements have been made in the battle against the virus and primary economic and social goals have been reached, fulfilling the 13th five-year plan with satisfactory results. According to the preliminary estimates by the National Bureau of Statistics of the People's Republic of China (the "PRC"), the gross domestic product (the "GDP") mounted to approximately RMB101,600 billion, bringing the economy to a new high of over RMB100,000 billion and representing a 2.3% year-on-year growth. Domestic automobile production and sales continue to top the world with each closing out 25,225,000 vehicles and 25,311,000 vehicles in 2020, representing a year-on-year drop of approximately 2% and 1.9% respectively which narrowed by 5.5 percentage points and 6.3 percentage points.

Despite the sluggish performance of the automobile industry in general, the Group's major customer Chongqing Changan Automobile Co., Ltd. ("Changan Automobile") outperformed the industry average in growth margin with each of the production volume and sales volume mounting to 2,033,200 vehicles and 2,003,700 vehicles in 2020, representing a year-on-year growth of 13.14% and 13.98% respectively. Changan Automobile's JV brands and independent brands both performed better in 2020 as compared with the year of 2019. Sales volume of two of Changan Automobile's JV companies, Changan Ford Automobile Company Limited ("Changan Ford") and Changan Mazda Automobile Co., Ltd. ("Changan Mazda") increased by 37.67% and 2.76% respectively. The sales volume of Hefei Changan Automobile Co., Ltd. ("Hefei Changan"), one of the wholly-owned subsidiaries of Changan Automobile, recorded a 74.25% year-on-year growth in 2020.

The Group's major customer Changan Automobile and its associates increased the volume of the logistics services from the Group due to sales bump on their part, which in addition to the continuous market development effort of the Group, increased the Group's revenue by 7.92% from RMB4,341,585 in 2019 to approximately RMB4,685,655 in 2020.

The profit attributable to the equity holders of the Company was RMB421,000, representing an increase of profit by 101% as compared with the same period of 2019. Earnings per share were RMB0.00 for the year ended 31 December 2020 (2019: negative RMB0.35).

CHAIRMAN'S STATEMENT

Annual Review

Business development and logistics network

During 2020, the Company continued to inspect its logistics service network and logistics service capability.

Chongqing Changan Minsheng Dingjie Logistics Co., Ltd. ("Chongqing Dingjie"), a non-wholly owned subsidiaries of the Company with a registered capital of RMB50,000,000 and a 95% equity interests owned by the Company, mainly provided services for Chongqing Changan Suzuki Automobile Co., Ltd. ("Changan Suzuki"), a former joint venture company of Changan Automobile and Suzuki Motor Corporation ("Suzuki"). Shares held by Suzuki were subsequently purchased by Changan Automobile and Changan Suzuki became a wholly-owned subsidiary of Changan Automobile. As Suzuki withdrew from Chinese market, in order to concentrate company strategy and vitalize resources in a more efficient manner, the Company deregistered Chongqing Dingjie near the end of 2020.

In order to build the Vehicle Transportation Center (VTC) for finished vehicles and further expand the logistics business of finished vehicles and other logistics businesses, the Company entered into a joint venture agreement with FAW Logistics Co., Ltd. ("FAW Logistics") on 28 January 2021 and established a joint venture by the name of Chongqing Changxiang Supply Chain Technology Co., Ltd. ("Changxiang Supply Chain") with FAW Logistics in line with the joint venture agreement. Pursuant to the terms of the joint venture agreement, the Company shall own 70% equity interest of Changxiang Supply Chain, and FAW Logistics shall own 30% equity of Changxiang Supply Chain. The business registration procedures of Changxiang Supply Chain were completed on 24 March 2021 with a registered capital of RMB20 million. Changxiang Supply Chain is primarily engaged in road cargo transportation (excluding dangerous goods), city distribution and transportation (excluding dangerous goods), road cargo transport station operation, road cargo transportation (including dangerous goods and items that need to be approved according to law, and the specific items are subject to the approval documents or licenses of relevant departments); ordinary cargo storage, packaging, automobile sales, second-hand car brokerage, business agent service, motor vehicle refitting, car repair and maintenance, auto parts retail, domestic container freight forwarding agent service, second-hand car dealing, automotive decoration sales and other businesses.

The company will continue to review the existing logistics service network to meet the needs of the company's business plan and business development.

Awards

The Company was given the 2020 Logistics Technology (Unmanned Warehousing) Innovation Award, 2020 Finished Automobiles Logistics KPI Exemplary Enterprise in August 2020 and the Automobile Logistics Industry Innovation Award and 2020 Outstanding Contribution Award to the Automobile Industry in October 2020 by the China Federation of Logistics & Purchasing. The Company also received 2020 Coordination and Cooperation Award from Tsingshan Industry Limited Liability Company ("Tsingshan Industry"). Mr. Shi Jinggang, the general manager of the Company, was recognised as the Top 10 2019 Chongqing Economic Innovation Figure of the Year. In December 2020, the Company received Contribution of the Year Award from Changan Automobile, Outstanding Supplier from Changan Ford, 2019 Contribution of Year Award from Changan Bus and Grade A Supplier of Schaeffler Greater China" from Schaeffler (China) Co., Ltd.

CHAIRMAN'S STATEMENT

Outlook and Prospects

In 2020, Chinese economy withstood the severe test of the pandemic, showing strong resilience and great potential of growth. The effective anti-pandemic fight and the economic recovery China has achieved have caught the attention of the world. The year of 2021 marks the official beginning of the Fourteenth Five-Year Plan Period when China will embark on a new journey to build it into a socialist modernized country in an all-round way and march towards the second centenary goal. From the macroeconomic perspective, as the pandemic has been gradually contained, the world economy shows a trend of restorative growth with the International Monetary Fund forecasting a 5% growth in global GDP. In terms of the auto market, the domestic market is expected to expand slightly. China Association of Automobile Manufacturers forecasts that the annual auto sales will reach 26.3 million units, up by 4% year on year. In terms of the logistics industry, since 5G, cloud computing, big data, Internet of Things, artificial intelligence, blockchain and other technologies are becoming increasingly mature in application, technological demands and innovative models stimulated by the pursuit of efficiency, effectiveness, and adaptability will become the endogenous driving force to lead the industrial reform.

Reflecting on the past, we forge ahead; looking forward to the future, we are full of enthusiasm. In 2021, the Company will follow the general trend of economic development and logistics transformation, adhere to the general keynote of seeking progress in a stable manner, implement the service-first strategy of “saving money, saving time, saving worries and adding value” for customers, and strive to build the Company with “high technology, high vitality, high efficiency, high-end branding and high quality” in the accelerated pace of pursuing transformation and upgrading and quality development.

Build the Company with “high technology”. The goal of becoming a technological powerhouse is adopted as the Company’s basic strategy and “top project” with the focus to put in place digital engineering. The Company will develop digital products such as digital warehousing, digital transportation and smart parks, and explore digital products of value-added service such as online freight platform, car buddy platform, shared leasing, shared finance, and shared data. Meanwhile, the Company will improve the planning, designing, and application of technologies, reinforce talents training and introduction, and build a sophisticated technical team.

Build the Company with “high vitality”. The Company will deepen reforms in an all-round way, implement the three-year action plan for reforms, establish the market-oriented system and mechanism that accommodate the new situation and new requirements, and form a modernized corporate system that is more mature and fixed. Effort will also be made to promote the Board of Directors to further monitor the work, managers to refine the work and the Board of Supervisors to strengthen the Company. Besides, the Company will drive forward the optimization of industrial layout and structural adjustment, foster the momentum of diversified development, explore revenue sources, and enhance the ability to create value.

Build the Company with “high efficiency”. Lean management will be enhanced with actions taken to pursue the world-class management and the focus on technical standards, operating standards, and product standardization. The Company will persevere in developing the lean system, strengthen and optimize the process system, organizational system and executive system. The Company will adhere to the “customer-oriented” ethos and optimize end-to-end process architecture. Moreover, the Company will endeavor to double the process efficiency, strengthen the lean operation and management capabilities to ease the burden on the Company and streamline the management.

Build the Company with “high-end branding”. The Company will step up to develop a modern industrial system, strengthen market expansion and product and service innovation, and ensure the service-first strategy. In line with the strategy of “saving money, saving time, saving worries, and adding value”, the Group will develop differentiated special products and optimal solutions to create leading products. Catering to the customer needs, the Group will concentrate on “customization, integration, platform building, digital intelligence, and ecology forming”, publish service-first strategies and honor its commitments to provide leading services. The culture of strive for excellence is fostered to perform as the leading culture.

CHAIRMAN'S STATEMENT

Build the Company with “high-quality”. The Company aims to refine and strengthen the automotive supply chain logistics, take advantage of the existing business base and resource strength, and focus on developing key customers. The Company will expand non-automotive supply chain logistics, explore logistics of bulk commodities, equipment manufacturing industry, and electronics and electrical appliances manufacturing industry. The company will also extend the layout of the ecology and promote innovative ecological business, internet logistics and smart logistics products. Meanwhile, the Company will deepen the effort to reduce costs when improving efficiency, improve the quality of operation, and pay close attention to overall risk prevention and control.

I would like to express my heartfelt gratitude to my colleagues on the Board of Directors and all staff of the Company for their fruitful work and tireless efforts. The Board of Directors and I are confident in the future development of the Group. We hope to work hand in hand with all parties to build a Group with “high technology, high vitality, high efficiency, high-end branding, and high quality” and strive to be a “world-class supply chain logistics technology company with the mission to innovate logistics services and create a better life”.

Xie Shikang
Chairman

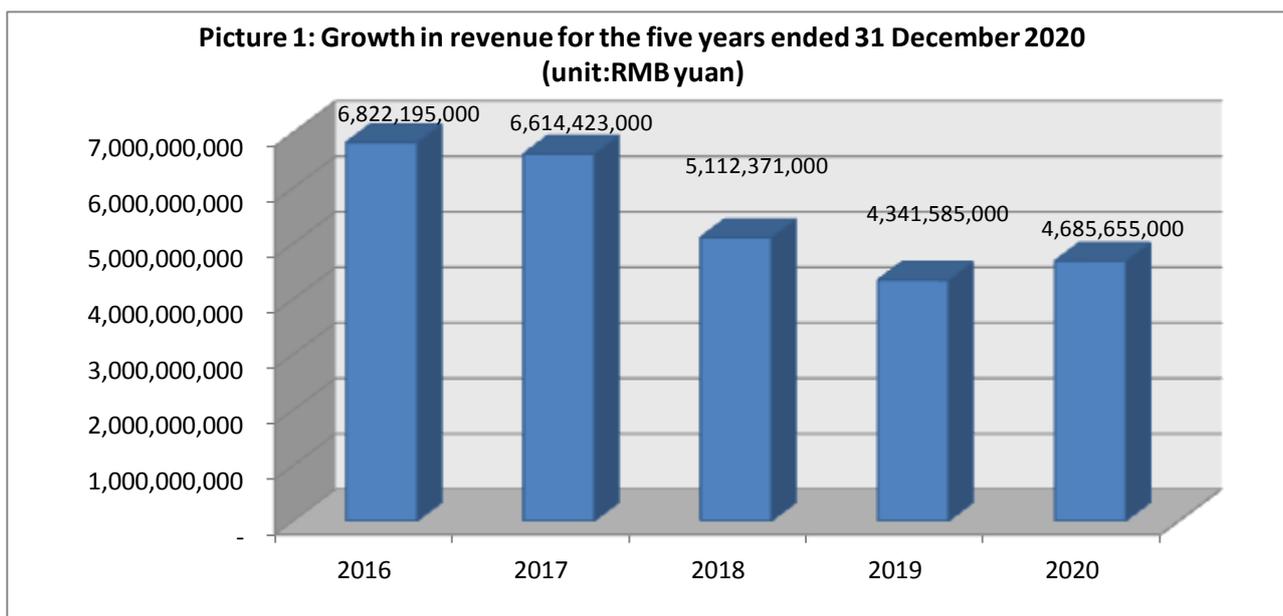
Chongqing, the PRC
30 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The principal businesses of the Group are supply chain management services for automobiles and automobile raw materials, components and parts. Such services include finished vehicle transportation and related logistics services, automobile raw materials and components and parts supply chain management services, tires assembly and after-sales logistics service. Separately, the Group also provides non-automobile commodities transportation services to our customers. The Group's major customers include Changan Automobile, Changan Ford, Changan Mazda, Hebei Changan Automobile Co., Ltd. ("Hebei Changan"), Nanjing Changan Automobile Co., Ltd. ("Nanjing Changan"), Changan Bus and Chongqing Changan International Sales and Services Co., Ltd., etc.

During the reporting period, the revenue of the Group amounted to RMB4,685,655 for the year ended 31 December 2020, approximately 8% increase from RMB4,341,585 of last year.



Supply Chain Management Services of Automobiles and Automobile Raw Materials, Components and Parts

1. Transportation of Finished Vehicles

During the reporting period, the Group's major customer recorded an increase in the sales volume, resulting in the corresponding growth in the demand of finished vehicles transportation from the Group. Therefore, for the year ended 31 December 2020, the revenue of the Group from finished vehicle transportation services was RMB2,503,242,000, up approximately 6.83% from RMB2,343,133,000 of last year.

