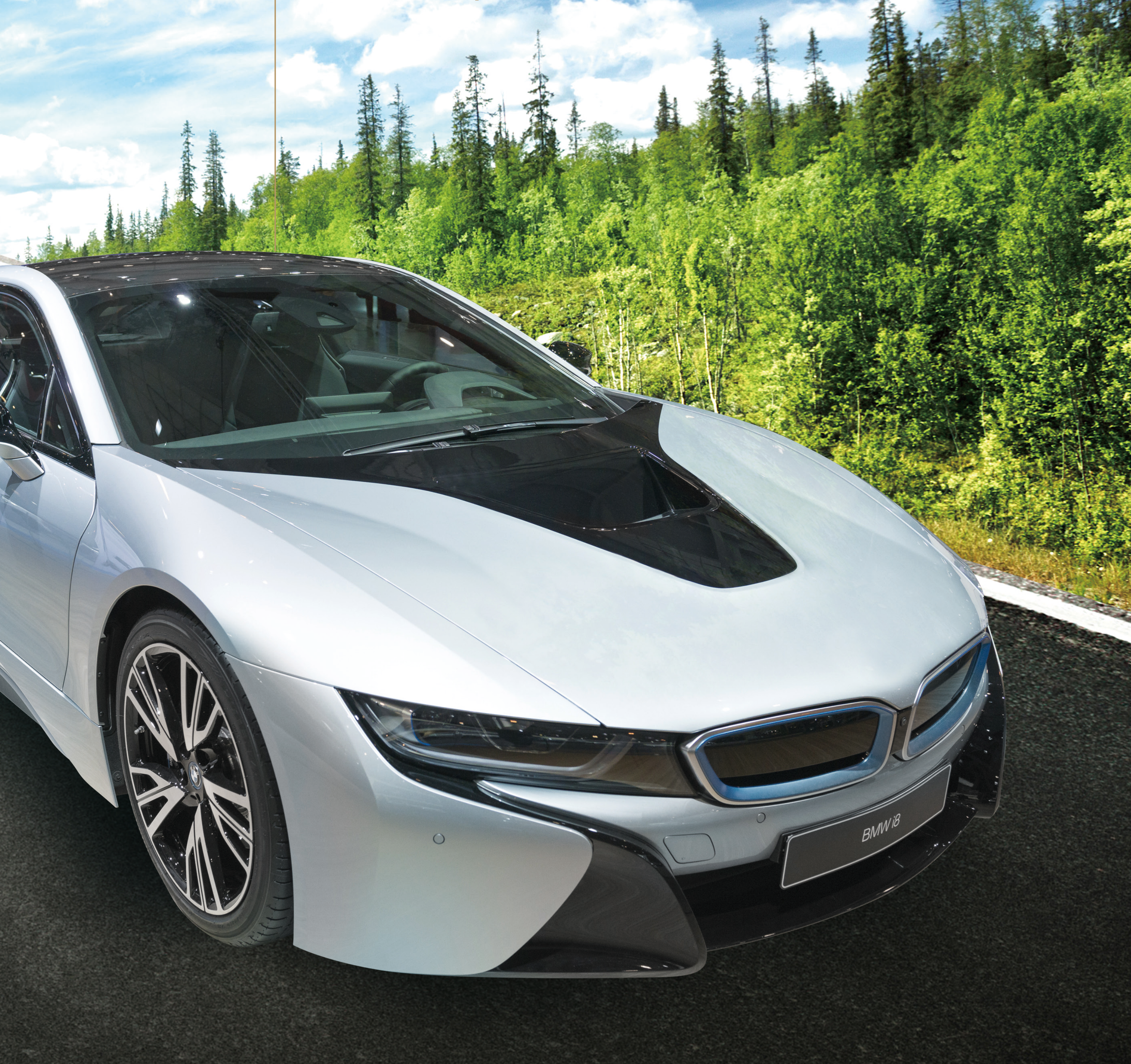
HARMONY AUTO
和諧汽車

China Harmony New Energy Auto Holding Limited
中國和諧新能源汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3836

2016
Annual Report



Contents

Corporate Information

Board of Directors

Executive Directors

Mr. FENG Changge *(Chairman)*
Mr. LIU Fenglei
Mr. YANG Lei
Mr. QIAN Yewen
Ms. MA Lintao

Non-executive Director

Mr. FAN Qihui

Independent Non-executive Directors

Mr. XIAO Changnian
Mr. LIU Zhangmin
Mr. XUE Guoping

Audit Committee

Mr. XIAO Changnian *(Chairman)*
Mr. LIU Zhangmin
Mr. XUE Guoping

Remuneration Committee

Mr. XUE Guoping *(Chairman)*
Mr. LIU Zhangmin
Mr. YANG Lei

Nomination Committee

Mr. FENG Changge *(Chairman)*
Mr. XUE Guoping
Mr. XIAO Changnian

Company Secretary

Ms. WONG Wai Ling

Authorized Representatives

Mr. YANG Lei
Ms. WONG Wai Ling

Auditors

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

Principal Banks

China CITIC Bank, Zhengzhou Branch
Shanghai Pudong Development Bank, Zhengzhou Branch
China Merchants Bank, Zhengzhou Branch
The Bank of East Asia, Zhengzhou Branch
Bank of Communications, Zhengzhou Branch

Registered Office

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal Place of Business and Headquarter in the PRC

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

Principal Place of Business in Hong Kong

18/F, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Cayman Islands Share Registrar

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Hong Kong Share Registrar

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Company's website

www.hexieauto.com

Stock Code

3836

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of China Harmony New Energy Auto Holding Limited ("China Harmony Auto" or the "**Company**" or "**we**"), I am pleased to present the report for the results of the Company and its subsidiaries (collectively referred to as the "**Group**") for 2016.

In 2016, the Group actively adjusted the strategy for development, vigorously strengthened the business competitiveness of 4S stores and steadily developed independent after-sales services. The Group also promoted the business of new energy vehicles while introducing external strategic investors, and achieved fruitful results.

- Revenue of the Group amounted to approximately RMB10,695.9 million, of which, revenue from new vehicle sales increased by 4.2% to RMB9,309.0 million and revenue from aftersales services decreased by 17.7% to RMB1,386.9 million as compared with 2015.

- Gross profit of the Group amounted to approximately RMB770.1 million, which was a decrease of 31.3% over the year of 2015, among which, gross profit of after-sales services amounted to approximately RMB568.7 million, accounting for 73.8% of the gross profit of the Group and representing an increase of 6.1 percentage points over 2015.

- Gross profit margin of the Group was 7.2%, representing a year-on-year decrease of 3.4 percentage points as compared with 2015. Among which, gross profit margin of new vehicle sales was 2.2%, which was a year-on-year decrease of 1.9 percentage point as compared with 2015; and gross profit margin of after-sales services was 41.0%, representing a year-on-year decrease of 4.1 percentage point over 2015.

- The commission income (mainly from insurance agency, vehicle financing agency and pre-owned cars agency services) of the Group was approximately RMB180.2 million, representing a decrease of 34.7% as compared with 2015.

- Loss for the year of the Group attributable to owners of the parent was approximately RMB370.7 million.

- Excluding the expenses of restricted share unit scheme and share option scheme, loss for the year of the Group attributable to owners of the parent was approximately RMB347.8 million.

- Basic and diluted loss per share were RMB0.24 and RMB0.24, respectively.

I would like to extend my sincere gratitude to all staff for their continuous efforts and shareholders and business partners for their greatest support. The Group will continue to expand the dealer network of 4S stores, steadily develop comprehensive after-sales services and the business of new energy vehicles and fully utilize the internet platform to facilitate after-sales services, and the businesses of pre-owned automobiles and parallel imports of automobiles, realizing online and offline interaction and complementation. We believe that the comprehensively promotion of the new business will create remarkable value to the Company and shareholders.

Feng Changge
Chairman of the Board

March 31, 2017

Management Discussion and Analysis

INDUSTRY OVERVIEW

In 2016, the economy of China has remained stable, downward pressure was effectively mitigated. The automobile industry continued to achieve a steady yet rapid development. According to China Association of Automobile Manufacturers, sales volume of passenger vehicles reached 24.4 million units in China in 2016, representing a year-on-year growth of 14.9%.

The sector of new energy vehicles in China recorded explosive growth due to various positive factors, including favorable government policies, rising environmental awareness of consumers and further development of new energy vehicles. According to China Association of Automobile Manufacturers, sales of new energy vehicles in China reached 507,000 units in 2016, increasing by 53% year-on-year, among which, sales volume of pure electric vehicles reached 409,000 units, increasing by 65.1% year-on-year.

In addition, according to Traffic Management Bureau of the Ministry of Public Security, vehicle ownership for civilian use had reached 194 million units by the end of 2016. The enormous level of vehicle ownership laid the foundation for the rapid development of the trading market of pre-owned cars and after-sales services market.

BUSINESS OVERVIEW

Proactive Transformation of Network Layout

Strong Market Position of Dealership Outlets

As of the date of this report, the Group owned a total of 47 dealership outlets, covering 21 cities across the country, distributed 11 luxury and ultra-luxury brands, of which, 7 were luxury brands such as BMW, MINI, Lexus, Jaguar, Land Rover, Volvo and Zinoro; 4 were ultra-luxury brands such as Rolls-Royce, Aston Martin, Ferrari and Maserati.

Stable Development of Comprehensive After-sales Services Outlets

As of the date of this report, the Group operated a total of 152 comprehensive after-sales services outlets, of which, 48 were centre outlets and 104 were community stores, covering 42 cities across the country. Operating under the brands "Harmony Auto Maintenance (和諧汽修)", the Group's comprehensive after-sales services outlets offer after-sales services for mainstream luxury and ultra-luxury automobile models, which are not only limited to those 11 brands under the Group's dealership. The Group's strategy on the layout of comprehensive after-sales services outlets is to develop community outlets covering the neighbourhood of each centre outlet acting as the core in order to achieve full coverage of business categories and target markets as well as to penetrate the distribution chain and attract more customer flow to the centre stores capitalizing on community outlets.

Recovery of Growth of New Vehicles Sales

For the year ended December 31, 2016, the Group recorded new vehicle sales volume of 24,620 units, increased by 1,437 units or 6.2% as compared with 23,183 units in 2015.

A breakdown of the new vehicle sales volume of the Group for the year ended December 31, 2016 is as follows:

- Sales volume of BMW brand reached 20,589 units (inclusive of MINI brand), exceeded 20,000 units for the first time, up 3.7% over 2015; sales volume of other brands were 4,031 units, representing a growth of 21.4% as compared to 2015. BMW is still the largest brand under the Group's dealership and its sales volume accounted for 83.6% of the total sale volume.

- Sales volume of luxury vehicles were 23,223 units, up 5.0% when comparing with 2015 while sales volume of ultra-luxury vehicles were 1,397 units, representing a growth of 32.3% over 2015.

Progress of New Energy Auto Projects

In December 2016, the first round of financing for one of the Company's investments, the high-end "internet + intelligent electric vehicles" project of Future Mobility Corporation Limited ("**FMC**"), was executed, introducing investment from FMC management team and various external strategic investors. As of the date of this report, the Group holds approximately 33% shareholding in FMC Cayman, the parent company of FMC. FMC has established global research and development centres in Munich and Silicon Valley, and entered into strategic cooperative framework agreement with Nanjing Economic and Technological Development Zone in January 2017 pursuant to which both parties agreed to construct FMC High-end Intelligent Electric Vehicles Manufacturing Base in Nanjing Economic and Technological Development Zone with the planned total annual production capacity of 300,000 vehicles. FMC proposed to introduce full-runner concept vehicles in the fourth quarter of 2017, and deliver the first series in 2019.

Green Field Motor Co., Ltd. ("**Green Field Motor**"), acquired by Zhejiang Aiche Internet Intelligent Electric Vehicle Company Limited ("**Aiche Company**"), commenced suspension of production in 2016 and carried out asset and debt restructuring. As of the date of this report, Aiche Company is negotiating with Green Field Motor and relevant parties regarding reorganization plans in order to revitalize the assets of Green Field Motor.

Future Outlook and Development Strategies

In the opinion of the Group, the penetration rate of automobiles in China is still lagging behind developed countries and car ownership is far from saturation, hence a large room still exists for new automobile sales. With household income growth and consumption upgrading, the luxury and ultra-luxury automobile markets are set to continuous growth.

As of December 31, 2016, vehicle ownership in China had reached 194 million units. According to the estimates made by research institutions in the industry, automobiles aged three years and above, and six years and above currently account for over 60% and 40% of total number of automobiles in China, respectively. The increase in car ownership and the growth in average automobile age would further foster the booming growth of trading market of pre-owned cars and after-market services for automobiles, and its market scale is likely to reach RMB1 trillion in the next few years. As compared with developed countries, the development of pre-owned vehicles business in China has been lagging behind, and the vehicles after-market is extensively fragmented at present, which showed huge potential for development.

Though ranking first in automobile market scale in the world, China still has a low new energy vehicles penetration level. Under encouragement and support from governmental policies, the increase in awareness on environmental protection among consumers as well as growth of maturity level of industry development, it is anticipated that new energy vehicles industry will continue its rapid development.

The Company will progressively execute the following development strategies with an aim to further boost up its scale of income and profitability to create greater value for its shareholders:

- rapidly developing 4S outlets business and proactively expanding dealership network to further enhance sales volume of new vehicles and revenue from after-sale services;

- steadily developing comprehensive after-sales service businesses, solidifying the leading position of centre stores, enhancing the operational efficiency of community stores and controlling costs on network expansion, as well as introducing external strategic investors for comprehensive after-sales business, making it become an entity with independent operation and financing;

- proactively supporting the new energy automobile business invested by the Group while accelerating talents recruitment, research and development and products launching;

- fully utilizing internet platform, facilitating after-sales services and businesses of pre-owned automobiles and parallel imports of automobiles, and realizing online and offline interaction and complementation; and

- proactively enhancing the penetration of automobile finance, increasing commission income and conducting financial leasing business.

FINANCIAL OVERVIEW

Revenue

Revenue of the Group was RMB10,695.9 million for 2016, representing an increase of 0.7% as compared with RMB10,620.2 million in 2015.

Revenue from sales of new passenger vehicles increased by 4.2% from RMB8,934.9 million in 2015 to RMB9,309.0 million in 2016, accounting for 87.0% of the revenue (84.1% in 2015). The increase in revenue from sales of new vehicles was mainly attributed to the growth in sales volume of new vehicles.

Revenue from after-sales services decreased 17.7% to RMB1,386.9 million in 2016 from RMB1,685.3 million in 2015, accounting for 13.0% of the total revenue in 2016 as compared with 15.9% in 2015.

Cost of Sales and Services Provided

Our cost of sales and services increased by 4.5% from RMB9,498.5 million in 2015 to RMB9,925.8 million in 2016. Cost of sales attributable to sales of new passenger vehicles increased by 6.2% from RMB8,572.9 million in 2015 to RMB9,107.6 million in 2016. Cost of sales attributable to after-sales services decreased by 11.6% from RMB925.6 million in 2015 to RMB818.2 million in 2016.

Gross Profit and Gross Profit Margin

Our consolidated gross profit was RMB770.1 million in 2016, representing a decrease of 31.3% as compared to RMB1,121.7 million in 2015. Our consolidated gross profit margin was 7.2% in 2016, representing a decrease of 3.4 percentage points as compared to 10.6% in 2015.

Gross profit from sales of new passenger vehicles decreased by 44.4% to RMB201.4 million in 2016 from RMB362.0 million in 2015. In 2016, sales of new vehicles reported gross profit margin of 2.2%, representing a decrease of 1.9 percentage points as compared against that for 2015. The drop in gross profit margin was mainly due to the discounted sales of a batch of new vehicles with relatively long inventory days in order to speed up the inventory turnover and lower the capital pressure from the high level of inventory by the Group in the second half of 2016.

Gross profit from our after-sales services decreased by 25.1% from RMB759.7 million in 2015 to RMB568.7 million in 2016, which contributed to total gross profit by 73.8% in 2016 as compared with 67.7% in 2015. Gross profit margin from our after-sales services decreased by 4.1 percentage points from 45.1% in 2015 to 41.0% in 2016. The decreases in gross profit and gross profit margin were mainly due to: (1) the new opening of substantial number of centre outlets and community stores of independent after-sales services by the Group during 2015 to the first half of 2016, and greater efforts are normally made in promotion for newly opened outlets; (2) stricter requirements on environmental protection were imposed on the after-sales service centres in Henan Province in the second half of 2016 and a number of the services provided by our after-sales service outlets were significantly impacted, which resulted in the decrease in revenue and gross profit.

Selling Expenses

In 2016, selling expenses amounted to RMB775.4 million, increasing by 30.9% from RMB592.2 million in 2015. It was mainly attributed to the increase of salaries of our dealership and after-sales services outlets, as well as the increase of selling expenses of newly-built comprehensive after-sales services outlets.

Administrative Expenses

As compared to RMB134.7 million in 2015, administrative expenses increased by 34.2% to RMB180.8 million in 2016. It was mainly attributed to the increase of administrative personnels and relevant salaries, as well as the increase of administrative expenses of the newly opened comprehensive after-sales services outlets.

Other Expenses

The Group's other expenses for 2016 was RMB73.7 million, due to impairment of property, plant and equipment resulted from closure of several stores.

Other Income and Gains, Net

Other income and gains, net decreased by 37.8% from RMB524.8 million in 2015 to RMB326.2 million in 2016, due to revision and early termination of major loan contracts to third parties in order to enhance the Group's funds safety, and decline of both commission income and bank interest income.

Finance Costs

The Group's finance costs for 2016 was RMB95.0 million, representing a decrease of RMB62.1 million or 39.5% as compared to RMB157.1 million in 2015, primarily due to the repayment of part of the bank loans by the Group in 2016.

Profit from Operations

Based on the reasons discussed above, the Group's profit from operations for 2016 was RMB66.5 million.

Share of Losses of Joint Ventures and Associates

The Group recorded share losses of joint ventures and associates of RMB291.8 million for the year of 2016, due to research and development expenses, and operating expenses of new energy auto associates and joint ventures, as well as one-off impairment loss of investment recorded by the Group.

Loss for the Year

The Group's net loss for 2016 was RMB367.6 million, and a net profit of RMB568.7 million was recorded for the same period of 2015. The main reasons for recording net loss by the Group for 2016 were due to: (i) the fact that the independent after-sales service business of the Group was under investment period with faster expansion of outlets, incurring more expenses in early stage; (ii) the impairment loss incurred in investment, merger and acquisition of the Group; and (iii) accelerated inventories clearance at above-average discounts for the period.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

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

As at December 31, 2016, cash and deposits of the Group totaled RMB3,129.5 million, decreased by RMB1,089.1 million, representing a decrease of 25.8% as compared with last year, mainly attributable to the repayment of part of bank loans by the Group during the period. As at December 31, 2016, among the Group's cash and cash balance, HK$1,408.2 million (equivalent to RMB1,259.7 million) was deposited overseas and in Hong Kong dollars.

For 2016 and 2015, our net cash from operating activities was RMB86.7 million and RMB1,590.8 million, respectively. For 2016 and 2015, net cash used in investing activities was RMB324.5 million and RMB1,499.6 million, respectively. Net cash outflow from financing activities for 2016 was RMB929.9 million. Net cash generated from financing activities for 2015 was RMB1,673.2 million.

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

Net Current Assets

As at December 31, 2016, the Group had net current assets of RMB1,625.2 million.

Capital Expenditure

In 2016, the Group's capital expenditure (primarily used for the expenditure and prepayment for purchase of items of property, plant and equipment in connection with the establishment of new outlets), was RMB481.6 million, representing a decrease of 23.1% comparing with 2015 (2015: RMB626.5 million).

Inventories

The Group's inventories primarily consist of new passenger vehicles, spare parts and automobile accessories. Each of the Group's outlets individually manages its orders for new passenger vehicles and after-sales products, but the headquarters of the Group implements active warning, supervision and management on inventories of all stores to ensure a reasonable inventory balance.

The Group's inventories decreased by RMB388.4 million or 30.5% from RMB1,273.5 million as of December 31, 2015, to RMB885.1 million as of December 31, 2016, primarily due to a decrease in the Group's inventory of new passenger vehicles by 35.5% from RMB1,134.1 million as of December 31, 2015 to RMB731.3 million as at December 31, 2016. The Group sold aged inventory of new vehicles at discounted price in the second half of 2016. As the management of the Company always pays attention on the turnover of inventory, the Group established a warning management system for inventory and introduced promotion, marketing plans and corresponding measures in accordance with market trend which benefit customers. The Group also established a unified dynamic inventory management system to consolidate the inventory resources and reduce part of the inventory.

The Group's average inventory turnover days for 2016 were 40 days, a decrease of 12 days as compared to 2015. Among which, average inventory turnover days for luxury vehicles were 32 days. Under the slowdown of growth rate in the market and rise in inventory pressure faced by each distributor, the Group was still able to maintain relatively rapid turnover of inventory.

Bank Loans and Other Borrowings

As at December 31, 2016, the Group had bank loans and other borrowings in the aggregate amount of RMB1,863.4 million, representing a year-on-year decrease of 22.9% as compared to RMB2,416.5 million as at December 31, 2015.

	December 31, 2016	December 31, 2015
	RMB'000	*RMB'000*
Bank loans repayable:		
Within one year	**1,087,696**	1,798,504
In the second year	**21,332**	15,360
In the third to fifth year	**17,610**	6,000
	1,126,638	1,819,864

	December 31, 2016	December 31, 2015
	RMB'000	*RMB'000*
Other borrowings repayable:		
Within one year	**736,721**	596,588
Total	**1,863,359**	2,416,452

As at December 31, 2016, the Group's net cash ratio, which is calculated by net cash (cash and deposits minus interest-bearing liabilities) divided by the total equity attributable to owners of the parent, was 23.3%.

As at December 31, 2016, certain of the Group's bank loans and other borrowings were secured by mortgages or pledges over the Company's assets. The Company's assets, subject to these mortgages or pledges as at December 31, 2016, consisted of (i) inventories in the amount of RMB382.8 million; (ii) property, plant and equipment in the amount of RMB28.8 million and (iii) prepaid land lease payments in the amount of RMB11.9 million. In addition, certain of the Group's bank loans and other borrowings were guaranteed by the Chairman of the Company or affiliates of the Chairman of the Company. As at December 31, 2016, the Group did not have bank borrowings, loans or bonds payable denominated in foreign currency.

Contingent Liabilities

As at December 31, 2016, we did not have any material contingent liabilities or guarantees.

Interest Rate Risk and Foreign Exchange Risk

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

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

Employees and Remuneration Policies

As at December 31, 2016, the Group had a total of 5,363 employees (December 31, 2015: 4,417 employees). Relevant staff cost for 2016 was approximately RMB398.8 million (including employee share incentive of RMB22.8 million), while the staff cost was approximately RMB288.8 million for 2015 (including employee share incentive of RMB14.7 million). According to the restricted share unit scheme (the "**RSU Scheme**") adopted by the Company in May 2013 (which was amended by the Board in August 2013 as agreed upon by all participants of the restricted share unit scheme), as at December 31, 2016, a total of 19,110,898 shares under the restricted share unit scheme had been issued and granted to a number of directors, senior management personnel and employees of the Group and two of them were current directors. For the year ended December 31, 2016, a total of 9,199,412 RSU awards were exercised. As at December 31, 2016, a total of 4,755,215 RSU awards were forfeited due to the resignation of certain RSU Participants. As at the date of this report, the Company had 5,156,271 RSU awards outstanding under the RSU Scheme.

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to success of the Group's operations. Eligible participants of the share option scheme include employees of the Company and its subsidiaries. The share option scheme became effective on June 26, 2015, and unless otherwise cancelled or amended, will remain in force for ten years from that date. As of December 31, 2016, the Company had 39,900,000 share options outstanding under the share option scheme, which represented approximately 2.5% of the Company's share in issue as at that date.

For further details of the RSU Scheme and the share option scheme, please refer to "RSU Scheme" on pages 43 to 44 and "Share Option Scheme" on pages 45 to 48 of this annual report. The Group will regularly review its compensation policies and employee benefits with reference to market practices and individual performance.

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended December 31, 2016.

CORPORATE GOVERNANCE PRACTICES

The Board has committed to achieving high corporate governance standards.

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

For the year ended December 31, 2016, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), save and except for the deviation as set out below.

In accordance with code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting and should also invite the chairman of the nomination, audit and remuneration committees to attend. Mr. Feng Changge, the chairman of the Board and the chairman of the Nomination Committee, Mr. Xiao Changnian, the chairman of the Audit Committee and Mr. Xue Guoping, the chairman of the Remuneration Committee were not able to attend the annual general meeting of the Company held on 18 May 2016 due to their other business commitments.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code for the year ended December 31, 2016.

Corporate Governance Report

BOARD OF DIRECTORS

The Board of the Company comprises the following directors:

Executive Directors:
Mr. FENG Changge *(Chairman)*
Mr. LIU Fenglei *(Chief Executive Officer)*
Mr. YANG Lei *(Chief Operating Officer and Vice-president)*
Mr. QIAN Yewen *(Chief Financial Officer)*
Ms. MA Lintao

Non-executive Director:
Mr. FAN Qihui

Independent Non-executive Directors:
Mr. XIAO Changnian
Mr. LIU Zhangmin
Mr. XUE Guoping

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 30 to 35 of this annual report. The relationships between the members of the Board are also disclosed under that section.

Chairman and Chief Executive Officer

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

Independent Non-executive Directors

During the year ended December 31, 2016, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Directors' Appointment and Re-election

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

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

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

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

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

Continuous Professional Development of Directors

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

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

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

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

In addition, all the Directors of the Company (including Mr. FENG Changge, Mr. LIU Fenglei, Mr. YANG Lei, Mr. QIAN Yewen, Ms. MA Lintao, Mr. FAN Qihui, Mr. XIAO Changnian, Mr. LIU Zhangmin and Mr. XUE Guoping) had participated in various trainings and/or read materials of relevant topics, including:

– Corporate strategic management/Corporate operational management

– Financial strategic management

– Investment strategies

– Research on audit development strategies

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

BOARD COMMITTEES

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

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

Audit Committee

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

The Audit Committee consists of three members, namely Mr. XIAO Changnian (chairman), Mr. LIU Zhangmin and Mr. XUE Guoping, all of whom are independent non-executive Directors of the Company (including one independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

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

The Audit Committee held two meetings to review interim and annual financial results and reports during the year ended December 31, 2016 and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, the effectiveness of the internal audit function, scope of work and appointment of external auditors.

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

Remuneration Committee

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

The Remuneration Committee consists of three members, namely Mr. XUE Guoping (chairman) and Mr. LIU Zhangmin, both being independent non-executive Directors; and Mr. YANG Lei, an executive Director.

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

The Remuneration Committee held a meeting during the year ended December 31, 2016. During the meeting, the Remuneration Committee reviewed and made recommendations in relation to the remuneration packages of the executive Directors and senior management.

Nomination Committee

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

The Nomination Committee consists of three members, namely Mr. FENG Changge (chairman), an executive Director, and Mr. XIAO Changnian and Mr. XUE Guoping, both being independent non-executive Directors.

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

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

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

The Nomination Committee held a meeting during the year ended December 31, 2016 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and to consider the qualification of the retiring directors standing for election at the Annual General Meeting.

Corporate Governance Functions

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

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Attendance Record of Directors and Board Committee Members

The attendance record of each Director at the Board meetings and Board committee meetings of the Company held during the year ended December 31, 2016, is set out in the table below:

	Attendance/Number of Meetings				
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**General Meeting**
Mr. FENG Changge	2/4	N/A	N/A	1/1	0/1
Mr. LIU Fenglei	4/4	N/A	N/A	N/A	0/1
Mr. YANG Lei	4/4	N/A	1/1	N/A	0/1
Mr. QIAN Yewen	4/4	N/A	N/A	N/A	1/1
Ms. MA Lintao	4/4	N/A	N/A	N/A	0/1
Mr. FAN Qihui	4/4	N/A	N/A	N/A	0/1
Mr. XIAO Changnian	4/4	2/2	N/A	1/1	0/1
Mr. LIU Zhangmin	4/4	2/2	1/1	N/A	0/1
Mr. XUE Guoping	4/4	2/2	1/1	1/1	0/1

Apart from regular Board meetings, the Chairman also held a meeting with the non-executive Directors (including the independent non-executive Directors) without the presence of executive Directors during the year ended December 31, 2016.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group for the year ended December 31, 2016.

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 63 to 69.

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

AUDITOR'S REMUNERATION

An analysis of the remuneration paid to the external auditors of the Company, Ernst & Young, in respect of audit services and non-audit services for the year ended December 31, 2016 is set out below:

Service Category	**Fees Paid/ Payable** ***RMB'000***
Audit Services	4,000
Non-audit Services	–
	4,000

RISK MANAGEMENT AND INTERNAL CONTROL

During the year under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control systems of the Company, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. The Directors consider that the Group's existing risk management and internal control systems are effective and adequate.

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

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

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

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

COMPANY SECRETARY

Ms. WONG Wai Ling of SW Corporate Services Group Limited, an external service provider, has been engaged by the Company as its company secretary. She has satisfied the training requirement during the year ended December 31, 2016, under Rule 3.29 of the Listing Rules.

The primary contact person at the Company is Mr. YANG Shengjun, Board Secretary of the Company.

SHAREHOLDERS' RIGHTS

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

Convening an Extraordinary General Meeting and Putting Forward Proposals at Extraordinary General Meeting by Shareholders

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

Shareholders should follow the requirements and procedures as set out above for putting forward proposals at extraordinary general meetings of the Company.

Putting Forward Enquiries to the Board

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

Contact Details

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

Name:	QIAN Yewen
Address:	18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
Fax:	(852) 2956 2192
Email:	ir@hnhxjt.com

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

Shareholders may call the Company at (852) 2980 1888 for any assistance.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee (or their delegates) will make themselves available at the annual general meetings to meet shareholders and answer their enquiries.

The 2017 Annual General Meeting of the Company ("**AGM**") will be held on June 9, 2017. The notice of AGM will be sent to shareholders at least 21 clear days and 20 clear business days before the AGM in accordance with the Articles of Association and the CG Code.

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

During the year ended December 31, 2016, the Company has not made any changes to its Articles of Association. An up-to-date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

Directors and Senior Management

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

FENG Changge (馮長革), aged 46, is an executive Director and the Chairman of the Board. Mr. FENG was appointed as an executive Director of the Company on September 24, 2012 and is responsible for the overall strategic and business direction of the Group. He is the founder of the Group, and has been in the automobile industry since 2005 when he founded Henan Zhongdebao Automobile Sales & Services Co., Ltd ("**Zhongdebao**"). Zhongdebao is a wholly-owned subsidiary of the Company and the first BMW dealership outlet in Henan Province. Mr. FENG graduated with a bachelor's degree in economic law from Central South Institute of Law (中南政法學院) (now known as Zhongnan University of Economics and Law (中南財經政法大學)) in 1992 and received a master's degree in law from the same institution in 2001. After graduation in 1992, Mr. FENG entered the judiciary in Henan Province, serving as assistant judge and judge of the Higher People's Court of Henan Province (河南省高級人民法院). In 2002, Mr. FENG left the judicial system and established a law firm, while at the same time starting various business enterprises. He became involved in real estate investment through his vehicle, Yuanda Investment, and was also involved in the auction and valuation businesses. He is also the controlling shareholder of Hexie Industrial Group, a privately owned group headquartered in Zhengzhou Henan Province, China, with business interests focusing on branded and luxury lifestyle goods and services, including property development, golf courses and automobile sales. Over the past three years, Mr. FENG has not been a director of any other listed companies. Mr. FENG is the husband of Ms. MA Lintao and the uncle of Ms. FENG Guo (the financial controller of the Group).

LIU Fenglei (劉風雷), aged 41, was appointed an executive Director and chief executive officer of the Company on October 19, 2015. Mr. LIU is one of the founders of the Group. He has approximately 12 years' experience in China's automobile industry. He obtained a Bachelor degree of commercial English from Zhengzhou University (鄭州大學) in 1998. He joined the Group in February 2003 and worked at Henan Zhongdebao Automobile Sales & Service Co., Ltd. (河南中德寶汽車銷售服務有限公司) as the assistant to the chairman of the board of directors. From August 2006 to April 2013, he was the general manager of Zhengzhou Yuanda Lexus Automobile Sales & Services Co., Ltd. (鄭州遠達雷克薩斯汽車銷售服務有限公司). From April 2013 to October 2015, he was the senior vice president of the Company in charge of the Group's network development and luxury passenger vehicles' business. Over the past three years, Mr. LIU has not been a director of any other listed companies.