2. Supply Chain Management Services of Automobile Raw Materials & Components and Parts

During the reporting period, the increase in the sales volume of the Group's major customer led to the increase in the demand for supply chain management services of automobile raw materials and components and parts. As such, the revenue from supply chain management services of automobile raw materials & components and parts for the year ended 31 December 2020 was RMB1,677,094,000, up approximately 7.62% from RMB1,558,313,000 of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Transportation of Non-automobile Commodities and Other Logistics Services

During the reporting period, due to the higher demand of automobile market, the steel sales volume of the Group's certain customers increased significantly, which led to a significant increase of steel transportation services from the Group. As such, the revenue of the Group from such logistics services was RMB51,641,000 for the year ended 31 December 2020, representing an increase of approximately 95.85% from RMB26,367,000 of last year.

Automobile Components & Parts Packaging Sales and Tyres Sub-packaging

During the reporting period, the shift of product models of the core customers of the Group led to slight decrease in their demands for automotive parts packaging and tyre assembly services. For the year ended 31 December 2020, the revenue of the Group from automobile parts packages sales and tires assembly was RMB453,678,000, up some 12.34% from RMB403,837,000 of last year.

Sales of Vehicles

With the further implementation of GB1589-2016, the sales business of automobile transporters becomes gradually saturated under the fierce market competition, in addition to the fact that the vehicle sales are not the major business of the Group. Therefore, the Group did not carry out the sales of automobile transporters in 2020. During the reporting period, revenue of the Group from sales of automobile transporters was RMB Nil (2019: RMB9,935,000).

Logistics Services Network

As at 31 December 2020, the Company had a total of 26 branches, subsidiaries, associated companies and representative offices, which are mainly located in East China, Central China, North China, South China and Southwest China (Picture 2). The continuous enhancement of service network enables the Group to provide logistics services to different parts of the country.

Picture 2: Location of the Company's existing branches, subsidiaries and representative offices



MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Cash Flow and Financial Resources

As at 31 December 2020, the Group's cash and cash equivalents was RMB894,340,000 (31 December 2019: RMB826,203,000), among which, RMB406,100,000 is attributed to the Company and RMB488,240,000 is attributed to the subsidiaries of the Group. As at 31 December 2020, the Group's total assets was RMB4,394,626,000 (31 December 2019: RMB4,559,586,000), the source of funds was current liabilities of RMB2,292,740,000 (31 December 2019: RMB2,412,669,000), non-current liabilities of RMB61,387,000 (31 December 2019: RMB108,163,000), equity attributable to owners of the Company of RMB1,918,332,000 (31 December 2019: RMB1,917,495,000) and non-controlling interests of RMB122,167,000 (31 December 2019: RMB121,259,000).

Cost of Sales and Gross Profit Margin

For the year ended 31 December 2020, the Group's cost of sales was RMB4,448,434,000 (2019: RMB4,158,920,000), up approximately 6.96% from the previous financial year. Despite facing the adverse factors such as the rising transportation cost and labour cost, and tumbling logistics service price, and the Group's emphasis on management and continuous strengthening of logistics and internal management cost control, the gross profit margin of the Group increased to 5.06% (2019: 4.21%).

Distribution Expenses

For the year ended 31 December 2020, the Group's selling and distribution expense was RMB48,529,000, representing approximately 1.04% of the Group's revenue during the period (2019: 1.22%).

During the year, the distribution expenses included salaries and benefits, travelling, business and communication expenses, and market promotion expenses incurred by the Group's sales and marketing department. Such expenses decreased by approximately 8.17% from the previous year.

Administrative Expenses

During the reporting year, the Group's administrative expenses decreased from RMB205,527,000 in 2019 to RMB204,822,000 in 2020, down approximately 0.34% as compared with the corresponding period of previous year.

Other Expenses

During the reporting year, the Group's other expenses decreased from RMB25,197,000 in 2019 to RMB8,911,000 in 2020, down approximately 64.63% as compared with the corresponding period of previous year.

Finance Costs

The Group's finance costs for the year amounted to RMB6,292,000 (2019: RMB8,500,000).

Taxation

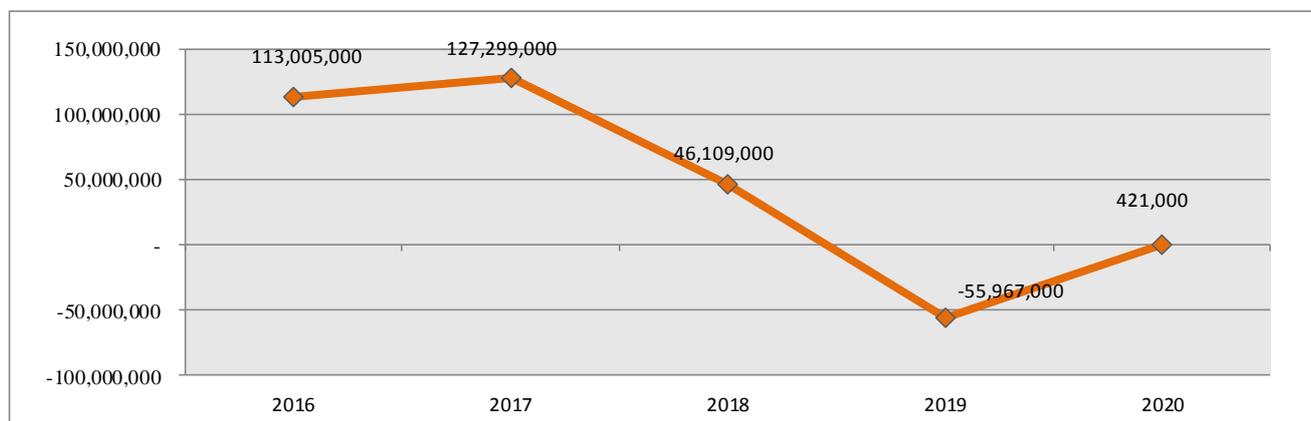
For the year ended 31 December 2020, the weighted average applicable tax rate of the Group was 40.67% (2019: negative 21.36%); and the income tax expense was RMB9,451,000 (2019: RMB7,840,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Profit Attributable to Equity Holders of the Company

During the year, the profit attributable to owners of the Company was RMB421,000, up by approximately 101% compared to the previous financial year.

Picture 3: Profit attributable to owners of the Company for the five years ended 31 December 2020
(Unit: RMB yuan)



Capital Structure

For the year ended 31 December 2020, there was no change in the Company's share capital.

Loans and Borrowings

As at 31 December 2020, the balance of current interest-bearing bank and other loans of the Group was RMB6,000,000 (31 December 2019: RMB13,564,000). Please refer to note 28 to the financial statements of this announcement for further details.

Gearing Ratio

As at 31 December 2020, the gearing ratio (net debt divided by the adjusted capital plus net debt) of the Group was approximately 37.85% (31 December 2019: 44.80%).

Pledge of Assets

As at 31 December 2020, the Group had pledged bank deposits of approximately RMB200,156,000 to secure bank acceptance bills.

At the end of 2017, Harbin Branch of Changan Minsheng APLL Logistics Co., Ltd., a branch company of the Company, and Hangzhou Changan Minsheng, a subsidiary of the Company, respectively entered into finance leasing and leaseback arrangements with United Prosperity Investment (Shenzhen) Co., Ltd. ("Leasing and Leaseback Arrangements"). The Leasing and Leaseback Arrangements are in nature loans with the tire assembly lines as security and the aggregate principal of the Leasing and Leaseback Arrangements is approximately RMB27,390,000, which bears interest at an effective interest rate of 4.75% per annum with quarterly instalment payments up to the maturity date on 31 December 2020. Please refer to the announcement of the Company dated 1 January 2018 and note 28 to the financial statements of this announcement for further details.

MANAGEMENT DISCUSSION AND ANALYSIS

On 20 October 2020, the Company's subsidiary Shenyang Changyou Supply Chain Co., Ltd. ("Shenyang Changyou") entered into the Finance Lease Arrangement with China South Industries Financial Leasing Co., Ltd. ("Industries Leasing"). Under the Arrangement, (1) Industries Leasing acquired the tyre assembly production line from Shanghai Hofmann Machinery Equipment Co., Ltd. at the consideration of RMB83,888,000, which became the Leased Asset of Shenyang Changyou; Industries Leasing acquired the AS/RS from Wuxi Lead Intelligent Equipment Co., Ltd. at the consideration of RMB20,880,000, which became the Leased Asset of Shenyang Changyou. (2) Shenyang Changyou rented the tyre subpackage production line and the AS/RS from Industries Leasing at a total rent of no more than RMB 130,280,000 (with the annual interest rate of 5.3% and paid on a quarterly basis). The lease term is 60 months at most. Shenyang Changyou shall also pay a lump sum payment of contract security deposit in the sum of RMB4,190,720 and handling fee in the sum of RMB523,840. At the same time, Shenyang Changyou pledged the accounts receivable not exceeding 1.2 times of the total rent to Industries Leasing. Upon the expiration of the lease term, Shenyang Changyou has an option to purchase the tyre assembly production line and the AS/RS from Industries Leasing at the nominal consideration of RMB1 each. For details, please refer to the Company's Announcement dated 20 October 2020, Circular dated 14 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent Liabilities

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

Principal Risks and Uncertainties

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. The followings are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to our Group or which may not be material at the moment but could turn out to be material in the future.

Market Risks

Market risk is the risk arising from the movement in market price that deteriorates profitability or affects the ability to meet business objectives. The management of our Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Liquidity Risk

Liquidity risk is the potential that our Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, our Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. Key functions in our Group are guided by their standard operating procedures, limits of authority and reporting framework. Our management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

Reliance Risk

For logistics industry, the alliance between automobile manufacturers and logistics services providers are common in the PRC market. It is typical that a substantial part of the logistics services will be provided by related entity(ies) within the group of companies. The Group is no exception and China Changan Automobile Group Company Limited and its subsidiaries ("Changan Group") has been the Group's long-term client. As the Group is primarily engaged in automobile logistics and relies on the automobile production and sales of Changan Group, the fluctuation of Changan Group's automobile production and sales would undoubtedly impact on the business performance of the Group. Therefore, if Changan Group ceases to use or substantially reduces the use of the Group's logistics services and if the Group is not able to secure new customers with similar sales volume on terms acceptable to the Group, the business scale of the Group will be substantially reduced and the financial performance of the Group will be adversely affected.

Novel Coronavirus Related Risks

The outbreak of the novel coronavirus near the end of 2019 has increased current and prospective economic volatility and uncertainties. To battle against the pandemic, the Chinese authorities put in place a series of measures to contain the spread of the novel coronavirus including, among others, travel ban and restrictions, quarantines, shelter-in-place or stay-at-home orders, and business shutdowns. In order to conform to the national anti-pandemic measures, the Company and its major customers and suppliers postponed work resumption during the 2020 Spring Festival holiday, resulting in a temporary shutdown of the Group's business. The business suspension had a negative impact to varying degrees on the Group's production and operation activities of the Group in the first quarter of 2020 including market sales and supply chain, which correspondingly had a serve influence on the Group's financial performance for the first quarter of 2020. Fortunately, the 2020 domestic automobile market witnessed a sharp decrease in the decline rate over 2019 and the automobile sales volume of the Group's major customers increased despite the pandemic. As a result, the Group's overall financial performance for 2020 has not had a severe negative impact as compared with that of 2019. If the pandemic rebounds or the government strengthens the management and control over business activities to control the pandemic, the Company's production and operation may be adversely affected to certain extent.

MANAGEMENT DISCUSSION AND ANALYSIS

Exchange Rate Risks

As the Group had limited transactions denominated in foreign currencies, there is no significant effect on the Group's existing operations.

Capital Commitment

As at 31 December 2020, the Group's capital expenditure at the balance sheet date but not yet incurred was as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|--|-----------------|-----------------|
| Contracted, but not provided for: | | |
| Plant and machinery | 43,014 | 70,444 |
| Capital contributions payable to equity investment | <u>22,700</u> | <u>22,700</u> |
| | <u>65,714</u> | <u>93,144</u> |
| Authorised, but not provided for: | | |
| Capital contributions payable to a subsidiary | <u>14,000</u> | <u>-</u> |

Significant Purchase or Sale of Subsidiaries and Associated Companies

During the reporting period, there had been no significant purchase or sale of subsidiaries and associated companies of the Group.

Substantial Investment

During the reporting period, there had been no material investment by the Group.

REPORT OF THE BOARD

The Board are pleased to present the report of the Board for the year ended 31 December 2020.

Principal Activities and Business Review

The Group is principally engaged in supply chain management services for automobiles and automobile raw material, components and parts. Such services include finished vehicle transportation and related logistics services, automobile raw materials and components and parts supply chain management services, tires assembly, after sales logistics services, etc. Besides, the Group also provides non-automobile commodities transportation services.

Further discussion and analysis of these activities as required by Schedule 5 of the Companies Ordinance, Chapter 622 of the laws of Hong Kong, including a discussion of the principal risks and uncertainties the Group is facing and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 96 to 102 of this announcement. This discussion forms part of this Report of the Board.

Major Customers and Suppliers

During the reporting period, the Group's sales to its 5 largest customers in proportion to the Group's total sales are as follows:

| | For the year ended 31 December |
|--|--------------------------------|
| | 2020 |
| A Chongqing Changan Automobile Co., Ltd. | 32% |
| B Changan Ford Automobile Company Limited | 25% |
| C Changan Mazda Automobile Co., Ltd. | 8% |
| D Baoding Changan Bus Manufacture Co., Ltd. | 4% |
| E Chongqing Changan International Sales and Services Co., Ltd. | 3% |
| | <hr/> |
| Total of 5 largest customers | 74% |
| | <hr/> <hr/> |
| | 2019 |
| A Chongqing Changan Automobile Co., Ltd. | 33% |
| B Changan Ford Automobile Company Limited | 26% |
| C Changan Mazda Automobile Co., Ltd. | 9% |
| D Baoding Changan Bus Manufacture Co., Ltd. | 5% |
| E Chongqing Changan International Sales and Services Co., Ltd. | 3% |
| | <hr/> |
| Total of 5 largest customers | 76% |
| | <hr/> <hr/> |

According to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), all of the 5 largest customers mentioned above are the connected persons of the Company.

REPORT OF THE BOARD

During the reporting period, the Group's purchases from the 5 largest suppliers in proportion to the Group's total purchases are as follows:

| | For the year ended 31 December |
|---|--------------------------------|
| | 2020 |
| A China Railway Special Cargo Logistics Co., Ltd. | 9% |
| B Qingdao Ririshun Supply Chain Co., Ltd | 4% |
| C Chongqing Yuyu Logistics Co., Ltd. | 3% |
| D San Yang Ma(Chongqing)Logistics Co., Ltd. | 3% |
| E Yangpu Branch of Tianjin Sanchuan Logistics Co., Ltd. | 3% |
| | <hr/> |
| Total of 5 largest suppliers | 22% |
| | <hr/> |
| | 2019 |
| A CITIC Dicastal Co., Ltd. | 8% |
| B Minsheng Logistics Company Limited | 4% |
| C Chongqing Hailong Transportation Co., Ltd. | 3% |
| D Goodyear Tire Co., Ltd. | 2% |
| E Sanyangma(Chongqing) logistics Co., Ltd. | 2% |
| | <hr/> |
| Total of 5 largest suppliers | 19% |
| | <hr/> |

Among the 5 largest suppliers, Minsheng Logistics Company Limited is a connected person of the Company pursuant to the requirements of the Listing Rules.

Save as disclosed above, none of the Directors, their respective close associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had any interests in the 5 largest customers and 5 largest suppliers mentioned above.

Results

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of comprehensive income in this announcement.

Dividend Distribution Policy

On 25 March 2019, the Board approved the dividend distribution policy (the "Policy"), which the Board will follow in formulating the dividend distribution plan. The Policy aims to reward shareholders with reasonable dividend payout to the extent possible while maintaining adequate capital reserves for the current business operation and future growth.

The Board may consider distributing the dividend in forms of cash and/or additional shares in drafting dividend distribution plan and normally, cash payout will be the priority. The profit after tax of the previous fiscal year shall be allocated in the order of making up for any loss, allocation to the statutory reserve fund, payment of dividends to shareholders of preference shares (if any), and allocation to the discretionary reserve fund. The surplus of which will serve as the distributable profit of that year. The Board may propose the distribution plan based on the distributable profit after considering:

- (1) all the applicable requirements under the constitutional documents of the Company ;
- (2) all the applicable laws, regulations and restrictions ;
- (3) investment and operating requirements of the Group ;
- (4) any factors that have material impact on the Group.

The Board will continually review the Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Policy at any time.

REPORT OF THE BOARD

Dividends

The Board does not recommend the payment of the final dividend for the year ended 31 December 2020.

Share Capital

For the year ended 31 December 2020, there had been no change in the share capital of the Company. Details of the share capital of the Company are set out in note 31 to the financial statements.

Public Float

Based on the public information known to the Company and to the best knowledge of the Directors, as at the date of this announcement, the Company has met the public float requirement as stipulated under the Listing Rules.

Reserves

Details of changes in the Company's reserves during the reporting period are set out in the consolidated statement of changes in equity and in note 32 to the financial statements.

Property, Plant and Equipment

Details of changes in the Group's property, plant and equipment during the reporting period are set out in note 13 to the financial statements.

Financial Position

A summary which includes the Group's results and its assets and liabilities for the past five financial years is set out in the section headed "Financial Summary" of this announcement.

Subsidiaries

As at 31 December 2020, the Company had the following subsidiaries:

CMAL Bo Yu transportation Co., Ltd. ("CMAL Bo Yu") incorporated in No.111-5-1, Shengtai Road, Fusheng Prefecture, Jiangbei District, Chongqing City, the PRC possesses the registered capital of RMB60,000,000 and the Company holds 100% of its equity interests. CMAL Bo Yu's main business includes general freight, storage (storage of dangerous goods not included), logistics planning and consultation and telecommunication services in the PRC. Please refer to note 1 to the financial statements of this announcement for further details.

Chongqing Future Supply Chain Management Co., Ltd. ("Chongqing Future") incorporated in Logistics Distribution Plant, No.10, Hui Liu Road, Beibu New District, Chongqing City, the PRC has a registered capital of RMB30,000,000 and the Company holds 100% of its equity interests. Chongqing Future is mainly engaged in general freight, storage (storage of dangerous goods not included), loading and unloading, handling, distribution, package processing (excluding printing), packaging, automobile components and parts sub-packaging, processing (excluding engine processing) and sales, international freight forwarding services (excluding international shipping forwarding) and logistics information consultation and solution design, etc. Please refer to note 1 to the financial statement of this announcement for further details.

Chongqing Changan Minsheng Fuyong Logistics Co., Ltd. ("Chongqing Fuyong") incorporated in No.26-11, Zongbao Road, Shapingba District, Chongqing City, the PRC has a registered capital of RMB5,000,000, and 100% of its equity interests is held by the Company. The Company will explore the electronic information products logistics business and the bonded logistics business in Xiyong Bonded Area in Chongqing through Chongqing Fuyong. Please refer to note 1 to the financial statement of this announcement for further details.

REPORT OF THE BOARD

Hangzhou Changan Minsheng was incorporated on 17 May 2013 in No.599, Luyin Road, Qianjin Industrial Park (Jiangdong Benji Qukuai), Hangzhou City, Zhejiang Province, the PRC. After the capital increase of RMB360,000,000 on 12 December 2016, its registered capital reaches to RMB610,000,000 and the Company holds 100% of its equity interests. Hangzhou Changan Minsheng is mainly engaged in dangerous goods road transportation, large objects transportation; freight stowage, forwarding and tally; domestic waterway freight forwarding; processing, producing, assembling, selling finished vehicles, automobile raw materials, parts and parts package materials; developing logistics software and providing logistics technology consultation. Please refer to note 1 to the financial statement of this announcement for further details.

Nanjing CMSC Logistics Co., Ltd. ("Nanjing CMSC") was incorporated on 26 July 2007 in No.222, Qinshuiting West Road, Economic and Technological Development Zone, Jiangning District, Nanjing City, Jiangsu Province, the PRC with a registered capital of RMB100,000,000. The Company holds 67% of its equity interests and Sumitomo Corporation ("Sumitomo") holds 33% of its equity interests. Nanjing CMSC is mainly engaged in general freight, domestic freight forwarding, provision of international freight forwarding for cargos transported via sea, air and land; import and export and related services, assembly and processing of automobile parts, leasing of machineries and vehicles, etc. Please refer to note 1 to the financial statement of this announcement for further details.

Chongqing Fulu Bonded Logistics Co., Ltd. was established on 9 April 2014 and was subsequently renamed as Fulu International Logistics Co., Ltd. ("Fulu International") incorporated in No.88-7-108, Maya Road, Luohuang Prefecture, Jiangjin District, Chongqing City, the PRC with a registered capital of RMB3,000,000 and an increased capital amounting to RMB60,000,000. Fulu International mainly engages in storage services (excluding dangerous goods); loading and unloading, handling; freight forwarding; packaging, distribution; processing and selling automobile parts; import and export of cargos and technology; designing of logistics solution and provision of related information consultation, Non-Vessel Operating Common Carrier business, etc. Please refer to note 1 to the financial statement of this announcement for further details.

Chongqing Changzu Feiyue Technology Co., Ltd. ("Feiyue Technology"), previously named Chongqing Changliang Logistics Technology Co; Ltd., was incorporated on 16 May 2014 in Industrial Park Zone, Economic Development Zone, Shuangqiao District, Chongqing City (No.39-2, Checheng Road), the PRC with a registered capital of RMB18,000,000. The Company holds 55% of equity interests of Feiyue Technology and Suzhou Liangcai Technology Logistics Co., Ltd. holds the remaining 45% of its equity interests. Feiyue Technology is mainly engaged in developing logistics technology, technical services and provision of technology consultation; producing, selling, renting and maintenance of containers; processing and selling of automobile parts; imports and exports; general freight; storage (excluding dangerous goods); international freight forwarding (excluding forwarding cargos transported by waterway and international freight forwarding by vessels); provision of packaging information consultation services, etc. Please refer to note 1 to the financial statement of this announcement for further details.

Changan Minsheng (Shanghai) Supply Chain Co., Ltd ("Shanghai Supply Chain") was incorporated on 5 August 2014 in Room 208A, Building B, No.5, Shuntong Road, Lin-gang Special Area, Pilot Free Trade Zone, Shanghai City, the PRC. After capital increase of RMB 28,000,000 on 6 May 2015, its registered capital reaches to RMB30,000,000. The Company holds 100% of its equity interests. The main business of Shanghai Supply Chain is supply chain management, road transportation, import and export of goods and technology, exhibition and display services, development and design of computer software and hardware, storage (excluding dangerous goods), packaging, development of logistics software and information services. Please refer to note 1 to the financial statement of this announcement for further details.

Wuhan Changsheng Gangtong Supply Chain Management Co., Ltd. ("Changsheng Gangtong"), previously named Wuhan Changsheng Gangtong Automobile Logistics Co., Ltd., was incorporated on 18 August 2010 in Jincheng Village, Dengnan Street, Hannan District, Wuhan City, Hubei Province, the PRC with a registered capital of RMB23,070,000. On 22 May 2015, the Company acquired 60% of equity shares in Changsheng Gangtong. Changsheng Gangtong's principal activities are port management, storage services, loading, unloading and handling, general freight transport, multimodal transport, cold chain transport, freight forwarding, freight forwarding by waterway and railway, international freight forwarding, etc. Please refer to note 1 to the financial statement of this announcement for further details.

Shenyang Joint Venture was incorporated on 6 November 2019 in No.91-D101, Development Road No.25, Economic and Technological Development Zone, Shenyang City, Liaoning Province, the PRC with a registered capital of RMB90,000,000. Each of the Company and Shenyang Changyou holds 51% and 49% of the equity of Shenyang Joint Venture. Shenyang Joint Venture is primarily engaged in production of automobile components and modules; storage (other than dangerous chemicals), distribution, packaging, assembly; transport of finished vehicles and ordinary freight; production, sale, leasing and maintenance of containers; provision of business information consulting services; logistics planning, management and consulting services; logistics equipment and facilities leasing, etc. Please refer to note 1 to the financial statement of this announcement for further details.

REPORT OF THE BOARD

Capitalized Interests

For the year ended 31 December 2020, no interest had been capitalized by the Company.

Permitted Indemnity Provision

A permitted indemnity provision for the benefit of the Directors of the Company is currently in force and was in force throughout this year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Relationship with Stakeholders

The Group recognizes that employees are our valuable assets. Thus, our Group provides competitive remuneration package to attract and motivate the employees. The Group regularly reviews the remuneration packages of employees and makes necessary adjustments to conform to the market standard. The Group also understands that it is important to maintain good relationship with business partners and bank enterprises to achieve its long-term goals. During the reporting period, there was no material and significant dispute between the Group and its business partners or bank enterprises.

Retirement Plan

Details of the Company's retirement pension schemes are set out in note 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES "Pension schemes" to the financial statements.

Employees

As at 31 December 2020, the Group had 5,300 employees (31 December 2019: 6,012 employees).

The breakdown of number of employees of the Group by functions is as follows:

| | As at 31 December | |
|----------------|-------------------|--------------|
| | 2020 | 2019 |
| Administration | 196 | 198 |
| Specialists | 1,345 | 1,452 |
| Operators | 3,759 | 4,362 |
| Total | <u>5,300</u> | <u>6,012</u> |

Please refer to note 6 to the financial statements for a breakdown of the employee benefit expense.

Remuneration Policy

The salaries of Company's employees are determined by reference to market rates, performances, qualification and experience of the relevant employees. Discretionary bonus may also be given based on the performance of individual staff during the year in order to award the employees for their contributions to the Company. Other employee benefits include pension insurance, medical insurance, unemployment insurance, personal injury insurance and housing fund, etc.