YANG Lei (楊磊), aged 40, is the chief operating officer and a vice-president of the Group and was appointed an executive Director of our Company on September 24, 2012. Mr. YANG is responsible for overseeing and managing the Group's automobile business. Mr. YANG graduated in 2002 from Henan University, College of Foreign Languages (河南大學外語學院) majoring in English. Mr. YANG joined the Group in April 2005 in the sales department of our BMW business, during which he gained extensive sales and marketing experience in the automobile industry. Over the past three years, Mr. YANG has not been a director of any other listed companies.

QIAN Yewen (錢叶文), aged 33, is the chief financial officer of the Company and was appointed an executive Director of the Company on September 1, 2015. Mr. QIAN has extensive experience in corporate finance and capital markets. Prior to joining the Group, Mr. QIAN served as a vice president of China Investment Banking at Citigroup Global Market Asia Limited from July 2014 to June 2015. Between September 2007 and July 2014, Mr. QIAN worked at China International Capital Corporation Limited where his last position was that of executive director of the Investment Banking Department. He also served as an analyst in the Corporate Finance Department of Cazenove Asia Limited (now known as Standard Chartered Securities (Hong Kong) Limited) from July 2006 to August 2007. Mr. QIAN graduated from Peking University with a master degree in economics (majored in finance) in July 2006 and a bachelor degree in philosophy in June 2004. He is a Chartered Financial Analyst (CFA). Over the past three years, Mr. QIAN has not been a director of any other listed companies.

MA Lintao (馬林濤), aged 49, is an executive Director of the Company. She is responsible for the Group's overall administrative matters and public relationships. Ms. MA graduated from Henan Institute of Finance and Economics (河南財經學院) (now known as Henan University of Economics and Law (河南財經政法大學) with a bachelor's degree in national economic planning and statistics in June 1992. From July 1992 to December 2003, Ms. MA worked in China Construction Bank Henan branch (中國建設銀行河南分行) in various positions such as director of the credit approval committee of the Zhengzhou branch office and vice-president of the Zhengzhou futures branch office, where she was responsible for matters such as credit assessment and approval and public and retail sales. Ms. MA joined our Group in September 2006 as the chairlady of Yuanda Lexus, our wholly-owned subsidiary. Over the past three years, Ms. MA has not been a director of any other listed companies. Ms. MA is the wife of Mr. FENG Changge.

Non-Executive Director

FAN Qihui (范奇暉), aged 40, was appointed as an non-executive Director of the Company on November 16, 2015. Mr. FAN is an executive director of Beijing Legend Capital Co., Ltd. ("**Legend Capital**"), which is an associate company of Legend Holdings Corporation (Hong Kong stock code: 3396). Mr. FAN has over 15 years of experiences in finance and investments. He joined Legend Capital in 2007 as an associate, and was later promoted to the vice president and director. He focuses on investment opportunities in the intelligent hardware and services, and advanced equipment sectors. Mr. FAN participated in several important investments by funds managed by Legend Capital or its related parties, including in the Company, Sevalo, Wuqiao Heavy Industries Group, Tianji New Material, QuantumCTek Co., Ltd., CATL Battery, Putailai New Energy, Zongmu Tech, Feima Robotics, etc. Prior to joining Legend Capital, Mr. FAN worked as a senior manager of the investment banking department of United Securities Co., Ltd. and as an executive director of the merger and acquisition department of Hengxin Securities. Mr. FAN obtained his Bachelor's degree of economics from Hangzhou Dianzi University and a master's degree of management science from Fudan University. Save as the above, Mr. FAN has not been a director of any other listed companies.

Independent Non-Executive Directors

XIAO Changnian (肖長年), aged 68, was appointed as an independent non-executive Director of the Company on March 18, 2013. Mr. XIAO graduated with a bachelor's degree in industrial accounting from Hubei Institute of Finance and Economics (湖北財經學院) (now known as Zhongnan University of Economics and Law (中南財經政法大學)) in 1982. Mr. XIAO has more than 30 years of experience in the accounting and auditing profession. After graduation, Mr. XIAO worked for the National Audit Office of the PRC in the department of public transport (審計署工交局) from August 1982 to July 1994 and served as the deputy bureau chief of the Audit Office of the National Sports Commission of the PRC (國家體委審計局) from July 1994 to September 1998. He went on to serve as the deputy bureau chief in various departments of the National Audit Office of the PRC, such as the Customs Audit Office (海關審計局), the Transportation Audit Office (交通運輸審計局) and the Second Economics Audit Office (經濟審計二局) from September 1998 to December 2003. Thereafter, Mr. XIAO was appointed as auditing official (deputy bureau chief grade) of the Economics and Trade Office of National Audit Office of the PRC (審計署經貿司), where he served till December 2008. Mr. XIAO was the chairman of the board of supervisors of the Quantum Hi-Tech (China) Biological Co., Ltd (量子高科（中國）生物股份有限公司) (stock code: 300149.SZ), a company listed on the Shenzhen Stock Exchange, from November 2010 to August 13, 2014, and the independent director of Zhejiang Qianjiang Motorcycle Co., Ltd (浙江錢江摩托股份有限公司), (stock code: 000913.SZ), a company also listed on the Shenzhen Stock Exchange, since April 2012 to June 2015. Save as the above, Mr. Xiao has not been a director of any other listed companies.

LIU Zhangmin (劉章民), aged 67, was appointed as our independent non-executive Director on March 18, 2013. Mr. LIU graduated with a college degree in industrial accounting from the Beijing Institute of Machinery Management (北京機械工業管理學院) (now known as the Beijing Information Science and Technology University (北京資訊科技大學) in 1986. He also qualified as a senior auditor in 1996, and as a senior accountant in 2006. Mr. LIU has over 40 years of experience in the automobile industry since he joined the Dongfeng Motor Corporation (東風汽車公司) in 1970. Mr. LIU started as a deputy head of factory in Dongfeng Motor Corporation in July 1982, and worked in procurement, finance and other departments in different positions of responsibility. Mr. LIU was appointed as vice president of Dongfeng Motor Corporation in July 1995 and chief accounting officer in April 2005. He was appointed as chairman of the board of directors of Dongfeng Motor Finance Co., Ltd. (東風汽車財務有限公司) in November 1997, Dongfeng Checheng Logistics Co., Ltd (東風車城物流股份有限公司) in February 2004 and Dongfeng Nissan Auto Finance Co., Ltd (東風日產汽車金融有限公司) in July 2007.

Mr. LIU is an outside director of the China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司) (since January 2016); an outside director of China Poly Group Corporation (中國保利集團公司) (since April 2014); and the independent non-executive director of China Communications Construction Co., Ltd (中國交通建設股份有限公司) (stock code: 1800.HK, 601800.SS), a company listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange (since December 2009). He also held the following positions in the respective listed companies:

- the president and executive director of Dongfeng Motor Group Company Limited (東風汽車集團股份有限公司) (stock code: 0489.HK), a company listed on the Hong Kong Stock Exchange (from December 2004 to June 2010);

- the independent director of China First Heavy Industries Co., Ltd (中國第一重型機械股份公司) (stock code: 601106.SS), a company listed on the Shanghai Stock Exchange (from December 2011 to April 2015); and

- the independent director of China Yangtze Power Co., Ltd (中國長江電力股份有限公司) (stock code: 600900.SS), a company listed on the Shanghai Stock Exchange (from June 2010 to May 2015).

Mr. LIU no longer served as the independent director of China First Heavy Industries Co., Ltd. (中國第一重型機械股份公司) (stock code: 601106.SS); and China Yangtze Power Co., Ltd. (中國長江電力股份有限公司) (stock code: 600900.SS), both are companies listed on the Shanghai Stock Exchange, with effect from April 2015 and May 2015 respectively.

Save as the above, Mr. LIU has not been a director of any other listed companies.

XUE Guoping (薛國平), aged 66, was appointed as our independent non-executive Director of the Company on March 18, 2013. Mr. XUE graduated from Beijing University of Foreign Trade (北京對外貿易大學) (now known as University of International Business and Economics (對外經濟貿易大學)) in 1976. Mr. XUE began his career in the COFCO Group (中糧集團) and was appointed as deputy chief executive officer in 1994. He also served as the deputy general manager and general manager of COFCO Hong Kong (previously known as Top Glory International Holdings Limited (鵬利國際集團有限公司)) between 1994 and 2004. Mr. XUE continued to serve as the deputy chief executive officer of the COFCO Group until he retired in 2010. Mr. XUE was an executive director and later the chairman of the board of directors of China Foods Limited (中國食品有限公司) (stock code: 0506.HK), a company listed on the Stock Exchange and a division of the COFCO Group, from 1995 to 2007, and chairman of the board of directors of CPMC Holdings Limited (中糧包裝控股有限公司) (stock code: 0906.HK), a company listed on the Stock Exchange and a division of the COFCO Group, from 2008 to 2011. Save as the above, Mr. Xue has not been a director of any listed companies.

Senior Management

FENG Guo (馮果), aged 34, is the financial controller of our Group and is responsible for the audit, and financial related matters at our subsidiary level. Ms. FENG graduated with a bachelor's degree in law from Zhengzhou University (鄭州大學) in 2007 and obtained a master degree in business management from Zhongnan University of Economics and Law (中南財經政法大學) in 2009. She joined our Group in March 2005 as a deputy general manager responsible for finance matters. She was involved in establishing our partnership with BMW China in Henan Province and setting up Zhongdebao. Ms. FENG was also tasked with the development of automobile brands such as BMW, Land Rover and Rolls-Royce. Over the past three years, Ms. FENG has not been a director of any listed companies. Ms. FENG is the niece of Mr. FENG Changge.

YANG Shengjun (楊勝軍), aged 52, is the Board Secretary and the chief officer of human resources of our Group. Mr. YANG joined our Group in October 2012. Mr. YANG graduated from the Beijing Institute of Technology (北京理工大學) in July 1986 with a bachelor's degree in machinery manufacturing, and in March 1989 with a master's degree in machinery manufacturing. He also graduated as a research student from the Institute of Psychology, Chinese Academy of Sciences (中國科學院心理研究所) with a master's degree in applied psychology in July 2002. Mr. YANG has more than 10 years of experience in human resource planning and management. He joined Legends Holding (聯想控股集團) in March 1999 and served in various positions in his ten years with Legend Holdings and its affiliates, including as deputy general manager and subsidiary director of human resources. He then worked at Tianya Shequ Network Technology Co. Ltd. (天涯社區網絡科技股份有限公司) from June 2010 to October 2012 as director of human resource and deputy general manager of the Beijing branch office. Over the past three years, Mr. YANG has not been a director of any listed companies.

Company Secretary

Ms. WONG Wai Ling (黃慧玲) has been appointed as the Company Secretary with effect from September 30, 2016. Ms. WONG has over 10 years of experience in providing company secretarial services in Hong Kong. Ms. WONG is an assistant vice president of SW Corporate Services Group Limited and is responsible for assisting listed companies in professional company secretarial work. Ms. WONG is an associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

Directors' Report

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December, 2016.

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities and other particulars of the subsidiaries of the Company are set out in note 1 to the financial statements.

BUSINESS REVIEW

A review of the Group's business during the year, which includes a discussion of the principal risks and uncertainties facing by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year, and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 6 to 16 of this annual report. In addition, discussions on the Group's environmental policies, relationships with its key stakeholders, and compliance with relevant laws and regulations which have a significant impact on the Group are also included in the Management Discussion and Analysis, Corporate Governance Report and Environment, Social and Governance Report of this annual report. The review forms part of this directors' report.

SUBSIDIARIES

Please refer to note 1 to the financial statements.

RESULTS AND DIVIDEND

The results of the Group for the year ended December 31, 2016 are set out in the consolidated financial statements.

The Board did not recommend the payment of final dividend for the year ended December 31, 2016.

USE OF PROCEEDS FROM THE ISSUANCE OF NEW SHARES

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

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

(3) On May 22, 2015, the Company, Mr. FENG Chengge and Eagle Seeker entered into a placing agreement with Credit Suisse (Hong Kong) Limited and Haitong (collectively, the "**Joint Placing Agents**"), pursuant to which the Joint Placing Agents have agreed to, as agents of Eagle Seeker, procure placees to purchase a total of up to 262,616,779 Shares owned by Eagle Seeker at the placing price of HK$8.18 per Share. The net issue price per the new Share was approximately HK$8.04 per Share. On May 22, 2015, the closing price of the Shares was HK$8.91 per Share as quoted on the Stock Exchange. The completion of the placing agreements of May 22, 2015 is subject to the entering into of the subscription agreement between the Company and Eagle Seeker which conditionally agrees to subscribe from the Company for an aggregate of up to 262,616,779 new Shares at the subscription price of HK$8.18 per subscription Share. The placing and the subscription were completed on May 27, 2015 and June 3, 2015, respectively.

As mentioned in the announcement dated May 22, 2015, the Company has been pursuing a proactive strategy of diversifying its business from the traditional automobile dealership business into the new energy vehicles sector and intended to use the net proceeds from all the above placings (totaling approximately HK$3,242.2 million) as follows:

- approximately 20% for investments in GFMC and Aiche Company of which HK$375 million was committed to be used as stated in the announcement relating to the acquisition of GFMC, and the rest for the acquisition of the remaining minority stake in GFMC if and when the Company is able to do so;

- approximately 15% as initial investment capital from the Group into one or more funds or other investment platforms to be set up with the Company's chosen partners to co-invest in suitable opportunities in the new energy vehicles sector;

- approximately 20% for investments in opportunities in the new energy vehicles sector with best-in-class partners, including developing and/or investing in the manufacture of high speed electric vehicles (approximately 19%) and research and development (approximately 1%);

- approximately 10% for investment in the after-sales services outlet of Tesla Motors, Inc. operated by the Group;

- approximately 20% for investment in comprehensive after-sales services through online to offline platforms; and

- approximately 15% for general working capital.

As of the date of this report, approximately 25% of the net proceeds had been applied.

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 176 of this annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Detail of the movement in the share capital of the Company during the year are set out in note 33 to the financial statements.

DISTRIBUTABLE RESERVES

At December 31, 2016, the Company's reserves available for distribution, subject to the Cayman Companies Law and the Articles of Association of the Company, amounted to RMB3,484.9 million.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 48 to the financial statements and in the consolidated statement of changes in equity, respectively.

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended December 31, 2016, the aggregate purchases from our top five suppliers and our largest supplier accounted for approximately 98.40% and 41.73% of our total purchases, respectively.

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year ended December 31, 2016, no major customer information is presented in accordance with HKFRS 8 Operating Segments.

As far as the Directors are aware, neither the Directors, their close associates, nor shareholders who own more than 5% of the Company's number of issued shares as at December 31, 2016 had any interest in any of the five largest suppliers and customers disclosed above.

DIRECTORS

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

Executive Directors:

Mr. FENG Changge *(Chairman)*
Mr. LIU Fenglei *(Chief Executive Officer)*
Mr. YANG Lei *(Chief Operating Officer and Vice-president)*
Mr. QIAN Yewen *(Chief Financial Officer)*
Ms. MA Lintao

Non-executive Director:

Mr. FAN Qihui

Independent Non-executive Directors:

Mr. XIAO Changnian
Mr. LIU Zhangmin
Mr. XUE Guoping

In accordance with article 84 of the Company's Articles of Association, Mr. XIAO Changnian, Mr. LIU Zhangmin and Mr. XUE Guoping, the independent non-executive Directors, will retire by rotation.

All the aforesaid retiring Directors, being eligible, will offer themselves for re-election at the AGM. Biographical details of the directors of the Company and the senior management of the Group are set out in pages 30 to 35 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

Each of our non-executive Director and independent non-executive Directors has signed a letter of appointment with the Company for an initial fixed period of three years commencing from their respective date of appointment. Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed director's fee of HK$300,000 per annum while the non-executive Director is not entitled to any remuneration. The appointments of the non-executive Director and independent non-executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles of Associations of the Company.