REPORT OF THE BOARD

Training Programme

During the year, the Company has provided the staff with training regarding technology, security and management, etc.

Staff Quarters

During the year, the Company has not provided any staff quarters to the staff (2019: nil). Full time employees are entitled to participate in the government-sponsored housing fund. The Company contributes on a monthly basis to the fund at certain rates of the employees' basic salary.

Directors and Supervisors

The Directors of the fifth session of the Board and supervisors of the fifth session of the supervisory committee (the "Supervisory Committee") of the Company up to the date of this announcement were as follows:

Executive Directors

| | |
|------------------------|-------------------------------|
| Xie Shikang (Chairman) | (appointed on 30 June 2020) |
| Chen Wenbo | (appointed on 30 June 2020) |
| William K Villalon | (appointed on 30 June 2020) |
| Shi Jinggang | (appointed on 30 June 2020) |

Non-executive Directors

| | |
|------------------|-------------------------------|
| Chen Xiaodong | (appointed on 30 June 2020) |
| Man Hin Wai Paul | (appointed on 30 June 2020) |
| Xia Lijun | (appointed on 30 June 2020) |

Independent non-executive Directors

| | |
|----------------|-------------------------------|
| Chong Teck Sin | (appointed on 30 June 2020) |
| Poon Chiu Kwok | (appointed on 30 June 2020) |
| Jie Jing | (appointed on 30 June 2020) |
| Zhang Yun | (appointed on 30 June 2020) |

Supervisors

| | |
|----------------|-------------------------------|
| Wang Huaicheng | (appointed on 30 June 2020) |
| Jin Jie | (appointed on 30 June 2020) |
| Yang Gang | (appointed on 30 June 2020) |
| Deng Li | (appointed on 30 June 2020) |
| Yang Xunping | (appointed on 30 June 2020) |

Members of each of the fifth session of the Board and the fifth session of the Supervisory Committee of the Company was elected and appointed on 30 June 2020. For further details, please refer to the circular of the Company dated 15 May 2020 and the announcement dated 30 June 2020.

Confirmation of Independence

The Company has received the annual confirmation of independence from each of the independent non-executive Directors pursuant to the Listing Rules. The Company considers that the existing independent non-executive Directors are independent of the Company and connected persons of the Company.

REPORT OF THE BOARD

Service Contracts of Directors and Supervisors

Each of the Directors and supervisors of the Company has entered into a service contract with the Company. There is no unexpired period of any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Directors' and Supervisors' Interests in Contracts

There was no contract of significance to which the Company was a party and in which a Director or supervisor had a material interest, whether directly and indirectly, subsisting at the end of the year or at any time during the year.

Management Contract

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

Directors, Supervisors and Senior Management

There are no relationships, including financial, business, family or other material/relevant relationships among members of the Board, the Supervisory Committee and the senior management of the Company except for their working relationships within the Company.

Remuneration of Directors and Supervisors

Details of the remuneration of Directors and supervisors are set out in note 8 to the financial statements of this announcement.

The remuneration provided to Directors and supervisors is determined on, among other things, the relevant experience and responsibility of, and time devoted to the Company by the Director or supervisor.

Interests of Directors, Chief Executive and Supervisors in Shares of the Company and Associated Corporations

As at 31 December 2020, none of the Directors, chief executive and the supervisors of the Company have any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") in Chapter 571 of Laws of Hong Kong) which (a) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (b) were required, pursuant to the Appendix 10 of Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") to the Listing Rules to be notified to the Company and the Stock Exchange.

As at 31 December 2020, the Directors, chief executive and the supervisors of the Company were not beneficially interested in the share capital of any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did they have any interest, either direct or indirect, in any assets which have been, since 31 December 2019, made up, acquired, disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

Substantial Shareholders and Parties Holding Interests and Short Positions in Shares and Underlying Shares of the Company

As at 31 December 2020, so far as is known to the Directors, chief executive and the supervisors of the Company, the following persons, other than a Director, supervisor, or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, or are required, pursuant to Sections 336 of the SFO, to be entered in the register referred to therein:

REPORT OF THE BOARD

| Name of Shareholders | Capacity | Number of Shares | Percentage of Domestic Shares (non-H Foreign Shares Included) | Percentage of H Shares | Percentage of Total Registered Share Capital |
|--|--------------------------------------|---|---|------------------------|--|
| China South Industries Group Co., Ltd. ("CSG") | Interest of a controlled corporation | 41,225,600(L) (Domestic Shares) | 38.51% | - | 25.44% |
| China Changan Automobile Group Company Limited ("China Changan") | Beneficial owner | 41,225,600(L) (Domestic Shares) | 38.51% | - | 25.44% |
| Kintetsu World Express, Inc. | Interest of a controlled corporation | 33,619,200(L) (Non-H Foreign Shares) | 31.40% | - | 20.74% |
| APL Logistics Ltd. ("APL Logistics") | Beneficial owner | 33,619,200(L) (Non-H Foreign Shares) | 31.40% | - | 20.74% |
| 重慶盧作孚股權基金管理有限公司 | Interest of a controlled corporation | 32,219,200(L) (Domestic Shares and Non-H Foreign Shares) | 30.09% | - | 19.88% |
| Minsheng Industrial (Group) Co., Ltd. ("Minsheng Industrial") (note 1) | Beneficial owner | 25,774,720(L) (Domestic Shares) | 24.07% | - | 15.90% |
| Minsheng Industrial | Interest of a controlled corporation | 6,444,480(L) (Non-H Foreign Shares) | 6.02% | - | 3.98% |
| Ming Sung Industrial Co., (HK) Limited ("Ming Sung (HK)") (note 1) | Beneficial owner | 6,444,480(L) (Non-H Foreign Shares) | 6.02% | - | 3.98% |
| Pemberton Asian Opportunities Fund | Beneficial owner | 5,000,000 (L) | - | 9.09% | 3.09% |
| 788 China Fund Ltd. | Investment manager | 4,000,000 (L) | - | 7.27% | 2.47% |
| McIntyre Steven (note 2) | Interest of a controlled corporation | 3,423,000(L) | - | 6.22% | 2.11% |
| Braeside Investments, LLC (note 2) | Investment manager | 3,423,000(L) | - | 6.22% | 2.11% |
| Braeside Management, LP (note 2) | Investment manager | 3,423,000(L) | - | 6.22% | 2.11% |

REPORT OF THE BOARD

Note 1: Ming Sung (HK) is the subsidiary of Minsheng Industrial. Mr. Lu Xiaozhong, a former Director of the Company, holds 6% of shareholdings of Minsheng Industrial. Mr. Lu Xiaozhong was no longer a Director and in any other positions of the Company since 31 December 2018.

Note 2: According to the Corporate Substantial Shareholder Notice filed, Braeside Management, LP is a wholly-owned subsidiary of Braeside Investments, LLC. McIntyre Steven is the controlling shareholder of Braeside Investments, LLC.

Note 3: China Changan Automobile Group Co., Ltd. was now renamed to China Changan Automobile Group Company Limited.

Note 4: (L) – long position, (S) – short position, (P) - Lending Pool.

Save as disclosed in this announcement, as at 31 December 2020, so far as is known to the Directors and chief executive of the Company, there is no other person (other than the Directors, supervisors, or chief executive of the Company) who had interests or short positions in the provisions of Divisions 2 and 3 of Part XV of the SFO; or are required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

Share Appreciation Right Incentive Scheme

The share appreciation rights incentive scheme set up by the Company on 6 June 2005 lapsed on 23 February 2016.

In order to establish a long-term incentive mechanism so as to optimize the incentive and restriction system of the Company, retain and further motivate valuable personnel and form a concerted force among the Shareholders, the Company and the management to facilitate the accomplishment of the operational goal and the long-term strategic objectives of the Company, the Board approved a Share Appreciation Rights Scheme (the “Scheme”) on 28 August 2020, pursuant to which, the Company intends to grant Incentive Recipients Share Appreciation Rights with no more than 4,861,400 underlying Shares, representing approximately 3% of the total issued share capital of 162,064,000 Shares. The Scheme was subsequently amended as required by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC and the implementation of the Scheme is subject to approval of Shareholders at the general meeting. For details on the principal terms and conditions of the Scheme and amendments to the Scheme, please refer to the announcement of the Company dated 28 August 2020 and 1 March 2021.

Competing Interests

Before the listing of the H shares on the Growth Enterprise Market (“GEM”) of the Stock Exchange, the Company’s substantial shareholders, APL Logistics, Minsheng Industrial, Ming Sung (HK) and Changan Industry Company (Group) Limited (“Changan Industry Company”), had all entered into non-competition undertakings with the Company in favor of the Company. Please further refer to the Prospectus for details of such undertakings.

Up to the date of this announcement, the non-competition undertakings given by each of Changan Industry Company and APL Logistics are still effective. As at the end of 2011, the aggregate shareholding in the Company held by Minsheng Industrial and Ming Sung (HK) (together with their respective associates) fell below 20%, the non-competition undertakings signed between the Company and Minsheng Industrial and Ming Sung (HK) became ineffective.

China Changan acquired all the shares in the Company held by Changan Industry Company on 9 March 2016. The obligations under the non-competition undertakings signed by Changan Industry Company will be assumed by China Changan since 9 March 2016.

In February 2021, the Company received the confirmation regarding the above-mentioned non-competition undertakings from each of APL Logistics and China Changan.

Save as disclosed above, during the reporting period, none of the Director(s) or substantial shareholder(s) of the Company had any interest in any business that competes or may compete with the Group.

REPORT OF THE BOARD

Connected Transaction

China Changan holds approximately 25.44% of the equity of the Company and 5% of the equity of Industries Leasing. In addition, China Changan, through its wholly-owned subsidiary United Prosperity Investment Co., Ltd., indirectly holds 25% of the equity of Industries Leasing, and Industries Group holds 100% of the equity of China Changan and 60% of the equity of Industries Leasing. Therefore, according to the Listing Rules, Industries Leasing is a connected person of the Company, and the transactions under the Finance Lease Arrangement of Shenyang Changyou constitute connected transactions of the Company. On 20 October 2020, Shenyang Changyou rented the tyre subpackage production line and the AS/RS from Industries Leasing for a maximum lease term of 60 months at the total rent not exceeding RMB130,280,000 (with the annual interest rate of 5.3% and paid on a quarterly basis). For details, please refer to the Company's Announcement on 20 October 2020 and Circular on 14 December 2020.

Continuing Connected Transactions

Set out below is information in relation to the continuing connected transactions of the Company which need to be reported pursuant to the Listing Rules during the year.

Background of the Continuing Connected Transactions

China Changan holds approximately 25.44% of the issued share capital of the Company and 19.05% of the equity interests of Changan Automobile. In addition, CSG holds 100% equity interests in China Changan and 18.72% equity interests in Changan Automobile. Zhuangbei Finance is a member company of CSG in that CSG holds a 22.9% equity interest in Zhuangbei Finance and China Changan holds a 12.46% equity interest in Zhuangbei Finance. As at the date of this announcement, the Company holds approximately 0.81% equity interests in Zhuangbei Finance. In addition, Changan Industry Company is a wholly-owned subsidiary of CSG. Changan Industry Company holds 98.49% equity interests of Changan Real Estate Development Company ("Changan Real Estate") and Chongqing Changan Construction Co., Ltd. ("Changan Construction") is a wholly owned subsidiary of Changan Real Estate. Chongqing Changxin Construction Co., Ltd. ("Chongqing Changxin") used to be controlled by Changan Construction. Both of APLL and Minsheng Industrial are the substantial shareholder of the Company, respectively holding approximately 20.74% and approximately 15.90% of the total issued share capital of the Company. Therefore, according to the Listing Rules, the transactions between the Group and each of China Changan, Changan Automobile, APLL, Minsheng Industrial, Chongqing Changxin, Zhuangbei Finance and their respective associates become connected transactions of the Company.

As the Company and Sumitomo hold 67% and 33% of the registered capital of Nanjing CMSC respectively, and Sumitomo holds 49% of the registered capital of Nanjing Baogang Zhushang Metal Products Company Limited ("Baogang Zhushang"). Therefore, according to the Listing Rules, Baogang Zhushang is a connected person of the Company at the subsidiary level and the transactions between Nanjing CMSC and Baogang Zhushang contemplated under such framework agreement constitute continuing connected transactions of the Company.