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

PERMITTED INDEMNITY

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

DIRECTORS' INTEREST IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

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

DIRECTORS' COMPETING INTERESTS

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

MANAGEMENT CONTRACT

No contracts concerning the management and distribution of the whole or any substantial part of the business of the Company was entered into or existed during the year ended December 31, 2016.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

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

EQUITY-LINKED AGREEMENTS

Save for the Restricted Share Unit Scheme and Share Option Scheme of the Company as set out in this report, no equity-linked agreements were entered into by the Group, or existed during the year ended December 31, 2016.

RESTRICTED SHARE UNIT SCHEME

On May 20, 2013, the RSU Scheme of the Company was approved and adopted by the then shareholders of the Company. The purpose of the RSU Scheme is to attract skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in our Company.

An award granted under the RSU Scheme (the "**RSU Award**") gives a participant in the RSU Scheme (the "**RSU Participant**") a conditional right when the RSU Award vests to obtain either Shares or an equivalent value in cash with reference to the market value of the Shares on or about the date of vesting, as determined by the Board in its absolute discretion.

On May 28, 2013, RSU Awards in respect of an aggregate of 19,110,898 new Shares, representing approximately 1.21% of the Shares in issue as at the date of this report, were granted pursuant to the RSU Scheme to several RSU Participants, 2 of which were Directors. The RSU Awards granted to the RSU Participants on May 28, 2013 pursuant to the RSU Scheme originally had a vesting period of four years as follows: 10% on January 2, 2014, 30% on January 2, 2015, 30% on January 2, 2016 and 30% on January 2, 2017. Pursuant to a resolution passed by the Board on August 27, 2013 and as confirmed by each of the RSU Participants, the vesting period in respect of the RSU Awards granted is extended from four years to five years as follows: 10% on January 2, 2014, 10% on June 30, 2014, 20% on January 2, 2015, 20% on January 2, 2016, 20% on January 2, 2017 and 20% on January 2, 2018. Other than the aforesaid, the terms of the RSU Scheme remain unchanged. Please refer to the prospectus of the Company dated May 31, 2013 for further details of the principal terms of the RSU Scheme. As of December 31, 2016, 4,755,215 RSU Awards cancelled/lapsed/forfeited due to the resignation of certain RSU Participants and 9,199,412 RSU Awards were vested.

Details of the RSU Awards granted and outstanding under the RSU Scheme are set out below:

Name	Number of Shares underlying the RSU Awards granted as at January 1, 2016	Cancelled/ Lapsed/ Forfeited during the year	Vested during the year	Number of Shares underlying the RSU Awards granted as at December 31, 2016
Directors				
Mr. YANG Lei	1,466,609	–	488,869	977,740
Mr. LIU Fenglei	375,951	–	125,318	250,633
Former Directors				
Mr. YU Feng[(1)]	1,560,596	–	520,199	1,040,397
Mr. CUI Ke[(2)]	1,090,656	–	363,552	727,104
Employees	3,397,251	156,647	1,080,207	2,160,397
Total	7,891,063	156,647	2,578,145	5,156,271

Notes:

(1) Mr. YU Feng resigned as an executive Director and Chief Executive Officer of the Company with effect from 19 October 2015.

(2) Mr. CUI Ke resigned as an executive Director and Vice President of the Company with effect from 1 September 2015.

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on June 26, 2015, which is made pursuant to Chapter 17 of the Listing Rules, for the purpose of attracting, retaining and motivating talented employees to strive towards long term performance targets set by the Group and to provide them with an incentive to work better for the interest of the Group. A summary of the Share Option Scheme has been set out in note 35 to the financial statement.

Details of the options (the "**Share Options**") to subscribe ordinary shares of the Company, pursuant to the Share Option Scheme and the movement during the financial year ended December 31, 2016 are set out below:

				Number of Share Options				
Name of Grantees	**Date granted**	**Exercise price per Share**	**Outstanding as at January 1, 2016**	**Granted during the year**	**Exercised during the year**	**Lapsed/ cancelled during the year**	**Vested during the year**	**Outstanding as at December 31, 2016**
Directors								
Mr. YANG Lei								
– Executive Director, Chief Operating Officer and Vice President	29 June 2015	HK$10.60	3,000,000(1)	–	–	–	–	3,000,000
Mr. QIAN Yewen								
– Executive Director and Chief Financial Officer	2 July 2015	HK$10.60	8,000,000(2)	–	–	–	–	8,000,000
Other eligible employees	29 June 2015	HK$10.60	34,000,000(1)	–	–	5,100,000		28,900,000
Total								39,900,000

Notes:

(1) The option period of the 37,000,000 Share Options is from 29 June 2015 to 31 December 2020. All Share Options granted on 29 June 2015 will vest and become fully exercisable on 1 January 2019.

(2) On 2 July 2015, the Company granted 8,000,000 Share Options to Mr. QIAN Yewen, the chief financial officer of the Company. The option period of the Share Options is from 2 July 2015 to 31 December 2020. All Share Options granted on 2 July 2015 will vest and become fully exercisable on 1 January 2019.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at December 31, 2016, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

		Ordinary Shares			Underlying Shares under Restricted Share Unit Scheme	Underlying Shares under Share Option Scheme		
		Nature of Interests						
Name	**Position**	**Personal Interests**	**Family Interests**	**Interest of controlled corporation**	**Beneficiaries**	**Personal Interests**	**Total Interests**	**Approximate % of Shareholding Interest**
Mr. FENG Changge	Director	–	–	682,066,160 (L)[(1)]	–	–	682,066,160 (L)	43.28%
Ms. MA Lintao	Director	–	682,066,160 (L)[(1)]	–	–	–	682,066,160 (L)	43.28%
Mr. YANG Lei	Director	1,486,607 (L)	–	–	977,740 (L)[(2)]	3,000,000[(3)]	5,464,347 (L)	0.34%
Mr. LIU Fenglei	Director	379,954 (L)	–	–	250,633 (L)[(2)]	–	630,587 (L)	0.04%
Mr. QIAN Yewen	Director	412,000 (L)	–	–	–	8,000,000[(3)]	8,412,000 (L)	0.53%

Notes:

(1) These 682,066,160 shares in the Company are held by Eagle Seeker Company Limited ("**Eagle Seeker**"). Mr. FENG Changge is deemed to be interested in the said 682,066,160 Shares by virtue of Eagle Seeker being controlled by Mr. FENG Changge. Ms. MA Lintao is Mr. FENG Changge's spouse and is therefore deemed to be interested in all the Shares of the Company in which Mr. FENG Changge is deemed to be interested in.

(2) These Shares represent Shares underlying the RSU Awards granted to the relevant Directors pursuant to the RSU Scheme. For further details, please refer to the section headed "Restricted Share Unit Scheme" above.

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

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

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

(6) The letter "L" denotes the long position in the Shares of the Company.

Save as disclosed above, as at December 31, 2016, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at December 31, 2016, as far as the Company is aware, the following persons (other than the Directors or the chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name	Capacity/nature of interest	Number of Shares directly or indirectly held[3]	Approximate % of shareholding interest
Eagle Seeker[1]	Beneficial owner	682,066,160 (L)	43.28%
Foxconn (Far East) Limited[2]	Beneficial owner	128,734,000 (L)	8.16%
Hon Hai Precision Industry Co. Ltd.[2]	Interest of controlled corporation	128,734,000 (L)	8.16%

Notes:

(1) Eagle Seeker is wholly-owned by Mr. FENG Changge, an executive Director and the chairman of the Company.

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

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

Save as disclosed above, as at December 31, 2016, no persons (other than the Directors or the chief executive of the Company) had any interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

NON-COMPETITION UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

The Company has received annual confirmations from the controlling shareholders, Mr. FENG Changge and Eagle Seeker Limited, in respect of their compliance with the terms of the non-competition undertaking as described in the prospectus of the Company dated May 31, 2013 and that they have not engaged, nor interested, in any business which directly or indirectly, competes or may compete with the business of the Group during the year 2016.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at December 31, 2016 are set out in note 28 to the financial statements.

EMOLUMENT POLICY

The emolument policy of the general staff of the Company is set up by the management of the Group on the basis of their merit, qualifications and competence. The emoluments of the Directors and senior management of the Company are proposed by the Remuneration Committee of the Company to the Board, having regard to the Company's operating results, individual performance and comparable market statistics, subject to the final decision by the Board. The remuneration of the Directors and chief executive are set out in note 8 to the financial statements. Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended December 31, 2016 is set out below:

Remuneration bands	**Number of persons**
Nil to HK$1,000,000	1
HK$1,000,001 to HK$2,500,000	1
	2

RELATED PARTY TRANSACTIONS

During the year, the Group entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Details of the related party transactions entered into by the Group during the year are disclosed in note 44 to the financial statements. The related party transactions disclosed in note 44 were not regarded as connected transactions or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules.

CORPORATE GOVERNANCE

For the year ended December 31, 2016, the Company has complied with the applicable code provisions of the CG Code as set out in Appendix 14 to the Listing Rules, save and except for the deviation as set out below.

In accordance with code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting and should also invite the chairman of the nomination, audit and remuneration committees to attend. Mr. Feng Changge, the chairman of the Board and the chairman of the Nomination Committee, Mr. Xiao Changnian, the chairman of the Audit Committee and Mr. Xue Guoping, the chairman of the Remuneration Committee were not able to attend the annual general meeting of the Company held on 18 May 2016 due to their other business commitments.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code throughout the period from the Listing Date to December 31, 2016.

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended December 31, 2016, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

DONATIONS

Donations made by the Group during the year ended December 31, 2016 amounting to RMB1,420 (2015: RMB4,550).

AUDITORS

The consolidated financial statements have been audited by Ernst & Young who retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM of the Company to be held in June 9, 2017. A resolution for the reappointment of Ernst & Young as auditors of the Company is to be proposed at the forthcoming AGM of the Company.

By Order of the Board
CHINA HARMONY NEW ENERGY AUTO HOLDING LIMITED
FENG Changge
Chairman and Executive Director

March 31, 2017

Environmental, Social and Governance Report

ABOUT ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT FOR 2016

Basis of Preparation

The Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "**ESG Guide**") as set out in Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Scope of Reporting

The data and information cited in the Report are referenced from the archived questionnaires, records, statistics and research of China Harmony New Energy Auto Holding Limited (the "**Company**" and its subsidiaries, collectively the "**Group**"). The Report covers an information period that spans from 1 January 2016 to 31 December 2016 (the "**Reporting Period**"), exactly the financial year covered by the 2016 annual report of the Group.

Contact

Should you have any query or feedback on the Report, please contact us via the following methods:

- Address: 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
- Tel.: (852) 2956 2192
- Email: hk@hexieauto.com
- Official website: http://www.hexieauto.com

1 GROUP PROFILE

As a leading dealership group that deals exclusively in luxury and ultra-luxury passenger vehicles in China, the Group is specialized in operation of luxury and ultra-luxury passenger vehicle brands including BMW, Lexus, Maserati, Land Rover, Rolls-Royce, Ferrari, etc., together with a comprehensive after-sales services network, with its presence in over forty large and medium-sized cities in China. Upholding "harmony, simplicity, sunshine, broadness and happiness" as its idea, the Group embraces the corporate vision of "becoming a leading operation group of luxury and ultra-luxury passenger vehicles and the largest group in respect of repair of luxury passenger vehicles in China" and is committed to becoming the first largest and most luxurious, respected and excellent vehicle operator shouldering responsibilities.

2 RESPONSIBILITY COMMUNICATIONS

2.1 Responsibility for Industry

Over the years, aiming at becoming the first largest and most luxurious, respected and excellent vehicle operator shouldering responsibilities, the Group thoroughly understood customers' demands, continuously improved the service system and practically discharged its social and economic responsibilities, and made proactive contributions to the distribution of luxury passenger vehicles, after-sales services, new energy automobiles and other fields.

2.2 Responsibility for Staff

The Group has been committed to develop sustainable strategies for business growth for years and has created a workplace that offers fair, justified and equal opportunities for collaboration, develops the potentials of its staff and serves as the stage for its staff to pursue different kinds of development. The Group has formulated user-friendly policies and systems by maintaining an open, fair and competitive employment mechanism, a safe workplace, an enhanced training system, a comprehensive spectrum of plans on occupational development. These measures have facilitated the rapid development of talents and hence maintaining a system for quality improvement of all staff.

2.3 Responsibility for Public Welfare

While creating economic benefits, the Group is also proactively repaying the society. It insists on the corporate proposition of "simplicity, broadness, harmony, sunshine and happiness" in proactive participation in charitable assistance, transmission of love and other public benefit activities to help the vulnerable groups in the society to improve their learning and living conditions. In 2016, the Group proactively initiated a series of public benefit activities including "Public Welfare Trip to Sun Village", "Knowledge Is Infinite, Donation of Books", "Dedicated Vehicles for Students for the College Entrance Examination in Anyang", "With Rules for Behavior, Without Boundary for Love" and "Measure City Beauty with Steps, Advocate Civilized Practices with Actions", and discharged its social responsibility as a harmonious group in the way of building "harmony" and engagement in public welfare.

2.4 Identification of and Communication with Stakeholders

The Group created multiple communication channels for its investors, suppliers, distributors, clients and other relevant stakeholders to enhance their understanding and effective supervision over our operation while taking the initiative to further understand the requests, expectation and recommendation of stakeholders and timely making adjustments and providing feedback based on the actual condition of the Group. During the Reporting Period, the Group has strengthened close communication with its investors, clients, employees, government and regulators, partners, community and public via multiple channels, which include general meeting and business releases and announcements.

With regard to the investor relations, the Group kept close relationship with investors and strengthened the frequency of communication and investor relation matters in 2016. Throughout 2016, conference calls and investors conferences were adopted by us to enhance our communication with investors. Through such multiple channels, the Company has maintained satisfactory and stable communication with its investors and enhanced the efficiency of idea exchange, which allowed the Company to make positive and prompt responses to the requests of investors and gain greater recognition from such investors.

Major issues concerned by stakeholders and corresponding responses

Stakeholders	Major issues	Ways and channels for communication	Responses and feedback
Shareholders/ investors	Corporate governance and business strategies Going-concern capacity Returns on investment Prompt information disclosure	General meeting Business releases Financial reports Enquiry via email	Issue notices of general meeting and proposals according to the regulations Disclose corporate information on schedule Disclose announcements and release reports regularly according to the regulations Create communication channel
Consumers	Service quality Customer information protection Product guarantee	Customer satisfaction investigation After-sales services and complaints	Conduct customer survey Enhance service management Handle complaints and other after-sales problems timely

Stakeholders	Major issues	Ways and channels for communication	Responses and feedback
Staff	Remuneration package Training and development	Labour union Staff training Staff activities	Build a fair promotion system Organize staff activities
Government and regulators	Payment of tax according to laws Prompt and standard information disclosure Regulatory norms Resource-saving	Institution investigation Report on the work Information disclosure	Strict compliance with laws and regulations True and accurate information disclosure Legitimate operation Acceptance of governmental inspection and investigation
Suppliers	Fulfillment of contract obligations on schedule Long-term stable cooperation Corporate credibility	Trade fair Daily communications	Fulfillment of contract obligations Maintenance of long-term partnership
Community and public	Social welfare and community development Environment protection	Community/charitable activities	Hold community/charitable activities

On the basis of the above results, the Group also refers to the information disclosure by peers in the industry and standards such as the Environmental, Social and Governance Reporting Guide to analyze and identify the essential issues on environment and social responsibilities covered in this report. In the future, the Group will continue to assess and evaluate related issues, deepen and extend research and study upon stakeholders to intensify and specify the focus of disclosure information.

3 SOCIETY

3.1 Employment and labor practices

3.1.1 Employment

The Group abides by Labour Law of the PRC, Employment Promotion Law of the PRC, Labor Contract Law of the PRC, Payment of Wages Tentative Provisions, Regulations on Management of Housing Provident Fund, Regulations on Paid Annual Leave of the Employees, Labor Dispute Mediation and Arbitration Law of the PRC, Regulation on Work Related Injury Insurances and local decree and regulation in recruitment and employee salaries and benefits in the PRC. The Group is dedicated to fulfilling its corporate obligations and social responsibilities, paying the social insurances and housing provident fund for employees in accordance with applicable laws and regulation.

In respect of the recruitment, the Group's recruitment complies with policies and procedures in order to ensure a fair, justified and open recruitment process. The Group does not set any position by employee and there are no differences in employment opportunity and remuneration package for any individual because of gender, race, religion, disability and other relevant factors.

In respect of the employee's benefit, apart from statutory benefits, the Group adopted the Restricted Share Unit Scheme and Share Option Scheme for motivate and award for the contribution of the Directors and employees to the success of the Group's business.

Regarding working hour and leave, the Group complies with Labour Law of the PRC, local decrees, regulations and practices, promulgating relevant policies to make sure employees' lawful rights of rest and annual leave are safeguarded. No violation of regulations arose during the Reporting Period.

In respect of promotion, the Group has adhered to the principle of transparency, fairness and equity and established a standardized and transparent occupational system. It also devotes itself in developing the talent of its staff by providing a platform full of opportunities, which has facilitated the nurturing of talents and allowed the Company to pursue innovative development.

The Group's businesses cover all over the country, not only attracting talents from a variety of provinces, municipals and autonomous regions, but also encouraging internal exchange and communication to foster cultural diversity and cohesion within the Group. The Group takes pride in its well-structured workforce with a balanced proportion of different sectors and posts. To fully undertake its social responsibility, the Group creates jobs and offers opportunities for the public equally.

In order to safeguard the employees' legitimate rights, secure the safety of corporate information and files, standardize procedures of employee leave and reduce labour disputes, the Group standardizes procedures on different types of leave and protection measures for involved parties. Currently, the Regulations are not violated.

As of the end of 2016, the Group registered a total of 5,363 employees, of them, 1,838 (or 34%) were female; 107 were member of management at medium level or higher, of which 17 (or 16%) were female management, 113 (or 2%) were minorities; 815 (or 15%) were undergraduates and 23 (or 0.4%) were post graduates or higher.

3.1.2 Health and safety

The Group abides by Labour Law of the PRC, Fire Protection Law of the PRC, Occupation Health Safety Management System, Special Rules on the Labor Protection of Female Employees, Measures for the Determination of Work-related Injuries and Regulation on Work-related Injury Insurances. The Group has adhered to the "human-oriented" philosophy by continuously optimizing its measures on safety protection, which has offered its staff the most suitable working environment so as to safeguard a safe and healthy work life for its staff. There were no work-related fatalities or reported lost days due to work-related injuries during the Reporting Period. The measures implemented by the Group include the following:

- The Group analyzes potential types of emergencies by taking into consideration relevant fire control and safety management at workplace and has formulated emergency guidelines. It also updates such guidelines and conducts fire and safety drills regularly to improve the ability of its staff in handling all types of potential emergencies.

- The Group organizes safety education and training for new recruits to raise their safety awareness and facilitate the abilities of handling emergencies.

3.1.3 Development and Training

The Group attaches high importance to the nurturing of talents by providing training platforms and opportunities and organizing various training programs for all kinds of individual. In order to enhance the leadership of the management, the Company has prepared different types of training, which include corporate strategic management, corporate operation management, financial strategic management, investment strategies and other relevant topics. Meanwhile, the Company has also conducted various training for industry practitioners and provided relevant training programs particularly for operators at the after-sales maintenance center, and managers and staff at community stores. The topics of such training include training programs for the chief operation officers at newly-built stores, sales advisor, managers at community stores as well as for Alibaba Auto Ports, and our staff participated in such training programs for a total of 71 times.

3.1.4 Labour Standards

The Group mandates open selection and recruitment through standardized interview procedures and inspected candidates' personal information during the recruiting process. Meanwhile, the signing of a labor contract with employees is subject to the principle of equality and free will, in compliance with Labour Law of the PRC, Law of the PRC on the Protection of Minors and Provisions on the Prohibition of Using Child Labor. The Group also monitors recruitment-related information and data to assure there is no child labour or compulsory labour.

3.2 Operating Practices

3.2.1 Supply Chain Management

In 2016, the Company continued to cooperate with luxury and ultra-luxury brands such as BMW, Lexus, Maserati, Land Rover, Rolls-Royce, Ferrari, etc. and maintained good and stable relationship with core partners with good quality, ensuring the stable development of the sales business of vehicles. In addition, with respect to new energy vehicle project, the Company and partners and professional suppliers jointly designed and developed to ensure the sufficient supply of high quality parts and components and the smooth undertaking of the projects. The suppliers and distributors of the Company are supreme luxury and ultra-luxury brands that provide high-quality products and services. Over the past years, the Company has been optimizing the supply chain and integrating and procuring resources to reduce procurement cost. It has also established a cooperation mechanism of integrity and pursue a win-win relationship and joint development with its suppliers.

3.2.2 Product Liability

As a motor dealer, the Group conforms to Product Quality Law of the PRC, Anti-Monopoly Law of the PRC, Anti-Unfair Competition Law of the PRC, Anti-Monopoly Guidance of Anti-Monopoly Committee under the State Council Regarding Motor Industry (《國務院反壟斷委員會關於汽車業的反壟斷指南》) and Several Provisions on Prohibiting Infringements upon Trade Secrets and other laws and regulations to perfect managerial mechanism and quality of products and after-sale services through its high-quality and all-round integrated motor dealing services. Over the Reporting Period, the Group had zero complaints in regard to the quality of products and services. The Group will constantly optimize the security of general information based on relevant information security and management requirements.

As to the Group's clients, it is crucial to secure their information and privacy.

3.2.3 Anti-Corruption

The Group places great emphasis on corporate institutional improvement, especially on anti-corruption. During the Reporting Period, the Group abided by Criminal Law of the PRC, Judicial Interpretation of Criminal Law of the PRC, Criminal Procedure Law of the PRC, Interpretation of the Supreme People's Court on the Application of the Civil Procedure Law of the PRC, Interpretation of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues concerning the Application of Law in the Handling of Criminal Cases of Embezzlement and Bribery, Anti-Money Laundering Law of the PRC and other anti-corruption, anti-racketeering and counter-fraud and anti-money laundering laws and regulations.

The Group enforces corporate discipline, strengthens professional ethics and standardizes corporate structure in accordance with the aforementioned laws and regulations, incorporating the foster of ethics among staff into the management of the company.

3.2.4 Community

The Group is committed to fostering harmonious and common prosperous relationship with the community in which it operates by proactively engaging in community activities to gain a better understanding of community needs and fully undertaking corporate social responsibility. Since the foundation of the Group, Harmony Group adheres to the business advocates of "simplicity, broadness, harmony, sunshine, happiness", and actively carries out charity helping, passing love and other public activities to help the disadvantaged groups to improve learning and living conditions.

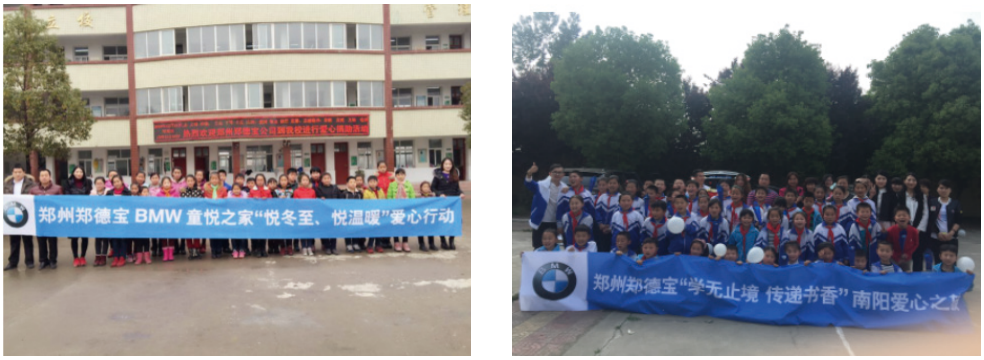
In 2016, Harmony Group carried out a number of charitable activities in Beijing, Shanghai, Guangzhou, Henan, Hubei and other places to fulfill our social responsibilities in the process of constructing an "harmonious society" and practicing public welfare.

In Beijing, Harmony Group initiated the activity of "Public Welfare Trip to Sun Village (太陽村愛心公益行)" together with Han Xiao Public Welfare Service Community (韓嘯愛心公益社團). Car owners from Beijing Huadebao BMW 4S Shop (北京華德寶寶馬4S店) participated in this activity, and they brought rice, oil, milk, clothes and other basic necessities to children in Sun Village, and also donated books, toys for their learning and entertainment.

In Zhengzhou, Henan, Harmony Group initiated the activity of "Knowledge is Infinite, Donation of Books", through the donations from MW owners and services from volunteers, a "Welfare Book House" was built in Nanyang Libamiao primary school.

In Anyang, Henan, Harmony Group initiated the activity of "Dedicated Vehicles for Students for the College Entrance Examination in Anyang" to provide helps for students attending the examination.

In Shanghai, Harmony Group carried out eye care activities with a theme of "With Rules for Behavior, Without Boundary for Love". They specially invited doctors from Shanghai Eye Hospital to check the eyesight for students in Ziluolan primary school (a migrant children school), and bring them with eye health knowledges.



Public Welfare Activities of Harmony Auto in Henan Province

Public Welfare Activities of Harmony Auto in Beijing and Shanghai

4. ENVIRONMENT

In recent years, new energy vehicles have become an important development trend to reduce environmental pollution and achieve harmonious environment development in China. The production and sales of new energy vehicles in China continue to hit a new high, being China's development hot spots in auto industry. Harmony Auto, as a leading car dealer, also closely following the development direction of the industry, takes active development of new energy automotive business as one of the important strategy. In March 2015, the Company signed a strategic cooperation framework agreement with Foxconn and Tencent on the Internet + Smart Electric Vehicles, and set up a joint venture company Harmony Futeng Internet + Intelligent Electric Vehicle Investment Management Co., Ltd. (和諧富騰互聯網加智能電動汽車新能源合夥企業) ("**Harmony Futeng**") in July 2015, so to actively expand the innovation cooperation in the area of Internet and intelligent electric car.

4.1 Emissions

The Group's business and governance conform to Constitution of the PRC and Environmental Protection Law of the PRC, and the projects are in strict accordance with the requirements of laws and regulations such as Law of the PRC on Appraising of Environment Impacts, Law of the PRC on Conserving Energy and Regulation on Environmental Impact Assessment of Planning and local environmental regulations.

The Group is committed to environmental protection, energy conservation and emissions reduction, and the rational use of resources and energy. Centering on the targets of energy saving, consumption reduction, pollution reduction and efficiency enhancement, the Group has actively participated in and promoted the development of new energy vehicles, which clearly illustrates the Group's sustainable development strategy and determination for environmental protection.

4.2 Use of Resources

The Group pays attention to and understands the importance of the environmental impact. Adhering to the concept of green environmental protection, the Group has also promoted green operations and advocated the concept of green office. Environmental protection, energy conservation and emissions reduction and reasonable and efficient utilization of resources have been consistently implemented in the daily operation activities of the Group. Going forward, the Group will continue to develop sustainable policies and designs to reduce its environmental impact.

4.3 The Environment and Natural Resources

The business operations of the Company do not have a significant influence on the environment and natural resources.

Independent Auditor's Report

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the shareholders of China Harmony New Energy Auto Holding Limited
(Incorporated in the Cayman Islands as an exempted company with limited liability)

OPINION

We have audited the consolidated financial statements of China Harmony New Energy Auto Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 70 to 175, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Estimation of rebates	
The Group recognises volume-related vendor rebates on an accrual basis based on the terms of the supplier contracts. As at 31 December 2016, the rebate receivables recognised in the consolidated statement of financial position amounted to RMB481 million. The balance of rebate receivables was significant and the process of estimating the accrual was complex. Information about the rebate receivables is disclosed in note 22 to the financial statements.	Our audit procedures included, among others, checking the rebate policies adopted against the terms of the relevant supplier contracts and checking the calculation of the rebate receivables based on the rebate policies. We also checked subsequent receipts of the rebate receivables.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of inventories	
The Group’s inventories primarily consist of motor vehicles, spare parts and accessories. Impairment is assessed on individual basis for each motor vehicle brand and model. The gross inventories and impairment provision as at 31 December 2016 amounted to RMB887 million and RMB2 million, respectively, which are material to the financial statements. Management estimated net realisable value and forecasted inventory usage based on the current market condition and the historical experience of selling products of a similar nature, which could change significantly due to changes in customer taste or competitor actions. Further details are contained in notes 6(b) and 20 to the financial statements.	We have evaluated, amongst others, the analysis and assessments of the sales forecasts and selling prices based on the existing orders with customers. We also checked subsequent selling price to verify the accuracy of management’s estimates. We tested the ageing of the unsold motor vehicles, latest sales and gross margin of motor vehicles sold which management used in the provision calculation.
Deferred tax assets	
As at 31 December 2016, the deferred tax assets recognised in the consolidated statement of financial position amounted to RMB83 million. The deferred tax assets were recognised based on the management’s estimation of future taxable profits that would be available to utilize the deferred tax assets. The process of estimating the amount of the future taxable profits was complex, and involved estimates and judgments that would be affected by future actual operations, tax regulations, market or economic conditions. Information about the deferred tax assets and the unrecognised temporary differences are disclosed in note 32 to the financial statements.	We evaluated and tested the management estimation of available taxable profits by, among others, evaluating the Group’s business plans approved by those charged with governance, expected future profit forecasts, and the associated growth rates used in the estimation. We also checked the appropriateness of the relevant disclosures of deferred tax assets and unrecognised temporary differences.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Share of losses of joint ventures and associates	
As at 31 December 2016, the Group held investments in associates and joint ventures with total carrying amount of RMB526 million. The share of losses of associates and joint ventures for the year ended 31 December 2016 amounted to RMB292 million, which are material to the financial statements. The losses incurred by the associates and joint ventures for the year ended 31 December 2016 mainly comprised of impairment losses of investments and operating expenses. Further details are contained in notes 18 and 19 to the financial statements.	We have reviewed and evaluated the assessment of the recoverable amounts of the investments made by the management of the associates and joint ventures and challenged management's assumptions and estimates used in the assessment. We have checked the significant operating expenses of the associates and joint ventures to the contracts and tested the recorded amounts during the year to contractual evidence on a sample basis.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is NG CHEUNG.