On 30 October 2017, the Company entered into the following framework agreements, each for a term of three years commencing on 1 January 2018 and expiring on 31 December 2020:

- (1) the framework agreement with Changan Automobile, pursuant to which the Group shall provide logistics services (including but not limited to the following logistics services: finished vehicle transportation, tire assembly, and supply chain management for automobile raw materials, components and parts) to Changan Automobile and its associates;
- (2) the framework agreement with China Changan, pursuant to which the Group shall provide logistics services (including but not limited to the following logistics services: finished vehicle transportation, tire assembly, supply chain management for automobile raw materials, components and parts; and logistics services for non-automobile products, such as transformer, steel, optical product and specialty product) to China Changan and its associates;
- (3) the procurement framework agreement with Minsheng Industrial, pursuant to which the Group shall purchase logistics services from Minsheng Industrial and its associates;
- (4) the framework agreement with Zhuangbei Finance, pursuant to which Zhuangbei Finance shall provide the Group with settlements, deposit and loans, note discounting services;
- (5) the framework agreement with Minsheng Industrial, pursuant to which the Group shall provide logistics services to Minsheng Industrial and its associates;
- (6) the procurement framework agreement with China Changan, pursuant to which the Group shall purchase security and cleaning services, property leasing services and logistics services from China Changan and its associates;
- (7) the framework agreement with APLL, pursuant to which the Group shall (i) provide logistics services to APLL and its associates and (ii) purchase logistics services from APLL and its associates;

- (8) the framework agreement with Chongqing Changxin, pursuant to which the Group shall purchase maintenance services from Chongqing Changxin and its associates;
- (9) the framework agreement with Zhuangbei Finance, pursuant to which the Group shall provide financial logistics services to Zhuangbei Finance and its associates; and
- (10) the framework agreement signed between Nanjing CMSC and Baogang Zhushang, pursuant to which Nanjing CMSC shall provide logistics services to Baogang Zhushang and its associates.

Please refer to the announcement of the Company dated 13 November 2018, the circular dated 14 December 2018 and the announcement dated 31 December 2018 for further details.

REPORT OF THE BOARD

Brief Description and Purpose of the Group's Continuing Connected Transactions

With respect to the logistics services provided by the Group to Changan Automobile and its associates

The Group has been in business contact with Changan Automobile from the establishment of the Company and has maintained a good relationship with Changan Automobile ever since. The Group is a major logistics services supplier of Changan Automobile and its associates. The Group's logistics services have been highly recognized by Changan Automobile and its associates. Provision of logistics services to Changan Automobile and its associates by the Group continues to occupy a major portion of the Group's business, thus contributing significantly to the overall revenue of the Group. Against the background of the downward pressure for domestic automobile market, the Company believes that it is essential to maintain the provision of logistics services by the Group to Changan Automobile and its associates to ensure source of revenue. The Company therefore is of the view that the Group should continue to provide comprehensive automobile logistics services for Changan Automobile and its associates to maximize the revenue of the Group.

With respect to the logistic services provided by the Group to China Changan and its associates

China Changan is essentially a large enterprise with businesses mainly ranging from parts and components to automobile retail. It has roughly 15 member companies engaging in parts production such as automobile engines, transmissions, power components, chassis, shock absorbers, supercharges, pistons and so on. The Group stepped up efforts in exploring the parts business of China Changan and its associates ever since China Changan became one of the substantial shareholders of the Company. Currently, the Group has established steady business contact with several member companies of China Changan, by providing logistics services such as automobile parts distribution, transportation, storage, etc. The Group anticipates that by leveraging on the current business relationship, the Group can establish more business contact with Changan Group and can tap into the market potentials presented by China Changan and its associates, thereby increasing business sources and maximizing revenue of the Group.

With respect to the logistic services provided to the Group by Minsheng Industrial and its associates

The Group is a third-party automobile logistics service provider for providing comprehensive logistics solution for our customers. However, the Group currently does not have any vessel or enough freight carriers to ensure an independent operation of business. Therefore, the Group needs to purchase logistics services from suppliers with sufficient transportation capacity and logistics facilities and equipment. Minsheng Industrial is fully equipped with ro-ro ships of various volumes and car transporters that is compliant with the current regulation of GB1589 and has extensive, well established logistics network across the country. Therefore, Minsheng Industrial and its associates are competent in providing logistics services to the Group. In addition, Minsheng Industrial and its associates have been a credible and reliable business partner of the Group, and have been providing various logistics services such as waterway transportation of cars and car components and parts, finished vehicles transportation by road, customs clearance, container transportation, etc. for many years. As such, the Directors are of the view that the Group should continue to purchase logistics services from Minsheng Industrial and its associates to support the smooth running of the Group's primary business and tap on the strength of Minsheng Industrial's various resources to our advantage and provide our customers with quality services and maximize the revenue of the Group. The Directors are of the view that the transaction is in the interest of the Company and its Shareholders as a whole.

REPORT OF THE BOARD

With respect to the transaction between the Group and Zhuangbei Finance

Zhuangbei Finance is a non-banking financial institution in the PRC as approved by CBIRC and is established with capital contribution from member companies of CSG for purpose of centralizing capital management and optimizing capital efficiency within the CSG. Zhuangbei Finance has been providing financial services for member companies of CSG for years and is highly recognized for its financial management services. In addition, the major customers of the Group are member companies within CSG and they all have maintained accounts with Zhuangbei Finance. It would reduce the time costs and finance cost if the Company deposits and conducts note discounting services with, and/or to obtain loan advancement from, Zhuangbei Finance. Moreover, Zhuangbei Finance offers more favourable terms and comparatively less finance fees and charges than those payable to external banks in the PRC.

With respect to the logistics services provided by the Group to Minsheng Industrial and its associates

Minsheng Industrial and its associates specialized in waterway transportation and has affluent resources such as ro-ro ships, vessels and vast waterway logistics network, enabling them to operate smoothly along the Yangtze River. However, in order to provide comprehensive logistics solution to its customer, like combined transportation by waterway plus road, occasionally, Minsheng Industrial and its associates find themselves in need of logistics services from the Group such as station management support and road transportation support. As a longstanding business partner of Minsheng Industrial, the Group's strength is in provision of comprehensive logistics solutions which could cater to the needs of Minsheng Industrial and its associates. The Directors are of the view that the Group should continue to do business with Minsheng Industrial and its associates in the hope that by combining the resources and strength from both parties, Minsheng Industrial and the Group will find common ground to cooperate to our mutual benefit.

With respect to the security and cleaning services, property leasing services, and logistics services provided by China Changan and its associates to the Group

Changan Property, an associate of China Changan, is a first-class property management company in the country and a member of the China Property Management Institute and has extensive property management experience. The Group considers that procurement of security and cleaning services from China Changan and its associates, mainly from Changan Property, can provide assurance to the Group that it would be provided with comprehensive, standard and high-level security and cleaning services, thereby ensuring the smooth running of the daily operation of the business projects of the Group. As such, the Directors are of the view that it is in the interest of the Company and its Shareholders as a whole for the Group to continue to purchase security and cleaning services from China Changan and its associates.

China Changan and its associates have long been providing property leasing services for the Group and is rather familiar with the Group's requirement on the leased properties and will continue to respond quickly and in cost-efficient manner to any new requirement that the Group may have. Most warehouses and stations available from China Changan and its associates are geographically convenient for the Group to store car raw materials and finished vehicles. In addition, entering into property leasing transactions with China Changan would provide the Group with stability and substantially reduce the risks of possible shortage of suitable warehouses and stations and the wild fluctuation in rentals arising from the generally expected appreciation in the value of properties. Besides, the Group maintains the flexibility in leasing properties such as warehouses and stations from other independent parties. Therefore, the Directors are of the view that the Group should continue the property leasing transactions with China Changan and its associates as it is in the interest of the Company and its Shareholders as a whole.

The Group does not have sufficient transportation capacity to provide automobile logistics services to cope with the jump of the logistics demand of our customers in the peak season. In order to provide quality services in an efficient and timely manner, the Group normally would seek external support from our longstanding business partners. As a substantial shareholder of the Company, the Group believes that China Changan and its associates are able to respond promptly to the needs of the Group and any urgent requirement that the Group may have as China Changan has a better understanding of the Group's business operation. The Directors are of the view that having China Changan and its associates as one of the many suppliers of the Group would give the Group a wider range of selection and the Group should continue the cooperation with China Changan and its associates.

With respect to the logistics services provided by the Group to APLL and its associates

As a seasoned international logistics service provider with advanced logistics technology, APLL has strengthened its footprint overseas with extensive branches reaching mainland China, America and India. APLL and its associates have been providing supply chain management services for IT companies in Mainland China. The Group has strong logistics capacity in Mainland China and is also looking to explore overseas business to achieve further development. APLL is the substantial shareholder of the Company and is open to cooperation with the Group. Cooperation with APLL will not only

help the Group to obtain various outsourced logistics business from APLL to generate revenue but also will help the Group keep abreast of the cutting-edge international logistics technology, leading operation schema and time-tested management method to optimize the business operation of the Group. The Directors is of the view that the continuing connected transactions exempt from Shareholder's approval with APLL and its associates are beneficial for the Group's development and is in the interests of the Company and its Shareholders as a whole.

With respect to the logistics services purchased by the Group from APLL and its associates

The Group's customers, Changan Ford and Changan Automobile have business in overseas countries such as America, Mexico, Vietnam and Philippines. The Group needs to purchase international logistics services from qualified international logistics service providers with sufficient capacity and well-established logistics network. APLL offers a comprehensive suite of services extending from international freight forwarding to both origin and destination services, including freight consolidation, warehousing and distribution management and operates in several international trade lines. The Company is of the view that APLL and its associates are competent to provide comprehensive international logistics services for the Group and will help to ensure the Group's service quality. In addition, having APLL and its associates to provide logistics services for the Group will give the Group with more choice in the selection of international logistics service providers. Therefore, the Directors is of the view that it is in the interests of the Company and its Shareholders as a whole.

With respect to the logistics services provided by Nanjing CMSC to Baogang Zhushang

Baogang Zhushang needs to purchase steel transportation services, etc. Nanjing CMSC has been providing steel transportation services for Baogang Zhushang for a considerable period of time and is recognized by Baogang Zhushang for its service quality. In addition, as the business with Baogang Zhushang is rather stable, the Directors are of the view that Nanjing CMSC should continue to provide logistics services to Baogang Zhushang to ensure a stable revenue source to maximize the revenue of the Group and is in the interests of the Company and its Shareholders as a whole.

REPORT OF THE BOARD

Pricing of Continuing Connected Transactions

According to the framework agreements signed on 30 October 2017 between the Company and each of Changan Automobile, China Changan, APLL, Minsheng Industrial, Zhuangbei Finance and the framework agreement signed between Nanjing CMSC, the Company's holding subsidiary, and Baogang Zhushang, the prices of the transactions for the services provided by the Group to our customers under such framework agreements are determined in accordance with the principles and order of bidding price, internal compared price and cost-plus price. Please refer to the announcement of the Company dated 4 November 2019, the circular dated 4 December 2019 and the announcement dated 20 December 2018 for further details.

According to the framework agreements signed on 30 October 2017 between the Company and each of Minsheng Industrial, China Changan, APLL, and Chongqing Changxin, the prices of the transactions for the services purchased by the Group under such framework agreements are determined in accordance with the principle and order of bidding price and internal compared price. Please refer to the announcement of the Company dated 4 November 2019, the circular dated 4 December 2018-9 and the announcement dated 31 December 2019 for further details.

According to the framework agreement signed on 30 October 2017 between the Company and Zhuangbei Finance in regard to settlements, deposits and loans, and note discounting services, the prices of the transaction under such framework agreement are set on normal commercial terms.

The transactions between the Company and the connected persons were on normal commercial terms or on terms no less favorable to the Company than those available from independent third parties under current local market conditions, and the relevant connected transactions were fair and reasonable and in the interests of the Company and its shareholders as a whole.

REPORT OF THE BOARD

Total Consideration of the Continuing Connected Transactions

During the reporting period, the Group conducted continuing connected transactions with China Changan, Changan Automobile, APL Logistics, Minsheng Industrial, Zhuangbei Finance, Chongqing Changxin and their respective associates, and Nanjing CMSC also entered into continuing connected transactions with Baogang Zhushang, which constitute related party transactions in accounting during the period. The details are set out in note 37 to the financial statements of the announcement. During the reporting period, the Group had strictly complied with the disclosure requirements under Chapter 14A of the Listing Rules.

For the year ended 31 December 2020, the total consideration paid to the Group by each of the relevant connected persons for the logistics services is as follows:

| | For the year ended 31 December 2020 | |
|---|-------------------------------------|------------------------------------|
| | Actual Transaction Amount | Annual Caps or Revised Annual Caps |
| | RMB'000 | RMB'000 |
| China Changan and its associates: | | |
| - Logistics services (including but not limited to the following logistics services: finished vehicle transportation, tire assembly, supply chain management for automobile raw materials, components and parts; and logistics services for non-automobile products, such as transformer, steel, optical product and specialty product) | 76,237 | 95,000 |
| Changan Automobile and its associates: | | |
| - Logistics services (including but not limited to the following logistics services: finished vehicle transportation, tire assembly, and supply chain management for automobile raw materials, components and parts) | 3,622,492 | 4,060,000 |
| Minsheng Industrial and its associates: | | |
| - logistics services | 7,916 | 23,000 |
| APL Logistics and its associates: | | |
| - logistics services | - | 10,000 |
| Baogang Zhushang: | | |
| - logistics services | 4,475 | 7,000 |
| Zhuangbei Finance | | |
| -Finance logistics services | Nil | Nil |

For the year ended 31 December 2020, the total consideration paid by the Group to each of the connected persons for the purchase of transportation services of automobiles and automobile raw materials, components and parts is as follows:

| | For the year ended 31 December 2020 | |
|---|-------------------------------------|------------------------------------|
| | Actual Transaction Amount | Annual Caps or Revised Annual Caps |
| | RMB'000 | RMB'000 |
| China Changan and its associates: | 11,671 | 12,000 |
| Minsheng Industrial and its associates: | 192,799 | 265,000 |
| APL Logistics and its associates: | 1 | 10,000 |

REPORT OF THE BOARD

For the year ended 31 December 2020, the total consideration paid by the Group to each of the connected persons for the purchase of property leasing services is as follows:

| | For the year ended 31 December 2020 | |
|-----------------------------------|-------------------------------------|------------------------------------|
| | Actual Transaction Amount | Annual Caps or Revised Annual Caps |
| | RMB'000 | RMB'000 |
| China Changan and its associates: | 1,737 | 1,800 |

For the year ended 31 December 2020, the total consideration paid by the Group to each of the connected persons for the purchase of security and cleaning services is as follows:

| | For the year ended 31 December 2020 | |
|-----------------------------------|-------------------------------------|------------------------------------|
| | Actual Transaction Amount | Annual Caps or Revised Annual Caps |
| | RMB'000 | RMB'000 |
| China Changan and its associates: | 3,198 | 7,000 |

For the year ended 31 December 2020, the total consideration paid by the Group to each of the connected persons for the purchase of maintenance services is as follows:

| | For the year ended 31 December 2020 | |
|--|-------------------------------------|------------------------------------|
| | Actual Transaction Amount | Annual Caps or Revised Annual Caps |
| | RMB'000 | RMB'000 |
| Chongqing Changxin and its associates: | Nil | Nil |

For the year ended 31 December 2020, the amount of transactions between the Group and Zhuangbei Finance are as follows:

| | For the year ended 31 December 2020 | |
|---|-------------------------------------|------------------------------------|
| | Actual Transaction Amount | Annual Caps or Revised Annual Caps |
| | RMB'000 | RMB'000 |
| The balance of the maximum amount of outstanding of deposit (including interest) on a daily basis | 198,530 | 200,000 |

In March 2021, the Company received confirmation letters as required under Rule 14A.55 of the Listing Rules from Mr. Chong Teck Sin, Mr. Poon Chiu Kwok, Mr. Jie Jing and Ms. Zhang Yun, the independent non-executive Directors of the Company, confirming that the continuing connected transactions of the Company for 2020 were:

1. in the ordinary and usual course of business of the Group;
2. either on normal commercial terms or better; and
3. in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Further, the Company has engaged its external auditor to report on the Company's continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with Rule 14A.71 of the Listing Rules, the Board of the Company confirmed that the external auditor of the Company had made a confirmation statement on the issues mentioned in Rule 14A.56 of the Hong Kong Listing Rules. The external auditor has issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions set out above. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

REPORT OF THE BOARD

Related Party Transactions

Details of the significant related party transactions entered into by the Group during the twelve months ended 31 December 2020 are set out in Note 37 to the consolidated financial statements. None of these related party transactions constitutes a disclosable connected transaction as defined under the Listing Rules, except for the transactions described in this paragraph headed “Continuing Connected Transactions”, in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

Legal Proceedings

As at 31 December 2020, the Group was not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against the Group.

Designated Deposits

As at 31 December 2020, the Group had no designated deposits in any financial institutions in and out of the PRC or any overdue fixed deposit which could not be recovered.

Compliance with the relevant Laws and Regulations

As far as the Board of Directors and management are 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. During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

Environmental Policies and Performance

The Group is committed to the long-term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavors to comply with the laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and wastes reduction.

The Company is preparing the environmental, social and governance report (the “ESG report”) for the year ended 31 December 2020 in accordance with the *Environmental, Social and Governance Reporting Guide* of the Stock Exchange. The Company will publish the ESG report on the Stock Exchange’s website and the Company’s website as close as possible to, and in any event no later than three months after, the publication of the Company’s annual report of 2020.

REPORT OF THE BOARD

Donation

During the year, the total amount of donation made by the Company was RMB710,000 (2019: RMB760,000).

Purchase, Sale and Redemption of the Company's Listed Securities

There was no purchase, redemption, sale or cancellation by the Group of the Company's listed securities during the year ended 31 December 2020.

Pre-emptive Rights

There is no provision of pre-emptive rights in the Company's Articles of Association requiring the Company to offer new shares proportionately to its existing shareholders.

Auditors

The consolidated financial statements of the Group enclosed in this announcement had been audited by PKF Hong Kong Limited, the Group's auditors.

By the Order of the Board
Xie Shikang
Chairman

Chongqing, the PRC
30 March 2021

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

Pursuant to the "Company Law of the People's Republic of China", the relevant laws and regulations and the Articles of Association of the Company, the Supervisory Committee, under its fiduciary duty, took up an active role to work with diligence to protect the interests of the Company and its shareholders.

During the year, Supervisory Committee had reviewed cautiously the operation and development plans of the Company and provided reasonable suggestions and opinions to the Board and given opinions in relation to the Scheme. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they are in compliance with the laws and regulations of the PRC and the Articles of Association of the Company, and in the interests of its shareholders.

The Supervisory Committee considers that in 2020, the members of the Board, the general manager and other senior management staff of the Company were able to strictly fulfil their fiduciary duties, to act diligently and to exercise their authority faithfully in the best interests of the Company, to carry out work pursuant to the Articles of Association of the Company in standard operation and gradually improve the internal control system. The transactions between the Company and related parties were carried out on fair and reasonable terms and in the interests of the shareholders as a whole. As of the date of this announcement, none of the Directors, general manager and other senior management staff had been found to have abused their authority, prejudiced the interests of the Company and of its shareholders. None of them was found to be in breach of any laws and regulations or the Articles of Association of the Company.

The Supervisory Committee is confident in the Company's future development.

The Supervisory Committee has conscientiously reviewed and agreed with the report of the Board, the audited consolidated financial statements, which will be submitted by the Board to the 2020 AGM.

By order of the Supervisory Committee
Wang Huaicheng
Chairman

Chongqing, the PRC
30 March 2021

CORPORATE GOVERNANCE REPORT

The Board believes that the Company can enhance its corporate governance and transparency by adhering to strict corporate governance practices in the interest of the shareholders of the Company. Since 18 July 2013, the provisions of the Corporate Governance Code (“Code”) set out in Appendix 14 of the Listing Rules have been adopted as the Company’s corporate governance standards, which coupled with, the experience and circumstances of the Company, help to establish a favorable corporate governance structure of the Group. For the period from 1 January 2020 to 31 December 2020, the Company has complied with the code provisions set out in the Code throughout and adopted the recommended best practice as set out in the Code, except for code provision A.4.2. The fifth session of Board and the fifth session of the Supervisory Committee was elected on 30 June 2020. Code provision A.4.2 provides that every director, including those appointed for a specific time, should be subject to retirement by rotation at least once every three years. The Company also stipulates that directors and supervisors elected at general meeting shall be for a term of three years. According to the code provisions and the articles of association of the Company, the term of office of all the members of each of the fifth session of the Board and the fifth session of the Supervisory Committee shall expire on 30 June 2023.

The following is a summary of key corporate governance practices of the Company:

Securities Transactions by the Directors

Since the Transfer of Listing of the Shares to the main board of the Stock Exchange on 18 July 2013, the Company has adopted a code of conduct regarding Directors’ securities transactions on terms of the required standard of dealings (the “Code of Conduct”) prepared according to the Model Code. After making specific enquiries to all Directors, the Company confirms that the Directors have complied with the Code of Conduct during the period from 1 January 2020 to 31 December 2020.

Board

The Board comprises 11 Directors, including 4 executive Directors, 3 non-executive Directors and 4 independent non-executive Directors. The Board believes that 7 non-executive Directors and independent non-executive Directors maintained a reasonable balance with the number of executive Directors and have participated actively in the formulation of the Company’s policies through providing constructive suggestions in the interests of shareholders as a whole. The names of members of the fourth session of the Board are set out in the “Report of the Board”.

The Company has 4 independent non-executive Directors, of whom at least one has appropriate professional qualification and financial management expertise. The Company received the relevant independence confirmation letter from each of the independent non-executive Directors in March 2021. There is no relationship between the members of the Board, Supervisory Committee and other senior management staff in finance, business, family and other material or relevant aspects.

Election of Directors and Supervisors and Provision of information in respect of and by directors, supervisors and chief executives required under Rule 13.51B of the Listing Rules

The members of the fifth session of the Board and the Supervisory Committee (excluding employee representative supervisors) were elected and appointed at the 2019 AGM held by the Company on 30 June 2020. Please refer to the circular and the announcement of the Company dated 15 May 2020 and 30 June 2020 respectively.

Mr. Xia Lijun was appointed as a non-executive Directors of the fifth session of the Board at the 2019 AGM held on 30 June 2020 for a term commencing from the conclusion of the AGM till the expiry of the fifth session of the Board. Please refer to the circular and the announcement of the Company dated 15 May 2020 and 30 June 2020 respectively.

Mr. Yang Xunping was elected democratically by the employee representatives of the Company as the employee representative Supervisor of the fifth session of the Supervisory Committee for a term commencing from the conclusion of the 2019 AGM till the expiry of the fifth session of the Supervisory Committee. Please refer to the announcement of the Company dated 30 June 2020.

Mr. Deng Gang resigned as the employee representative Supervisor of the Company, effective from the conclusion of the 2019 AGM held on 30 June 2020.

During the reporting period, Mr. Poon Chiu Kwok, an independent non-executive Director, resigned as the independent non-executive director of TUS International Limited (Listed on the Stock Exchange, Stock Code: 00872) with effect from 17 July 2020. Mr. Poon Chiu Kwok was an independent non-executive director of Tonly Electronics Holdings Limited (delisted on the main board of Hong Kong Stock Exchange on 8 March 2021) .

During the reporting period, Mr. Chong Teck Sin, an independent non-executive Director, replaced Mr. Xie Shikang, an executive Director, as a member of the Remuneration Committee of the Company with effect from 28 August 2020.

During the reporting period, Mr. Chong Teck Sin assumed the office of a member of the Strategy and investment Committee of the Company with effect from 1 December 2020.

CORPORATE GOVERNANCE REPORT

Directors' Attendance of Regular Meetings

The Board has held four regular meetings in 2020 to discuss and determine the Company's major strategies, key operational issues, financial matters and other matters set out in the Company's Articles of Association. Details of Directors' attendance records at the Board's regular meetings held during the year of 2020 are set out in the following table:

| Director's name | Due attendance | Records for personal attendance | Records for attendance by alternate | Individual attendance rate |
|---|----------------|---------------------------------|-------------------------------------|----------------------------|
| Executive Director | | | | |
| Xie Shikang | 4 | 4 | 0 | 100% |
| Chen Wenbo | 4 | 2 | 2 | 50% |
| William K Villalon | 4 | 3 | 1 | 75% |
| Shi Jinggang | 4 | 4 | 0 | 100% |
| Non-executive Director | | | | |
| Chen Xiaodong | 4 | 4 | 0 | 100% |
| Man Hin Wai Paul | 4 | 4 | 0 | 100% |
| Li Xin (Note 1) | 1 | 0 | 1 | 0% |
| Xia Lijun (Note 2) | 3 | 3 | 0 | 100% |
| Independent non-executive Director | | | | |
| Chong Teck Sin | 4 | 4 | 0 | 100% |
| Poon Chiu Kwok | 4 | 4 | 0 | 100% |
| Jie Jing | 4 | 4 | 0 | 100% |
| Zhang Yun | 4 | 4 | 0 | 100% |

Note 1: Mr. Li Xin resigned as the non-executive director of the Company with effect from 30 June 2020.

Note 2: Mr. Xia Lijun was appointed as the non-executive director of the Company with effect from 30 June 2020.

CORPORATE GOVERNANCE REPORT

Composition of the Board

Directors (including non-executive Directors) are elected in general meetings of the Company with a term of 3 years and can be re-elected and re-appointed upon the expiry of the term.

The term of all the existing Directors will be ended upon the expiry of the fifth session of the Board. The Directors shall then retire but may be available for re-election.

On diversity, the Board consists of Directors with different backgrounds that are able to provide the Company with professional advice on various aspects. Currently the Board has one female Director. The independent non-executive Directors are independent of management of the Company and have adequate business and financial experience. They provide advice to the Board and the management on the strategic development of the Company and ensure the interests of shareholders and the Company as a whole by implementing measures. As of the date of this announcement, apart from Mr. Chong Teck Sin and Mr. Poon Chiu Kwok, the independent non-executive Directors who have continuously been in office for over 9 years, the term of office of each of other 2 existing independent non-executive Directors does not exceed 9 years. Notwithstanding the fact that Mr. Chong Teck Sin and Mr. Poon Chiu Kwok have served the Company for more than nine years, there are no circumstances which are likely to affect their independence as an independent non-executive Director. Mr. Chong Teck Sin and Mr. Poon Chiu Kwok are not involved in the daily management of the Company nor in any relationships which would interfere with the exercise of the independent judgment. The Board considers Mr. Chong Teck Sin and Mr. Poon Chiu Kwok remains independent notwithstanding the length of his service. As regard the re-election of independent non-executive Directors, the Company has complied with code A.4.3 of the Corporate Governance Code under the Listing Rules that the re-election of each of Mr. Chong Teck Sin and Mr. Poon Chiu Kwok as the INEDs was subject to a separate resolution.