Ernst & Young
Certified Public Accountants
Hong Kong
31 March 2017

Consolidated Statement of Profit or Loss

Year ended 31 December 2016

	Notes	**2016** **RMB'000**	2015 *RMB'000*
REVENUE	5(a)	**10,695,872**	10,620,244
Cost of sales and services	6(b)	**(9,925,790)**	(9,498,495)
Gross profit		**770,082**	1,121,749
Other income and gains, net	5(b)	**326,227**	524,781
Selling and distribution expenses		**(775,392)**	(592,221)
Administrative expenses		**(180,754)**	(134,719)
Other expenses	6(c)	**(73,709)**	–
PROFIT FROM OPERATIONS		**66,454**	919,590
Finance costs	7	**(95,040)**	(157,056)
Share of profits and losses of:			
Joint ventures		**(101,817)**	(587)
Associates		**(189,942)**	1,308
(LOSS)/PROFIT BEFORE TAX	6	**(320,345)**	763,255
Income tax expense	10	**(47,302)**	(194,566)
(LOSS)/PROFIT FOR THE YEAR		**(367,647)**	568,689
Attributable to:			
Owners of the parent		**(370,674)**	563,393
Non-controlling interests		**3,027**	5,296
		(367,647)	568,689
(Loss)/earnings per share attributable to ordinary equity holders of the parent	12		
Basic *(RMB)*		**(0.24)**	0.39
Diluted *(RMB)*		**(0.24)**	0.39

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	2016	2015
	RMB'000	*RMB'000*
(LOSS)/PROFIT FOR THE YEAR	**(367,647)**	568,689
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**87,681**	71,419
Other comprehensive income for the year, net of tax	**87,681**	71,419
Total comprehensive (loss)/income for the year, net of tax	**(279,966)**	640,108
Attributable to:		
Owners of the parent	**(282,993)**	634,812
Non-controlling interests	**3,027**	5,296
	(279,966)	640,108

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**2,757,592**	2,842,151
Prepaid land lease payments	14	**11,897**	12,297
Intangible assets	15	**35,418**	5,923
Goodwill	16	**7,892**	–
Prepayments	17	**494,425**	205,365
Investments in joint ventures	18	**297,596**	399,413
Investments in associates	19	**228,506**	7,872
Deferred tax assets	32	**82,530**	52,030
Total non-current assets		**3,915,856**	3,525,051
CURRENT ASSETS			
Inventories	20	**885,136**	1,273,497
Trade receivables	21	**247,471**	86,369
Prepayments, deposits and other receivables	22	**1,383,688**	1,951,726
Structured deposits	23	**–**	305,000
Available-for-sale investments	24	**38,000**	–
Pledged and restricted bank deposits	25	**134,117**	384,298
Cash in transit	26	**26,323**	39,435
Cash and bank balances	27	**2,969,098**	3,489,888
Total current assets		**5,683,833**	7,530,213
CURRENT LIABILITIES			
Bank loans and other borrowings	28	**1,824,417**	2,395,092
Trade and bills payables	29	**289,388**	864,094
Other payables and accruals	30	**1,231,878**	1,183,211
Income tax payable		**712,926**	683,244
Total current liabilities		**4,058,609**	5,125,641

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NET CURRENT ASSETS		**1,625,224**	2,404,572
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,541,080**	5,929,623
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	28	**38,942**	21,360
Deferred tax liabilities	32	**32,680**	21,196
Total non-current liabilities		**71,622**	42,556
NET ASSETS		**5,469,458**	5,887,067
EQUITY			
Equity attributable to owners of the parent			
Share capital	33	**12,498**	12,498
Reserves	36	**5,426,610**	5,843,263
		5,439,108	5,855,761
Non-controlling interests		**30,350**	31,306
Total equity		**5,469,458**	5,887,067

Yang Lei
Director

Liu Fenglei
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to owners of the parent											
	Share capital *RMB'000*	Share premium *RMB'000**	Statutory reserve *RMB'000**	Merger reserve *RMB'000**	Share award reserve *RMB'000**	Share option reserve *RMB'000**	Exchange fluctuation reserve *RMB'000**	Retained profits *RMB'000**	Proposed final dividend *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2015	8,633	1,024,508	122,841	371,200	52,613	–	721	1,043,232	102,405	2,726,153	19,610	2,745,763
Profit for the year	–	–	–	–	–	–	–	563,393	–	563,393	5,296	568,689
Other comprehensive income for the year:												
Exchange differences related to foreign operations	–	–	–	–	–	–	71,419	–	–	71,419	–	71,419
Total comprehensive income for the year	–	–	–	–	–	–	71,419	563,393	–	634,812	5,296	640,108
Non-controlling interests arising from establishment of new subsidiaries	–	–	–	–	–	–	–	–	–	–	6,400	6,400
Final 2014 dividend declared	–	–	–	–	–	–	–	–	(102,405)	(102,405)	–	(102,405)
Equity-settled share award expense *(note 34)*	–	–	–	–	4,150	–	–	–	–	4,150	–	4,150
Equity-settled share option arrangements *(note 35)*	–	–	–	–	–	10,502	–	–	–	10,502	–	10,502
Restricted shares exercised *(note 33)*	–	26,181	–	–	(26,181)	–	–	–	–	–	–	–
Issue of shares *(note 33)*	3,865	2,647,174	–	–	–	–	–	–	–	2,651,039	–	2,651,039
Share issue expenses	–	(68,490)	–	–	–	–	–	–	–	(68,490)	–	(68,490)
Transfer from retained profits	–	–	45,379	–	–	–	–	(45,379)	–	–	–	–
At 31 December 2015	12,498	3,629,373	168,220	371,200	30,582	10,502	72,140	1,561,246	–	5,855,761	31,306	5,887,067

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to owners of the parent											
	Share capital *RMB'000*	Share premium *RMB'000**	Capital reserve *RMB'000**	Statutory reserve *RMB'000**	Merger reserve *RMB'000**	Share award reserve *RMB'000**	Share option reserve *RMB'000**	Exchange fluctuation reserve *RMB'000**	Retained profits *RMB'000**	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2016	12,498	3,629,373	–	168,220	371,200	30,582	10,502	72,140	1,561,246	5,855,761	31,306	5,887,067
Loss for the year	–	–	–	–	–	–	–	–	(370,674)	(370,674)	3,027	(367,647)
Other comprehensive income for the year:												
Exchange differences related to foreign operations	–	–	–	–	–	–	–	87,681	–	87,681	–	87,681
Total comprehensive loss for the year	–	–	–	–	–	–	–	87,681	(370,674)	(282,993)	3,027	(279,966)
Acquisition of non-controlling interests	–	–	1,583	–	–	–	–	–	–	1,583	(3,983)	(2,400)
Final 2015 dividend declared	–	(158,074)	–	–	–	–	–	–	–	(158,074)	–	(158,074)
Equity-settled – share award expense *(note 34)*	–	–	–	–	–	5,251	–	–	–	5,251	–	5,251
Equity-settled share option arrangements *(note 35)*	–	–	–	–	–	–	17,580	–	–	17,580	–	17,580
Restricted shares exercised *(note 33)*	–	13,558	–	–	–	(13,558)	–	–	–	–	–	–
Transfer from retained profits	–	–	–	19,446	–	–	–	–	(19,446)	–	–	–
At 31 December 2016	12,498	3,484,857	1,583	187,666	371,200	22,275	28,082	159,821	1,171,126	5,439,108	30,350	5,469,458

* These reserve accounts comprise the consolidated other reserves of RMB5,426,610,000 (2015: RMB5,843,263,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Operating activities			
(Loss)/profit before tax		**(320,345)**	763,255
Adjustments for:			
Share of profits and losses of joint ventures and associates		**291,759**	(721)
Depreciation of items of property, plant and equipment	13	**184,280**	147,172
Amortisation of prepaid land lease payments	14	**400**	400
Amortisation of intangible assets	15	**2,034**	1,529
Interest income	5(b)	**(83,580)**	(168,025)
Gain on disposal of a subsidiary	5(b)	**–**	(18,592)
Net loss on disposal of items of property, plant and equipment	6(c)	**26,829**	18,535
(Reversal of impairment)/impairment of inventories	6(b)	**(8,960)**	5,666
Impairment of property, plant and equipment	6(c)	**73,709**	–
Equity-settled share award expense	6(a)	**5,251**	4,150
Equity-settled share option expense	6(a)	**17,580**	10,502
Finance costs	7	**95,040**	157,056
		283,997	920,927
Decrease in pledged and restricted bank deposits		**250,181**	166,680
Decrease/(increase) in cash in transit		**13,112**	(6,209)
Increase in trade receivables		**(159,925)**	(12,475)
(Increase)/decrease in prepayments, deposits and other receivables		**(19,874)**	181,873
Decrease in inventories		**463,918**	207,377
Decrease in trade and bills payables		**(636,546)**	(13,827)
(Decrease)/increase in other payables and accruals		**(63,676)**	171,277
Cash generated from operations		**131,187**	1,615,623
Income tax paid		**(44,519)**	(24,805)
Net cash generated from operating activities		**86,668**	1,590,818

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Investing activities			
Interest received		**82,317**	165,387
Dividend received from an associate		**1,685**	4,875
Purchase of items of property, plant and equipment		**(481,555)**	(626,507)
Proceeds from disposal of items of property, plant and equipment		**85,501**	69,278
Purchase of intangible assets		**(1,018)**	(2,076)
Acquisition of a subsidiary	38	**1,202**	–
Proceeds from disposal of a subsidiary		**–**	37,646
Investments in joint ventures		**–**	(400,000)
Investments in associates		**(365,677)**	–
Repayment of advance to an associate		**–**	294
Purchases of available-for-sale investments		**(38,000)**	–
Loans to third parties		**(330,000)**	(700,000)
Collection of loans and receivables from third parties		**975,000**	–
Increase in time deposits		**(558,988)**	(613,000)
Decrease in structured deposits		**305,000**	564,500
Net cash used in investing activities		**(324,533)**	(1,499,603)
Financing activities			
Proceeds from issue of shares	33	**–**	2,651,039
Share issue expenses		**–**	(68,490)
Proceeds from bank loans and other borrowings		**9,475,705**	8,197,442
Repayment of bank loans and other borrowings		**(10,131,892)**	(8,832,062)
Acquisition of non-controlling interests		**(2,400)**	–
Dividends paid		**(158,074)**	(102,405)
Capital contributions from non-controlling shareholders		**–**	6,400
Interest paid		**(113,266)**	(178,750)
Net cash (used in)/generated from financing activities		**(929,927)**	1,673,174
Net (decrease)/increase in cash and cash equivalents		**(1,167,792)**	1,764,389
Cash and cash equivalents at beginning of year		**2,666,488**	830,680
Effect of foreign exchange rate changes, net		**88,014**	71,419
Cash and cash equivalents at end of year		**1,586,710**	2,666,488

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	**1,586,710**	2,666,488
Cash and cash equivalents as stated in the statement of cash flows		**1,586,710**	2,666,488
Non-pledged time deposits with original maturity of more than three months when acquired		**1,382,388**	823,400
Cash and bank balances as stated in the statement of financial position		**2,969,098**	3,489,888

1. CORPORATE AND GROUP INFORMATION

China Harmony New Energy Auto Holding Limited (the "Company") was incorporated on 24 September 2012 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 June 2013 ("Listing").

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

In the opinion of the directors of the Company (the "Directors"), the ultimate holding company of the Company is Eagle Seeker Company Limited, which is incorporated in the British Virgin Islands ("BVI").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Proportion of equity attributable to the Company Direct	Indirect	Principal activities
上海上德寶駿汽車銷售服務有限公司 (Shanghai Shangdebaojun Automobile Sales & Services Co., Ltd.)	Shanghai, the PRC	Registered and paid-in capital of RMB50,000,000	–	90%	Sale of automobiles and provision of after-sales services
宜昌路順汽車銷售服務有限公司 (Yichang Lushun Automobile Sales & Services Co., Ltd.)	Yichang, the PRC	Registered and paid-in capital of RMB10,000,000	–	65%	Sale of automobiles and provision of after-sales services
新鄉市新德寶汽車服務有限公司 (Xinxiang Xindebao Automobile Services Co., Ltd.)	Xinxiang, the PRC	Registered and paid-in capital of RMB1,500,000	–	100%	Sale of automobiles and provision of after-sales services
洛陽豫德寶汽車銷售服務有限公司 (Luoyang Yudebao Automobile Sales & Services Co., Ltd.)	Luoyang, the PRC	Registered and paid-in capital of RMB30,000,000	–	100%	Sale of automobiles and provision of after-sales services
南陽宛德寶汽車銷售服務有限公司 (Nanyang Wandebao Automobile Sales & Services Co., Ltd.)	Nanyang, the PRC	Registered and paid-in capital of RMB30,000,000	–	100%	Sale of automobiles and provision of after-sales services

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Proportion of equity attributable to the Company Direct	Indirect	Principal activities
鄭州華誠汽車銷售服務有限公司 (Zhengzhou Huacheng Automobile Sales & Services Co., Ltd.)	Zhengzhou, the PRC	Registered and paid-in capital of RMB20,000,000	–	100%	Sale of automobiles and provision of after-sales services
安陽安德寶汽車銷售服務有限公司 (Anyang Andebao Automobile Sales & Services Co., Ltd.)	Anyang, the PRC	Registered and paid-in capital of RMB30,000,000	–	100%	Sale of automobiles and provision of after-sales services
開封汴德寶汽車銷售服務有限公司 (Kaifeng Biandebao Automobile Sales & Services Co., Ltd.)	Kaifeng, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Sale of automobiles and provision of after-sales services
北京市華德寶汽車銷售服務有限公司 (Beijing Huadebao Automobile Sales & Services Co., Ltd.)	Beijing, the PRC	Registered and paid-in capital of RMB55,000,000	–	100%	Sale of automobiles and provision of after-sales services
鄭州遠達雷克薩斯汽車銷售服務有限公司 (Zhengzhou Yuanda Lexus Automobile Sales & Services Co., Ltd.)	Zhengzhou, the PRC	Registered and paid-in capital of RMB50,000,000	–	100%	Sale of automobiles and provision of after-sales services
廈門遠達雷克薩斯汽車銷售服務有限公司 (Xiamen Yuanda Lexus Automobile Sales & Services Co., Ltd.)	Xiamen, the PRC	Registered and paid-in capital of RMB30,000,000	–	100%	Sale of automobiles and provision of after-sales services
武漢漢德寶汽車銷售服務有限公司 (Wuhan Handebao Automobile Sales & Services Co., Ltd.)	Wuhan, the PRC	Registered and paid-in capital of RMB20,000,000	–	100%	Sale of automobiles and provision of after-sales services
武漢華鄭汽車銷售服務有限公司 (Wuhan Huazheng Automobile Sales & Services Co., Ltd.)	Wuhan, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Sale of automobiles and provision of after-sales services
蘇州意駿汽車銷售服務有限公司 (Suzhou Yijun Automobile Sales & Services Co., Ltd.)	Suzhou, the PRC	Registered and paid-in capital of RMB50,000,000	–	100%	Sale of automobiles and provision of after-sales services

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Proportion of equity attributable to the Company Direct	Indirect	Principal activities
新鄉和德寶汽車銷售服務有限公司 (Xinxiang Hedebao Automobile Sales & Services Co., Ltd.)	Xinxiang, the PRC	Registered and paid-in capital of RMB10,000,000	–	51%	Sale of automobiles and provision of after-sales services
北京豪駿行汽車銷售服務有限公司 (Beijing Haojunhang Automobile Sales & Services Co., Ltd.)	Beijing, the PRC	Registered and paid-in capital of RMB50,000,000	–	100%	Sale of automobiles and provision of after-sales services
漯河漯德寶汽車銷售服務有限公司 (Luohe Luodebao Automobile Sales & Services Co., Ltd.)	Luohe, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Sale of automobiles and provision of after-sales services
常州常駿行汽車銷售服務有限公司 (Changzhou Changjunhang Automobile Sales & Services Co., Ltd.)	Changzhou, the PRC	Registered and paid-in capital of RMB20,000,000	–	100%	Sale of automobiles and provision of after-sales services
北京華駿行汽車銷售服務有限公司 (Beijing Huajunhang Automobile Sales & Services Co., Ltd.)	Beijing, the PRC	Registered and paid-in capital of RMB50,010,000	–	100%	Sale of automobiles and provision of after-sales services
無錫龍駿行汽車銷售服務有限公司 (Wuxi Longjunhang Automobile Sales & Services Co., Ltd.)	Wuxi, the PRC	Registered and paid-in capital of RMB50,000,000	–	100%	Sale of automobiles and provision of after-sales services
河南和諧汽車融資租賃有限公司 (Henan Lease Finance Co., Ltd.)	Zhengzhou, the PRC	Registered and paid-in capital of HK$250,000,000	–	100%	Service of finance leases
鄭州悅達和諧汽車服務有限公司 (Zhengzhou Yueda Hexie Automobile Services Co., Ltd.)	Zhengzhou, the PRC	Registered and paid-in capital of RMB30,090,000	–	100%	Sale of automobiles and provision of after-sales services
洛陽和諧汽車維修服務有限公司 (Luoyang Hexie Automobile Repair Services Co., Ltd.)	Luoyang, the PRC	Registered and paid-in capital of RMB5,000,000	–	100%	Sale of automobiles and provision of after-sales services
陝西和諧汽車維修服務有限公司 (Shaanxi Hexie Automobile Repair Services Co., Ltd.)	Xi'an, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Sale of automobiles and provision of after-sales services

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Proportion of equity attributable to the Company Direct	Indirect	Principal activities
上海和諧汽車維修服務有限公司 (Shanghai Hexie Automobile Repair Services Co., Ltd.)	Shanghai, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Provision of after-sales services
上海谷卡二手車有限公司 (Shanghai Goocar Pre-owned Automobile Co., Ltd.)	Shanghai, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Sale of pre-owned motor vehicles
北京和諧遠達汽車銷售服務有限公司 (Beijing Hexie Yuanda Automobile Sales & Services Co., Ltd.)	Beijing, the PRC	Registered and paid-in capital of RMB500,000	–	100%	Sale of automobiles and provision of after-sales services
廣州和諧汽車技術服務有限公司 (Guangzhou Hexie Automobile Technology Services Co., Ltd.)	Guangzhou, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Provision of after-sales services
安陽和諧汽車維修服務有限公司 (Anyang Hexie Automobile Repair Services Co., Ltd.)	Anyang, the PRC	Registered and paid-in capital of RMB5,000,000	–	100%	Provision of after-sales services
商丘和諧汽車維修服務有限公司 (Shangqiu Hexie Automobile Repair Services Co., Ltd.)	Shangqiu, the PRC	Registered and paid-in capital of RMB10,000,000	–	90%	Provision of after-sales services
漯河和諧汽車銷售服務有限公司 (Luohe Hexie Automobile Repair Services Co., Ltd.)	Luohe, the PRC	Registered and paid-in capital of RMB5,000,000	–	100%	Provision of after-sales services
濮陽和諧汽車銷售服務有限公司 (Puyang Hexie Automobile Sales & Services Co., Ltd.)	Puyang, the PRC	Registered and paid-in capital of RMB5,000,000	–	100%	Provision of after-sales services
鄭州悅誠和諧汽車銷售服務有限公司 (Zhengzhou Yuecheng Hexie Automobile Sales & Services Co., Ltd.)	Zhengzhou, the PRC	Registered and paid-in capital of RMB3,000,000	–	100%	Provision of after-sales services

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Proportion of equity attributable to the Company Direct	Indirect	Principal activities
焦作盛達和諧汽車銷售服務有限公司 (Jiaozuo Shengda Hexie Automobile Sales & Services Co., Ltd.)	Jiaozuo, the PRC	Registered and paid-in capital of RMB1,000,000	–	100%	Provision of after-sales services
濟南和諧汽車銷售服務有限公司 (Jinan Hexie Automobile Sales & Services Co., Ltd.)	Jinan, the PRC	Registered and paid-in capital of RMB5,000,000	–	100%	Provision of after-sales services
無錫和諧汽車維修服務有限公司 (Wuxi Hexie Automobile Repair Services Co., Ltd.)	Wuxi, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Provision of after-sales services
南陽和諧汽車銷售服務有限公司 (Nanyang Hexie Automobile Sales & Services Co., Ltd.)	Nanyang, the PRC	Registered and paid-in capital of RMB5,000,000	–	100%	Provision of after-sales services
武漢漢達和諧汽車服務有限公司 (Wuhan Handa Hexie Automobile Services Co., Ltd.)	Wuhan, the PRC	Registered and paid-in capital of RMB5,000,000	–	100%	Provision of after-sales services
杭州和諧汽車銷售服務有限公司 (Hangzhou Hexie Automobile Sales & Services Co., Ltd.)	Hangzhou, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Provision of after-sales services
平頂山和諧汽車銷售有限公司 (Pingdingshan Hexie Automobile Sales & Services Co., Ltd.)	Pingdingshan, the PRC	Registered and paid-in capital of RMB3,000,000	–	100%	Provision of after-sales services
貴陽悦誠和諧汽車服務有限公司 (Guiyang Yuecheng Hexie Automobile Services Co., Ltd.)	Guiyang, the PRC	Registered and paid-in capital of RMB5,000,000	–	100%	Provision of after-sales services
深圳悦誠和諧汽車銷售服務有限公司 (Shenzhen Yuecheng Hexie Automobile Sales & Services Co., Ltd.)	Shenzhen, the PRC	Registered and paid-in capital of RMB5,000,000	–	100%	Provision of after-sales services

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Proportion of equity attributable to the Company Direct	Indirect	Principal activities
邯鄲遠達雷克薩斯汽車銷售服務有限公司 (Handan Yuanda Lexus Automobile Sales & Services Co., Ltd.)	Handan, the PRC	Registered and paid-in capital of RMB30,000,000	–	100%	Sale of automobiles and provision of after-sales services
商丘商沃汽車銷售服務有限公司 (Shangqiu Shangwo Automobile Sales & Services Co., Ltd.)	Shangqiu, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Sale of automobiles and provision of after-sales services
商丘商德寶汽車銷售服務有限公司 (Shangqiu Shangdebao Automobile Sales & Services Co., Ltd.)	Shangqiu, the PRC	Registered and paid-in capital of RMB10,000,000	–	90%	Sale of automobiles and provision of after-sales services
南陽宛沃汽車銷售服務有限公司 (Nanyang Wanwo Automobile Sales & Services Co., Ltd.)	Nanyang, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Sale of automobiles and provision of after-sales services
成都蓉誠和諧汽車銷售服務有限公司 (Chengdu Rongcheng Hexie Automobile Sales & Services Co., Ltd.)	Chengdu, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Provision of after-sales services
開封悅達和諧汽車銷售服務有限公司 (Kaifeng Yueda Hexie Automobile Sales & Services Co., Ltd.)	Kaifeng, the PRC	Registered and paid-in capital of RMB5,000,000	–	100%	Provision of after-sales services
信陽市和諧汽車銷售服務有限責任公司 (Xinyang Hexie Automobile Sales & Services Co., Ltd.)	Xinyang, the PRC	Registered and paid-in capital of RMB3,000,000	–	100%	Provision of after-sales services
青島和諧汽車銷售服務有限公司 (Qingdao Hexie Automobile Sales & Services Co., Ltd.)	Qingdao, the PRC	Registered and paid-in capital of RMB5,000,000	–	100%	Provision of after-sales services
重慶林寶和諧汽車銷售服務有限公司 (Chongqing Linbao Hexie Automobile Sales & Services Co., Ltd.)	Chongqing, the PRC	Registered and paid-in capital of RMB10,000,000	–	100%	Provision of after-sales services

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Proportion of equity attributable to the Company Direct	Indirect	Principal activities
南京遠諧汽車銷售服務有限公司 (Nanjing Yuanxie Automobile Sales & Services Co., Ltd.)	Nanjing, the PRC	Registered and paid-in capital of RMB5,000,000	–	100%	Provision of after-sales services
廈門鑫禾諧汽車銷售服務有限公司 (Xiamen Xinhexie Automobile Sales & Services Co., Ltd.)	Xiamen, the PRC	Registered and paid-in capital of RMB5,000,000	–	100%	Provision of after-sales services
河北和諧汽車銷售服務有限公司 (Hebei Hexie Automobile Sales & Services Co., Ltd.)	Shijiazhuang, the PRC	Registered and paid-in capital of RMB3,000,000	–	100%	Provision of after-sales services
濰坊和諧遠達汽車銷售服務有限公司 (Weifang Hexie Yuanda Automobile Sales & Services Co., Ltd.)	Weifang, the PRC	Registered and paid-in capital of RMB3,000,000	–	100%	Provision of after-sales services
合肥和德寶汽車銷售服務有限公司 (Hefei Hedebao Automobile Sales & Services Co., Ltd.)	Hefei, the PRC	Registered and paid-in capital of RMB2,000,000	–	100%	Provision of after-sales services
南昌和寶汽車銷售服務有限公司 (Nanchang Hebao Automobile Sales & Services Co., Ltd.)	Nanchang, the PRC	Registered and paid-in capital of RMB3,000,000	–	100%	Provision of after-sales services
淄博和諧汽車銷售服務有限公司 (Zibo Hexie Automobile Sales & Services Co., Ltd.)	Zibo, the PRC	Registered and paid-in capital of RMB2,000,000	–	100%	Provision of after-sales services
昆明和諧汽車銷售服務有限公司 (Kunming Hexie Automobile Sales & Services Co., Ltd.)	Kunming, the PRC	Registered and paid-in capital of RMB2,000,000	–	100%	Provision of after-sales services
湖南和諧汽車銷售服務有限公司 (Hunan Hexie Automobile Sales & Services Co., Ltd.)	Changsha, the PRC	Registered and paid-in capital of RMB5,000,000	–	100%	Provision of after-sales services

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Proportion of equity attributable to the Company Direct	Indirect	Principal activities
蘭州和諧汽車服務有限公司 (Lanzhou Hexie Automobile Services Co., Ltd.)	Lanzhou, the PRC	Registered and paid-in capital of RMB5,000,000	–	100%	Provision of after-sales services
東莞悦誠汽車銷售服務有限公司 (Dongguan Yuecheng Automobile Sales & Services Co., Ltd.)	Dongguan, the PRC	Registered and paid-in capital of RMB5,000,000	–	100%	Provision of after-sales services
上海諧遠汽車服務有限公司 (Shanghai Xieyuan Automobile Services Co., Ltd.)	Shanghai, the PRC	Registered and paid-in capital of RMB3,000,000	–	100%	Provision of after-sales services
天津和德寶汽車維修有限公司 (Tianjin Hedebao Automobile Services Co., Ltd.)	Tianjin, the PRC	Registered and paid-in capital of RMB5,000,000	–	100%	Provision of after-sales services

All the subsidiaries were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

During the year, the Group acquired Zhengzhou Huadebao Automobile Sales & Services Co., Ltd. from a third party. Further details of this acquisition are included in notes 16 and 36 to the financial statements.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale 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 Group for the year ended 31 December 2016. 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:

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

(b) rights arising from other contractual arrangements; and

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

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

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

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012–2014 Cycle	Amendments to a number of HKFRSs

The adoption of the above new and revised standards has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

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

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

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

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

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

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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 decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures 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 associates and joint ventures 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 associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

Fair value measurement

The Group measures financial instruments 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Category	Estimated useful life	Estimated residual value
Buildings	20–40 years	5%
Leasehold improvements	Over the shorter of the lease terms and 10 years	–
Plant and machinery	5–10 years	5%
Furniture and fixtures	3–10 years	5%
Motor vehicles	4–10 years	5%

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 buildings, plant and machinery under construction or pending installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

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

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

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

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 loans and receivables and available-for-sale financial investments. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

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.

The Group's financial assets mainly include cash and bank balances, cash in transit, pledged and restricted bank deposits, structured deposits, trade and other receivables.

Subsequent measurement

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in administrative expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to administrative expenses in the statement of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

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

Loans and borrowings

After initial recognition, bank loans and other 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is attributable to specific items of inventory as appropriate and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to be incurred to completion and sale.

Cash and cash equivalents

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, 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, 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, associates and joint ventures, 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.

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 a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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. Where the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs which it is intended to compensate, are expensed.

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services in the period in which the services are rendered;

(c) rental income, on a time proportion basis over the lease terms;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(d) interest income, 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 to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Vendor rebates

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

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

Share-based payments

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. Further details of the fair value are given in note 34 and note 35 to the financial statements.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

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

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 5.2% has been applied to the expenditure on the individual assets during the year ended 31 December 2016 (2015: 6.6%).

Dividends

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

Foreign currencies

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

The functional currencies of the Company and certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements

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

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets was RMB82,530,000 as at 31 December 2016 (2015: RMB52,030,000). The amount of unrecognised tax losses at 31 December 2016 was RMB209,760,000 (2015: RMB7,524,000). Further details are contained in note 32 to the financial statements.

Operating lease commitments – Group as lessee

The Group has entered into plant leases for its business. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that the lessor retains all the significant risks and rewards of relevant properties and so accounts for them as operating leases.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other 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.

Useful lives of property, plant and equipment

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

Net realisable value of inventories

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Estimated rebate receivables

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

4. OPERATING SEGMENT INFORMATION

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

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

Information about geographical area

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

Information about major customers

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

5. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue

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

	2016	2015
	RMB'000	*RMB'000*
Revenue from the sale of automobiles	**9,308,962**	8,934,918
Provision of after-sales services	**1,247,381**	1,530,885
Others	**139,529**	154,441
	10,695,872	10,620,244

(b) Other income and gains, net:

	2016	2015
	RMB'000	*RMB'000*
Commission income	**180,196**	275,992
Advertisement support received from motor vehicle manufacturers	**25,169**	15,093
Bank interest income	**43,019**	65,284
Interest income from loans to third parties	**40,561**	102,741
Government grants*	**2,940**	1,043
Gain on disposal of a subsidiary	**–**	18,592
Others	**34,342**	46,036
Total	**326,227**	524,781

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

6. (LOSS)/PROFIT BEFORE TAX

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

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

	2016 RMB'000	2015 RMB'000
Wages and salaries	**324,370**	232,105
Equity-settled share award expense	**5,251**	4,150
Equity-settled share option expense	**17,580**	10,502
Other welfare	**51,572**	42,082
	398,773	288,839

(b) Cost of sales and services:

	2016 RMB'000	2015 RMB'000
Cost of sales of automobiles*	**9,107,562**	8,572,903
Cost of after-sales services**	**746,491**	881,027
Others	**71,737**	44,565
	9,925,790	9,498,495

* As of 31 December 2016, the impairment provision for inventories amounted to RMB2,159,000 (2015: RMB11,119,000). The reversal of impairment provision for inventories amounted to RMB8,960,000 was included in "Cost of sales of automobiles" in the consolidated statement of profit or loss during the year.

** There were employee benefit expenses of RMB81,335,000 (2015: RMB67,243,000) included in the cost of after-sales services.

6. (LOSS)/PROFIT BEFORE TAX (continued)

(c) Other items:

	Notes	2016 RMB'000	2015 RMB'000
Depreciation of items of property, plant and equipment	13	**184,280**	147,172
Amortisation of prepaid land lease payments	14	**400**	400
Amortisation of intangible assets	15	**2,034**	1,529
Auditor's remuneration		**4,000**	4,000
Advertisement and business promotion expenses		**64,554**	65,501
Bank charges		**8,161**	11,977
Minimum lease payments under operating leases		**122,505**	83,397
Loss on disposal of items of property, plant and equipment, net		**26,829**	18,535
Impairment of property, plant and equipment*	13	**73,709**	–
Foreign exchange differences, net		**(1,973)**	(1,358)

* The impairment of property, plant and equipment is included in "Other expenses" in the consolidated statement of profit or loss.

7. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest expense on bank borrowings	**100,069**	152,648
Interest expense on other borrowings	**13,197**	26,102
Less: Interest capitalised	**(18,226)**	(21,694)
	95,040	157,056

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Year ended 31 December 2016					
	Fees *RMB'000*	Salaries, allowances and other benefits *RMB'000*	Equity-settled share award expense *RMB'000*	Equity-settled share option expense *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
Executive director and chief executive:						
– Mr. Liu Fenglei	–	540	229	–	34	803
	–	540	229	–	34	803
Executive directors:						
– Mr. Feng Changge	–	–	–	–	–	–
– Mr. Yang Lei	–	420	894	1,579	34	2,927
– Ms. Ma Lintao	–	–	–	–	–	–
– Mr. Qian Yewen	–	2,080	–	3,898	–	5,978
	–	2,500	894	5,477	34	8,905
Non-executive director:						
– Mr. Fan Qihui	–	–	–	–	–	–
Independent non-executive directors:						
– Mr. Xiao Changnian	240	–	–	–	–	240
– Mr. Liu Zhangmin	240	–	–	–	–	240
– Mr. Xue Guoping	240	–	–	–	–	240
	720	–	–	–	–	720
	720	3,040	1,123	5,477	68	10,428

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

	Year ended 31 December 2015					
	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Equity-settled share award expense RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive director and chief executive:						
– Mr. Liu Fenglei[iii]	–	366	–	–	34	400
– Mr. Yu Feng[i]	–	650	2,271	–	34	2,955
	–	1,016	2,271	–	68	3,355
Executive directors:						
– Mr. Feng Changge	–	–	–	–	–	–
– Mr. Yang Lei	–	414	2,133	694	34	3,275
– Mr. Cui Ke[ii]	–	223	1,586	–	54	1,863
– Ms. Ma Lintao	–	–	–	–	–	–
– Mr. Qian Yewen	–	737	–	1,949	–	2,686
	–	1,374	3,719	2,643	88	7,824
Non-executive directors:						
– Mr. Wang Nengguang[iv]	–	–	–	–	–	–
– Mr. Fan Qihui	–	–	–	–	–	–
Independent non-executive directors:						
– Mr. Xiao Changnian	240	–	–	–	–	240
– Mr. Liu Zhangmin	240	–	–	–	–	240
– Mr. Xue Guoping	240	–	–	–	–	240
	720	–	–	–	–	720
	720	2,390	5,990	2,643	156	11,899

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

(i) Mr. Yu Feng resigned as an executive director and the Company's chief executive with effect from 16 October 2015.