According to the Listing Rules, the Company received the relevant written independence confirmation letter from each of the independent non-executive Directors for the year 2020. The Company confirmed that all the independent non-executive Directors are independent of the Company.

The Company has provided liability insurances for all Directors and supervisors.

Duties of Directors and Management

Pursuant to the regulations of the Articles of Association of the Company, the duties of Directors are: to be responsible for the convening of and reporting to the shareholders' meeting; to implement the resolutions passed by the shareholders' meeting; to determine the Company's business plans and investment proposals; to formulate the Company's preliminary and final annual financial budgets; to formulate the Company's profit distribution proposal and loss recovery proposal; to make plans for the Company's increasing or decreasing its registered capital and issuing bonds; to formulate plans for the Company's merger, division, changing of forms and dissolution; to decide on the Company's internal management structure; to appoint or remove the Company's general manager and secretary to the Board of Directors, and to engage or remove the Company's deputy general manager, person(s) in charge of the finance department and other senior management according to the nomination of the general manager, and to decide on their remuneration and payment method; to formulate the Company's basic management system; to formulate proposals for any amendment to the Company's Articles of Association; to formulate plans for the Company's acquisition or sale of major assets; in compliance with the relevant laws and regulations, to exercise the Company's right to finance and loan as well as mortgage, rent, contract for or transfer the Company's major assets and authorizing general manager and vice general managers to exercise the foregoing rights within certain scope; to propose at the shareholders' meeting the engagement or replacement of an accounting firm for the audit of the Company's accounts; to listen to the opinions of the Party Committee of the Company before making decisions on material issues of the Company; to exercise any other functions and powers conferred upon by the shareholders' meeting and the Articles of Association of the Company.

Pursuant to the regulations of the Articles of Association of the Company, the duties of management of the Company are: to operate and manage the Company as well as implement resolutions of the Board; to implement the Company's annual operation and investment plan; to make plans for the structuring of the Company's internal management departments; to formulate the Company's basic management system; to formulate regulations for the Company; to propose to appoint or remove vice general managers and CFO of the Company; to decide to appoint or remove management staff except those that shall be appointed or removed by the Board; to decide the rewards and punishments, promotions, pay raises, appointments, employment, removal and dismissal of the Company's employees; to represent the Company to handle major business as authorized by the Board; to exercise other functions and powers conferred upon by the Articles of Association of the Company and the Board.

CORPORATE GOVERNANCE REPORT

During the year, the Directors and management strictly fulfilled their duties according to the requirements in the Articles of Association of the Company. The Board has reviewed its performance during the reporting period, obtained advice from senior management and considered the advice contained in the Report of the Supervisory Committee. The Board believes that it has effectively performed its responsibilities in the interests of the Company and shareholders in the year under review.

Chairman and General Manager

The Company's chairman is Mr. Xie Shikang, and the general manager is Mr. Shi Jinggang. The chairman is responsible for setting the strategic direction of the Company and formulating the business strategies, while the general manager is responsible for overseeing the daily operations of the Company. The chairman is also responsible for leading the Board and ensuring the effective operation of the Board. The chairman encourages all the Directors (including the independent non-executive Directors) to be fully dedicated in carrying out their duties to the Board and its four committees.

Continuing Professional Development of Directors (Training for Directors)

Directors should participate in continuing professional development to develop and refresh their knowledge and skills. This is to ensure that they will remain well informed to make their contribution to the Board.

Below is a summary of the trainings received by the Directors for the period between 1 January 2020 and 31 December 2020 based on the records provided by the Directors and supervisors:

| Name | Category of Continuing Professional Development |
|--------------------|--|
| Directors | |
| Xie Shikang | A/B |
| Chen Wenbo | A/B |
| William K Villalon | A/B |
| Shi Jinggang | A/B |
| Chen Xiaodong | A/B |
| Man Hin Wai Paul | A/B |
| Li Xin | A |
| Xia Lijun | A/B |
| Chong Teck Sin | A/B |
| Poon Chiu Kwok | A/B |
| Jie Jing | A/B |
| Zhang Yun | A/B |
| Supervisors | |
| Wang Huaicheng | A/B |
| Jin Jie | A/B |
| Yang Gang | A/B |
| Deng Li | A/B |
| Deng Gang | A |
| Yang Xunping | A/B |

A: reading seminar materials and other updated information regarding the amendments to the Listing Rules and other applicable regulations.

B: attending briefing and/or seminars.

CORPORATE GOVERNANCE REPORT

Four Committees of the Board

The Company's audit committee, remuneration committee, nomination committee and strategy and investment committee have laid down specific terms of reference, detailing the powers and responsibilities of these committees. All the committees shall report their decisions or submit their proposals to the Board within their authorities, and under certain circumstances, have to request for the Board's approval before taking any actions.

(1) Audit Committee

The Company has set up an audit committee (the "Audit Committee") pursuant to the requirements of the Listing Rules and the "Guidelines for the Establishment of Audit Committees" published by Hong Kong Institute of Certified Public Accountants, and set out its duties, powers and functions with written terms of reference. The major duties of the Audit Committee are:

- (a) be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- (b) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) develop and implement policy on engaging an external auditor to supply non-audit services, if any, to ensure that provisions of such services would not impair the independency and objectivity of the external auditors. For this purpose, 'external auditor' includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;
- (d) monitor integrity of the Company's financial statements and the annual report and accounts, half-year report and (if prepared for publication) quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgmental areas;
 - (iii) significant adjustments resulting from audit;
 - (iv) the going concern assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;
- (e) regarding (d) above:
 - (i) members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditors; and
 - (ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;
- (f) review the Company's financial controls, and unless expressly addressed by a separate board risk committee, or by the Board itself, to review the Company's risk management and internal control systems;
- (g) discuss the risk management and internal control system with the management to ensure that management has performed its duty to have effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

CORPORATE GOVERNANCE REPORT

- (h) consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (i) where an internal audit function exists, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and review and monitor its effectiveness;
- (j) review the group's financial and accounting policies and practices;
- (k) review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- (l) ensure that the Board provides a timely response to the issues raised in the external auditor's management letter;
- (m) report to the Board on the matters in the code provision of Appendix 14 Corporate Governance Code and Corporate Governance Report of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
- (n) review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management and internal control or other matters. The Committee should ensure that proper arrangements are in place for the fair and independent investigation of these matters and for appropriate follow-up action;
- (o) act as the key representative body for overseeing the Company's relations with the external auditor; and
- (p) consider other topics, as defined by the Board.

The Audit Committee currently comprises Ms. Zhang Yun, Mr. Chong Teck Sin, Mr. Poon Chiu Kwok and Mr. Jie Jing, who are all independent non-executive Directors. Mr. Poon Chiu Kwok has the requisite financial experience.

During the year, the Audit Committee held 4 regular meetings.

The Audit Committee met on 26 March 2020 to review and discuss the Group's annual results, financial statements; principal accounting policies and internal audit matters for the year ended 31 December 2019, listened to the auditor's suggestions for the Company, and approved such reports.

The Audit Committee met on 10 June 2020 to review the income statement, cash flow statement and balance sheet of the Group for the three months ended 31 March 2020.

The Audit Committee met on 25 August 2020 to review the unaudited interim report of the Group for the six months ended 30 June 2020 and approved such report.

The Audit Committee met on 12 November 2020 to review the income statement, cash flow statement and balance sheet of the Group for the nine months ended 30 September 2020.

CORPORATE GOVERNANCE REPORT

Details of Audit Committee members' attendance records at the regular meetings during the year are set out in the following table:

| Members of the Audit Committee | Due attendance | Records for personal attendance | Records for attendance by alternate | Individual attendance rate |
|--------------------------------|----------------|---------------------------------|-------------------------------------|----------------------------|
| Chong Teck Sin | 4 | 4 | 0 | 100% |
| Poon Chiu Kwok | 4 | 4 | 0 | 100% |
| Jie Jing | 4 | 3 | 1 | 75% |
| Zhang Yun | 4 | 4 | 0 | 100% |

The Audit Committee met on 26 March 2021 to review and discuss the Group's annual results, financial statements, principal accounting policies and internal audit matters for the year ended 31 December 2020, listened to the auditor's suggestions for the Company and approved such reports.

In 2020, the Audit Committee has worked actively mainly on the following aspects:

1. reviewed the policies and systems on internal financial supervision & operation, compliance monitoring and risks management, for the purpose of ensuring the effectiveness of the policies and systems on internal financial supervision and operation, compliance monitoring and risks management;
2. monitored the accounts of the relevant reporting period and reviewed the financial statements and all the financial reporting materials which are set out in the report and took the view that all of these were in accordance with the requirements of Chinese Accountant Standard and Hong Kong Accountant Standard and complied with the relevant laws and regulations of PRC and the Listing Rules;
3. made two times of effective communication and discussions with the Group's external auditors with regard to the 2020 conducted annual financial auditing nature and scope;
4. proposed to the Board to appoint PKF Hong Kong Limited and WUYIGE Certified Public Accountants LLP as the Company's 2020 annual external auditors.

CORPORATE GOVERNANCE REPORT

(2) Remuneration Committee

The remuneration committee (the “Remuneration Committee”) currently comprises Mr. Chong Teck Sin, Mr. Poon Chiu Kwok, Mr. Jie Jing and Ms. Zhang Yun, who are all independent non-executive directors.

The major duties of the Remuneration Committee are:

- (a) make recommendations to the Board on the Company’s policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- (b) review and approve the management’s remuneration proposals with reference to the Board’s corporate goals and objectives;
- (c) determine, with delegated responsibility the remuneration packages of individual executive Directors and senior management. These should include stock appreciation stimulating plan, benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- (d) make recommendations to the Board on the remuneration of non-executive Directors;
- (e) consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;
- (f) review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- (g) review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
- (h) ensure that no Director or any of his associates is involved in deciding his own remuneration; and
- (i) consider other topics, as authorized by the Board.

During the year, the Remuneration Committee of the Company held one regular meeting and one extraordinary meeting.

Details of Remuneration Committee members’ attendance records at the meeting during the year are set out in the following table:

| Members of the Remuneration Committee | Due attendance | Records for personal attendance | Records for attendance by alternate | Individual attendance rate |
|---------------------------------------|----------------|---------------------------------|-------------------------------------|----------------------------|
| Xie Shikang (<i>Note</i>) | 2 | 2 | 0 | 100% |
| Poon Chiu Kwok | 2 | 2 | 0 | 100% |
| Jie Jing | 2 | 2 | 0 | 100% |
| Zhang Yun | 2 | 2 | 0 | 100% |
| Chong Teck Sin (<i>Note</i>) | 0 | 0 | 0 | N/A |

Note: Mr. Chong Teck Sin replaced Mr. Xie Shikang as a member of the Remuneration Committee with effect from 28 August 2020.

In 2020, the Remuneration Committee has worked actively mainly on the following aspects:

1. Submitted suggestions to the Board on the remuneration policy and composition of the Directors and senior managements of the Company in 2020, and suggested the establishment of a normal and transparent remuneration system;

2. Analyzed and continuously refined the procedures of meetings of the Remuneration Committee;
3. Conducted reviews on the Scheme and the incentive recipients thereunder and issued Independent opinions in such respect. Mr. Xie Shikang has abstained from voting on relevant resolution(s) for being one of the incentive recipients.

CORPORATE GOVERNANCE REPORT

(3) Nomination Committee

The nomination committee (the "Nomination Committee") currently comprises Mr. Xie Shikang, Mr. Chong Teck Sin, Mr. Poon Chiu Kwok, Mr. Jie Jing and Ms. Zhang Yun. The Nomination Committee is chaired by Mr. Xie Shikang, the chairman of the Board and comprises a majority of independent non-executive Directors.

The major duties of the Nomination Committee are:

- (a) review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- (b) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- (c) assess the independence of independent non-executive Directors;
- (d) make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the general manager; and
- (e) consider other topics, as authorized by the Board.

In identifying individuals suitably qualified to become Board members, the nomination committee will fully consider if his or her skills, experience and diversity of perspectives is appropriate to the requirements of the Group's business and has a thorough knowledge regarding the candidate's occupation, educational background, professional titles, specific working background, part-time jobs and other background information required under the Listing Rules, Articles of Association of the Company and the relevant PRC authorities (if any). In addition, the Audit Committee will also take into account the potential contributions a candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity and comply with the Procedures for Shareholders to Nominate Candidate(s) for Election as Director(s) or Shareholders' Representative Supervisor(s) established by the Company, and all of the applicable provisions of the Articles of Associations of the Company and the Listing Rules.

During the year, the Nomination Committee of the Company held one regular meeting.

Details of Nomination Committee members' attendance records at the regular meetings during the year are set out in the following table:

| Members of the Nomination Committee | Due attendance | Records for personal attendance | Records for attendance by alternate | Individual attendance rate |
|-------------------------------------|----------------|---------------------------------|-------------------------------------|----------------------------|
| Xie Shikang | 1 | 1 | 0 | 100% |
| Chong Teck Sin | 1 | 1 | 0 | 100% |
| Poon Chiu Kwok | 1 | 1 | 0 | 100% |
| Jie Jing | 1 | 1 | 0 | 100% |
| Zhang Yun | 1 | 1 | 0 | 100% |

In 2020, the Nomination Committee has worked actively mainly on the following aspects:

1. Examined and assessed the qualifications of the candidate(s) for Director(s) and supervisor(s)
2. Analyzed the framework, population and composition of the current Board of the Company;
3. Assessed and reviewed the independent non-executive Directors of the Company, ensuring their independency. The Company shall abide by relevant rules of the Articles of Association of the Company and Listing Rules in selection of the candidate(s) for non-executive Director(s), with reference to his/her character, experience and integrity and competence;
4. Analyzed and continuously refined the procedures of meetings of the Nomination Committee.

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(4) Strategy and Investment Committee

The Board established the Strategy and Investment Committee on 29 June 2018. The Strategy and Investment Committee currently comprises Mr. Xie Shikang, Mr. Shi Jingtang, Mr. Chong Teck Sin, Mr. Jie Jing and Ms. Zhang Yun. The chairman of the Strategy and Investment Committee, Mr. Xie Shikang, is the chairman of the Board.

The Strategy and Investment Committee shall be responsible for the following duties:

- (a) study and advise on the Company's development strategy and interim and long-term development plan;
- (b) study and advise on the annual business plan, total budget plan, yearly investment program and major investment program subject to the approval of the Board;
- (c) study and advise on major financing activities, the disposal of assets, and mergers and acquisitions subject to the approval of the Board;
- (d) study and advise on mortgages, pledges of major assets and the provision of security to external party subject to the approval of the Board;
- (e) assess and examine the implementation of the above stated activities;
- (f) exercise other functions and powers conferred upon by the Board and relevant laws and regulations.

During the reporting period, the Strategy and Investment Committee discussed the development strategy and direction of the Company.

CORPORATE GOVERNANCE REPORT

Corporate Governance Responsibility

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

The Board reviewed (i) the Company's corporate governance policies and practices; (ii) the training and continuous professional development of Directors and senior management; (iii) the Company's policies and practices on compliance with legal and regulatory requirements; (iv) the code of conduct applicable to the employees and Directors; and (v) the Company's compliance with the Code and disclosure in this corporate governance report. With respect to procedures and internal controls for the handling and dissemination of inside information, the Company is aware of its obligations under the Securities and Futures Ordinance and the Listing Rules and the overriding principle that inside information should be announced immediately if it is the subject of a decision; and that the Company's affairs be conducted with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012. The Company has been working on developing its own disclosure policy aiming at preventing selective disclosure of material non-public information and providing broad non-exclusive distribution of material information to the public. The Board will continue to review and improve the corporate governance practices and standards of the Company to ensure that their business and decision-making processes are regulated in a proper and prudent manner.

During the year of 2020, the Board reviewed the Company's status on compliance with the Code and other rules applicable according to the requirements of the Code, and approved the annual corporate governance report of the Company and its disclosure on the websites of the Stock Exchange and the Company.

Auditors and their Remuneration

PKF Hong Kong Limited was appointed as the Company's international auditor (WUYIGE Certified Public Accountants LLP was the Company's PRC auditor for 2020) for the year ended 31 December 2020 on the 2019 AGM held on 30 June 2020. Prior to the appointment of PKF Hong Kong Limited, Ernst & Young was the Company's international auditor since 30 June 2014.

The responsibilities of the external auditors in respect of their financial reporting are set out in the independent auditor's report attached to the Company's financial statements for the year ended 31 December 2020.

The remuneration of the auditors for the year ended 31 December 2020 are set out below:

| Services provided | Fees(RMB) |
|--------------------|--------------|
| Audit Services | 1,480,000.00 |
| Non-audit services | 65,000.00 |
| Total | 1,545,000.00 |

The Directors took the view that they have the responsibilities for preparing the account and have conducted a review of the effectiveness of the internal control system of the Group. The Audit Committee presented their opinions on the appointment of the auditors and approved the above-mentioned appointing arrangement.

Company Secretary

During the year of 2020, Mr. Huang Xuesong has received no less than 15 hours of professional training in compliance with Rule 3.29 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

Rights of Shareholders

The Company's shareholders of ordinary shares shall enjoy the following rights:

- (1) the right to receive dividends and other distributions proportional to the number of shares held;
- (2) the right to attend shareholders' meeting of the Company, either in person or by proxy, and exercise their voting right;
- (3) the right to supervise, advise or inquire about the operating activities of the Company;
- (4) the right to transfer, bestow, or pledge the shares held according to the laws and regulations and the Articles of Association of the Company;
- (5) the right to be provided with relevant information in accordance with provisions of the Articles of Association of the Company, including:
 - (A) to obtain a copy of the Articles of Association of the Company, subject to payment of a reasonable charge;
 - (B) to inspect and to make duplicate copies, subject to payment of a reasonable charge, of the following:
 - (i) all parts of the register of shareholders;
 - (ii) personal profiles of the Company's Directors, supervisors, general manager and other senior managements including:
 - (a) their present and former names and aliases;
 - (b) their principal addresses (residence);
 - (c) their nationalities;
 - (d) their full-time and all other part-time occupations and duties;
 - (e) their identification documents and the numbers thereof.
 - (iii) report(s) on the Company's share capital;
 - (iv) report(s) showing the aggregate par value, number, maximum and minimum price paid with respect to each class of shares repurchased by the Company since the end of the last financial year, and the aggregate amount incurred by the Company for this purpose;
 - (v) minutes of shareholders' meetings; and
 - (vi) audited financial reports.
- (6) the right to receive distribution of the remaining assets proportionate to the number of shares held at the point of the Company's dissolution or liquidation;
- (7) other rights conferred by the laws and regulations and the Articles of Association of the Company.

CORPORATE GOVERNANCE REPORT

Communications with Shareholders

The Company attaches great importance to the communication with shareholders and investors. The Company uses a number of channels to account for the performance and operations of the Company to shareholders, particularly periodic reports such as annual and interim reports. In addition to delivering circulars, notices and financial reports to our shareholders, the Company also publishes its corporate information on its website (<http://www.camsl.com>) by electronic means. The annual general meeting provides a good opportunity for the communication between the Board and the shareholders of the Company. The Company regards the AGM as an important event in the year and all Directors, supervisors, senior management and the Chairmen of the Audit Committee, the Remuneration Committee and the Nomination Committee should make an effort to attend and answer questions raised by the shareholders. For the year ended 31 December 2020, in responding to investors' enquiries, the Company held conferences and/or conference calls.

The Company encourages the shareholders to be involved in the Company's affair and to discuss the corporate business and prospects directly at the annual general meeting or extraordinary general meeting (the "EGM").

Shareholders individually or jointly holding 10% or more of the shares are conferred with the right to vote at the forthcoming EGM and can sign and submit one or more written requests of the same format and content to the Board to request the convening of an EGM, with the issues to be discussed clearly stated. The Board shall convene an EGM as soon as practicable upon receiving such written request(s). The number of the shares will be calculated as at the date of the submission of the written requests.

If the Board fails to send notification of the meeting within 30 days from the date of the receipt of such a request, the Supervisory Committee shall call and preside over the meeting in a timely manner; if the Supervisory Committee fails to do so as well, the shareholder(s), individually or jointly holding over 10% or more of the voting shares of the Company for more than 90 consecutive days may call the meeting within 4 months of the date of the receipt of such a request by the Board, and the procedures for calling the meeting shall mirror the procedures of the Board to call the meeting to the extent possible.

Enquiries may be made to the Board either by contacting the Company Secretary of the Company through office and address of correspondence (No. 1881 Jinkai Road, Yubei District, Chongqing, the PRC, Zip Code: 401122), directly through questions at the annual general meeting or EGM, or by contacting the Board office of the Company (which is in charge of investor relations, email: dongshihui@camsl.com).

CORPORATE GOVERNANCE REPORT

Risk Management and Internal Control

The Company established an audit and legal affairs department to perform internal control assessment, risk management and internal audit. The Company's internal control system was effective and the Company did not have any material operation risks.

(1) Constantly improve on the internal control system

The Company has revised and implemented the protocols in instructive documents such as the "*Internal Control Manual*", the "*Internal Control Assessment Manual*", the "*Internal Control Assessment Management Workflow*", the "*Annual Risks Assessment Workflow*", the "*Regular Risks Assessment Workflow*", "*Internal Audit Workflow*" and other internal control, risk management and internal audit related administrative rules and relevant work instructions to guide the relevant work regarding internal control, risk and audit management.

The Company persistently refines and improves the internal control system, vigorously builds a lean operation and management system to internalize, improve and computerize relevant work processes, and constantly complete the authorization system and internal management system. The Company has also identified risks and how to control them in the flow plan contained in those documents, and has effectively linked the risk control responsibility with individual job description to strengthen the internal control system.

(2) Conduct internal control assessment and risk management and supervision

The Company has conducted a series of assessment and supervision such as annual internal control assessment, internal control deficiency remedy, annual risk assessment, monthly risk status update, regular risk identification and control, special assessment and audit, accountability audit to examine the Company's internal control and risk management status. The internal control deficiencies and risks identified were corrected and follow-up actions were taken to monitor the results. A sound system of internal controls is designed to manage rather than to eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance.

(3) Continue to raise risk management and internal control awareness

The Company took various opportunities to provide training to officials, managers and employees regarding risk management, internal control, legal affairs and spread the concept of risk management and control, and lawful operation in an effort to integrate risk management and control into the everyday operation and management of the Company.

One of the duties of the Audit Committee of the Board is to review the adequacy and effectiveness of the Group's financial control, internal audit functions and risk management systems. The Audit Committee examined and reviewed the work of the audit and legal affairs department, the Group's external auditor and the regular reports on internal financial control, operation and compliance control, and risk management policies and systems for the financial year ended 31 December 2020.

As a result of the above review, the Board confirms, and management has also confirmed to the Board, that the Group's risk management and internal control systems are effective and adequate (including the resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions are adequate) and have complied with the Code provisions on risk management and internal control throughout the reporting period and up to the date of this announcement.

CORPORATE GOVERNANCE REPORT

General Meetings

On 30 June 2020, the executive Director Mr. Xie Shikang (the chairman of the Board, the chairman of the Nomination Committee and the chairman of the Strategy and Investment Committee of the Company), Mr. Chen Wenbo, Mr. William K Villalon, and Mr. Shi Jinggang, the non-executive Director Mr. Chen Xiaodong and Mr. Man Hin Wai Paul, the independent non-executive Director Mr. Chong Teck Sin, Mr. Poon Chiu Kwok, Mr. Jie Jing (the chairman of the Remuneration Committee) and Ms. Zhang Yun (the chairman of the Audit Committee of the Company) attended the 2019 annual general meeting held by the Company.

On 30 December 2020, the executive Director, Mr. Xie Shikang, Mr. Chen Wenbo, Mr. William K Villalon, Mr. Shi Jinggang and the non-executive Directors, Mr. Man Hin Wai Paul, the independent non-executive Director Mr. Chong Teck Sin, Mr. Poon Chiu Kwok, Mr. Jie Jing and Ms. Zhang Yun attended the 2020 first EGM held by the Company.

Amendments of Articles of Association

The 2019 first extraordinary general meeting of the Company held on 20 December 2019 approved the amendments made to the articles of association of the Company in relation to minor changes in the name of the Company's substantial shareholder and changes in the business scope. The relevant industrial and commercial registration of changes has been completed on 30 March 2020. For details of the amendments, please refer to the Company's Circular dated 4 December 2019 and Articles of Association dated 30 March 2020 respectively.

In accordance with the relevant requirements of the Company Law of the PRC and the Reply of the State Council on the Adjustment of the Notice Period of the General Meeting and Other Matters Applicable to the Overseas Listed Companies (Guo Han [2019] No. 97) 《國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批復》（國函[2019] 97 號） published by the State Council of the PRC, the Board proposed to amend, amongst others, the provisions in relation to notice period of general meetings as provided in articles of association of the Company. The proposed amendments are conditional on the approval of the shareholders at the general meeting and class meetings the approval of competent governmental authorities.

By Order of the Board
Changan Minsheng APLL Logistics Co., Ltd.
Xie Shikang
Chairman

Chongqing, the PRC
30 March 2021

As at the date of this announcement, the Board of Directors of the Company comprises:

Executive directors:

Mr. Xie Shikang
Mr. Chen Wenbo
Mr. William K Villalon
Mr. Shi Jinggang

Non-executive directors:

Mr. Chen Xiaodong
Mr. Man Hin Wai Paul
Mr. Xia Lijun

Independent non-executive directors:

Mr. Chong Teck Sin

Mr. Poon Chiu Kwok

Mr. Jie Jing

Ms. Zhang Yun

** For identification purpose only*