(ii) Mr. Cui Ke resigned as a director of the Company with effect from 1 September 2015.

(iii) Mr. Liu Fenglei was appointed as an executive director and the Company's chief executive with effect from 16 October 2015.

(iv) Mr. Wang Nengguang resigned as a non-executive director with effect from 16 November 2015.

In the year 2013, certain directors were granted share awards, in respect of their services to the Group, under the share award scheme of the Company, further details of which are set out in note 34 to the financial statements. The fair value of these awards, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

In the year 2015, certain directors were granted share options in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 35 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

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

No emoluments were paid to the non-executive director of the Company during the year (2015: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included three directors for the year (2015: four), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining non-director and non-chief executive highest paid employees for the year are as follows:

	2016	2015
	RMB'000	*RMB'000*
Salaries, allowances and other benefits	**531**	240
Equity-settled share award	**773**	1,572
Pension scheme contributions	**55**	34
	1,359	1,846

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

	Number of employees	
	2016	2015
Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**1**	–
HK$2,000,001 to HK$2,500,000	**–**	1
	2	1

In the year 2013, share awards were granted to non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 34 to the financial statements. The fair value of these awards, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

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

	2016	2015
	RMB'000	*RMB'000*
Current Mainland China corporate income tax	**74,201**	216,119
Deferred tax *(note 32)*	**(26,899)**	(21,553)
	47,302	194,566

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

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

The subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. There are no assessable profits arising in Hong Kong during the year (2015: Nil).

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

10. INCOME TAX (continued)

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

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

	2016 RMB'000	2015 RMB'000
(Loss)/profit before tax	**(320,345)**	763,255
Tax at the applicable tax rate (25%)	**(80,086)**	190,814
Profits and losses attributable to joint ventures and associates	**72,940**	(180)
Tax effect of non-deductible expenses	**6,996**	3,779
Tax losses and temporary difference not recognised	**50,712**	153
Tax losses utilised from previous periods	**(3,260)**	–
Tax charge	**47,302**	194,566

The share of tax attributable to joint ventures and associates amounting to RMB2,369,000 (2015: RMB748,000) is included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

11. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Proposed final – Nil (2015: HK12 cents) per ordinary share	**–**	158,074

For the year ended 31 December 2016, the directors of the Company do not propose a final dividend.

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

The calculation of the basic (loss)/earnings per share amount is based on the (loss)/profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year. The number of shares for the current year has been arrived at after eliminating the restricted shares of the Company held under the share award scheme.

The calculation of the diluted (loss)/earnings per share amount is based on the (loss)/profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares under the share award scheme and share option scheme.

The calculations of the basic and diluted (loss)/earnings per share are based on:

(Loss)/earnings

	2016 ***RMB'000***	2015 *RMB'000*
(Loss)/profit for the year attributable to ordinary equity holders of the parent used in the basic (Loss)/earnings per share calculation	**(370,674)**	563,393

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

Shares

	Number of shares	
	2016	2015
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,565,782,147**	1,426,739,395
Effect of dilution – weighted average number of ordinary shares:		
– Restricted shares	**4,078,799**	13,579,715
	1,569,860,946*	1,440,319,110

* After taking restricted shares into account, the restricted shares had an anti-dilutive effect on the basic loss per share for the year and were not included in the calculation of diluted loss per share.

Outstanding share options of the Company during the years ended 31 December 2016 and 2015 have not been included in the computation of diluted earnings per share as they did not have a dilutive effect on the Company's (loss)/earnings per share for the years ended 31 December 2016 and 2015.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016							
At 1 January 2016:							
Cost	1,364,359	548,304	119,439	149,568	199,627	788,345	3,169,642
Accumulated depreciation	(116,023)	(72,360)	(40,556)	(50,858)	(47,694)	-	(327,491)
Net carrying amount	1,248,336	475,944	78,883	98,710	151,933	788,345	2,842,151
At 1 January 2016, net of accumulated depreciation	1,248,336	475,944	78,883	98,710	151,933	788,345	2,842,151
Additions	3,326	46,700	22,694	10,949	120,169	24,500	228,338
Transfer	92,199	438,698	4,967	2,134	-	(537,998)	-
Depreciation provided during the year	(34,686)	(75,577)	(15,372)	(24,282)	(34,363)	-	(184,280)
Acquisition of a subsidiary *(note 38)*	45,657	-	4,850	1,527	5,388	-	57,422
Impairment	-	-	-	-	-	(73,709)	(73,709)
Disposals	(7,385)	(19,437)	(1,087)	(3,572)	(80,849)	-	(112,330)
At 31 December 2016, net of accumulated depreciation and impairment	1,347,447	866,328	94,935	85,466	162,278	201,138	2,757,592
At 31 December 2016:							
Cost	1,497,959	1,013,291	149,683	156,935	212,939	274,846	3,305,653
Accumulated depreciation and impairment	(150,512)	(146,963)	(54,748)	(71,469)	(50,661)	(73,708)	(548,061)
Net carrying amount	1,347,447	866,328	94,935	85,466	162,278	201,138	2,757,592

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2015							
At 1 January 2015:							
Cost	1,347,811	380,368	111,043	120,533	222,001	630,471	2,812,227
Accumulated depreciation	(84,308)	(29,918)	(28,242)	(30,097)	(39,136)	–	(211,701)
Net carrying amount	1,263,503	350,450	82,801	90,436	182,865	630,471	2,600,526
At 1 January 2015, net of accumulated depreciation	1,263,503	350,450	82,801	90,436	182,865	630,471	2,600,526
Additions	11,002	9,393	11,325	28,665	80,723	365,497	506,605
Transfer	10,994	163,342	1,399	1,893	–	(177,628)	–
Depreciation provided during the year	(31,747)	(44,131)	(12,855)	(21,823)	(36,616)	–	(147,172)
Disposal of a subsidiary	–	–	–	–	–	(29,995)	(29,995)
Disposals	(5,416)	(3,110)	(3,787)	(461)	(75,039)	–	(87,813)
At 31 December 2015, net of accumulated depreciation	1,248,336	475,944	78,883	98,710	151,933	788,345	2,842,151
At 31 December 2015:							
Cost	1,364,359	548,304	119,439	149,568	199,627	788,345	3,169,642
Accumulated depreciation	(116,023)	(72,360)	(40,556)	(50,858)	(47,694)	–	(327,491)
Net carrying amount	1,248,336	475,944	78,883	98,710	151,933	788,345	2,842,151

The recoverable amount of the impaired construction in progress of certain 4S stores as at 31 December 2016 was Nil.

At 31 December 2016, certain of the Group's buildings with an aggregate net book value of approximately RMB28,761,000 (2015: RMB31,245,000) were pledged as security for the Group's bank borrowings (note 28(a)).

The Group has yet to obtain property ownership certificates for certain buildings with an aggregate net book value of RMB1,318,686,000 as at 31 December 2016 (2015: RMB1,217,111,000). The directors are of the opinion that the Group is in the process to obtain the relevant certificates and does not expect any legal obstacles.

14. PREPAID LAND LEASE PAYMENTS

	2016	2015
	RMB'000	*RMB'000*
Cost:		
At the beginning and end of the year	**15,981**	15,981
Amortisation:		
At the beginning of the year	**(3,684)**	(3,284)
Charge for the year	**(400)**	(400)
At the end of the year	**(4,084)**	(3,684)
Net book value:		
At the end of the year	**11,897**	12,297

All of the Group's prepaid land lease payments were pledged as security for the Group's bank loans and other borrowings as at 31 December 2016 and 2015 (note 28(a)).

15. INTANGIBLE ASSETS

	Dealership agreements RMB'000	Customer relationships RMB'000	Software RMB'000	Others RMB'000	Total RMB'000
Cost:					
At 1 January 2016	**–**	**–**	**9,658**	**500**	**10,158**
Additions	**–**	**–**	**1,018**	**–**	**1,018**
Acquisition of a subsidiary *(note 38)*	**27,300**	**2,800**	**411**	**–**	**30,511**
At 31 December 2016	**27,300**	**2,800**	**11,087**	**500**	**41,687**
Amortisation:					
At 1 January 2016	**–**	**–**	**(4,140)**	**(95)**	**(4,235)**
Charge for the year	**(284)**	**(78)**	**(1,622)**	**(50)**	**(2,034)**
At 31 December 2016	**(284)**	**(78)**	**(5,762)**	**(145)**	**(6,269)**
Net book value:					
At 31 December 2016	**27,016**	**2,722**	**5,325**	**355**	**35,418**
Cost:					
At 1 January 2015	–	–	7,582	500	8,082
Additions	–	–	2,076	–	2,076
At 31 December 2015	–	–	9,658	500	10,158
Amortisation:					
At 1 January 2015	–	–	(2,661)	(45)	(2,706)
Charge for the year	–	–	(1,479)	(50)	(1,529)
At 31 December 2015	–	–	(4,140)	(95)	(4,235)
Net book value:					
At 31 December 2015	–	–	5,518	405	5,923

16. GOODWILL

	RMB'000
At 1 January 2016:	
Cost	–
Accumulated impairment	–
Net carrying amount	–
Cost at 1 January 2016, net of accumulated impairment	–
Acquisition of a subsidiary *(note 38)*	**7,892**
Cost and net carrying amount at 31 December 2016	**7,892**
At 31 December 2016:	
Cost	**7,892**
Accumulated impairment	–
Net carrying amount	**7,892**

Impairment testing of goodwill

The goodwill comprises the fair value of expected business synergies arising from the acquisition, which is not separately recognised.

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a ten-year period approved by senior management. A growth rate of 3% has been projected beyond the ten years. The discount rate applied to the cash flow projections beyond the one-year period is 14%.

16. GOODWILL (continued)

Assumptions used in the value in use calculation

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

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

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

In the opinion of the Company's directors, a decrease in the growth rate by 0.6% to 2.4% would cause the carrying amount of the cash-generating unit to exceed its recoverable amount by approximately RMB2,820,000 to RMB96,304,000, and any reasonably possible change in the other key assumptions on which the recoverable amount is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

17. PREPAYMENTS

	2016 ***RMB'000***	2015 *RMB'000*
Prepayments for purchase of items of property, plant and equipment	**447,248**	167,377
Prepayments for leasing buildings and land	**47,177**	37,988
	494,425	205,365

18. INVESTMENTS IN JOINT VENTURES

	2016	2015
	RMB'000	*RMB'000*
Share of net assets	**297,596**	399,413

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

(a) Particulars of joint ventures are as follows:

			Percentage of			
Name	**Place of incorporation/ registration**	**Paid-in/ issued capital**	**Ownership interest**	**Voting power**	**Profit sharing**	**Principal activity**
Futeng Corporate Management Company	Zhengzhou, the PRC	RMB20,000,000	40	40	40	Technological development and sale of electric vehicles; corporate management consulting
Henan Harmony Futeng LP	Zhengzhou, the PRC	RMB1,000,000,000	39.2	39.2	39.2	Technological development and sale of electric vehicles; corporate management consulting

The above investments are indirectly held by the Company.

18. INVESTMENTS IN JOINT VENTURES (continued)

(b) Henan Harmony Futeng LP, which is considered a material joint venture of the Group, is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of Henan Harmony Futeng LP reconciled to the carrying amount in the consolidated financial statements:

	2016	2015
	RMB'000	*RMB'000*
Current assets	**816,448**	773,255
Non-current assets, excluding goodwill	**494,536**	521,155
Goodwill	**–**	235,291
Current liabilities	**(371,961)**	(208,032)
Non-current liabilities	**(356,371)**	(491,552)
Non-controlling interests	**(20,293)**	(8,064)
Net assets	**562,359**	822,053
Capital receivables from the joint venture partner	**177,100**	177,100
	739,459	999,153
Reconciliation to the Group's interest in the joint venture		
Proportion of the Group's ownership	**39.2%**	39.2%
Carrying amount of the investment	**289,868**	391,668
Revenue	**1,168**	–
Expenses	**(260,862)**	(847)
Loss and total comprehensive loss for the year	**(259,694)**	(847)

(c) The financial information of Futeng Corporate Management Company is not individually material to the Group and the carrying amount of the Group's investment in Futeng Corporate Management Company is RMB7,728,000 (2015: RMB7,745,000) and the loss for the current year attributable to the Group is RMB17,000 (2015: RMB255,000).

19. INVESTMENTS IN ASSOCIATES

	2016	2015
	RMB'000	*RMB'000*
Share of net assets	**228,506**	7,872

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

(a) Particulars of associates are as follows:

Name	Place of incorporation/ registration	Paid-in/ issued capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activity
Yongda Hexie	Zhengzhou, the PRC	RMB20,000,000	30	30	30	Sale and service of motor vehicles
Aiche Company	Shangyu, the PRC	RMB456,500,000	33.7	33.7	33.7	Technological development and sale of electric vehicles
Maofa Property	Zhengzhou, the PRC	RMB50,000,000	40	40	40	Property development and operation
FMC	Cayman Islands	USD1	43.8	43.8	43.8	Technological development and sale of electric vehicles; corporate management consulting

19. INVESTMENTS IN ASSOCIATES (continued)

(b) **The following table illustrates the summarised financial information in respect of Yongda Hexie reconciled to the carrying amount in the consolidated financial statements:**

	2016 RMB'000	2015 RMB'000
Non-current assets	**62,467**	66,527
Current assets	**168,270**	63,950
Non-current liabilities	**(36,688)**	–
Current liabilities	**(149,730)**	(104,237)
Net assets	**44,319**	26,240
Reconciliation to the Group's interest in the associate		
Proportion of the Group's ownership	**30%**	30%
Carrying amount of the investment	**13,296**	7,872
Revenue	**608,978**	524,746
Expenses	**(577,384)**	(517,893)
Tax	**(7,898)**	(2,493)
Total comprehensive income for the year	**23,696**	4,360
Dividend paid	**5,617**	16,250

19. INVESTMENTS IN ASSOCIATES (continued)

(c) The following table illustrates the summarised financial information in respect of Aiche Company reconciled to the carrying amount in the consolidated financial statements:

	2016 RMB'000	2015 RMB'000
Current assets	**290,468**	253,701
Non-current assets, excluding goodwill	**494,536**	521,155
Goodwill	**–**	235,291
Non-current liabilities	**(356,371)**	(491,552)
Current liabilities	**(366,042)**	(207,557)
Non-controlling interests	**492**	(8,064)
Net assets	**63,083**	302,974
Reconciliation to the Group's interest in the associate		
Proportion of the Group's ownership	**33.7%**	–
Carrying amount of the investment	**21,259**	–
Revenue	**1,763**	84,302
Expenses	**(395,654)**	(146,726)
Total comprehensive income for the year	**(393,891)**	(62,424)

19. INVESTMENTS IN ASSOCIATES (continued)

(d) FMC, which is considered a material associate of the Group, is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of FMC reconciled to the carrying amount in the consolidated financial statements:

	2016 *RMB'000*
Current assets	**342,443**
Non-current assets	**22,074**
Current liabilities	**(35,283)**
Non-current liabilities	**(743)**
Net assets	**328,491**
Reconciliation to the Group's interest in the associate	
Proportion of the Group's ownership	**43.8%**
Carrying amount of the investment	**143,879**
Expenses	**(146,990)**
Loss and total comprehensive loss for the year	**(146,990)**

19. INVESTMENTS IN ASSOCIATES (continued)

(e) Maofa Property, which is considered a material associate of the Group, is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of Maofa Property reconciled to the carrying amount in the consolidated financial statements:

	2016 *RMB'000*
Current assets	**100,211**
Net assets	**100,211**
Reconciliation to the Group's interest in the associate	
Proportion of the Group's ownership	**40.0%**
Group's share of net assets of the associate	**40,084**
Goodwill on acquisition	**9,988**
Carrying amount of the investment	**50,072**
Expenses	**180**
Profit and total comprehensive loss for the year	**180**

20. INVENTORIES

	2016 RMB'000	2015 RMB'000
Automobiles	**731,315**	1,134,079
Spare parts and accessories	**153,821**	139,418
	885,136	1,273,497

At 31 December 2016, certain of the Group's inventories with an aggregate carrying amount of approximately RMB382,823,000 (2015: RMB367,279,000) were pledged as security for the Group's bank loans and other borrowings (note 28(a)).

At 31 December 2016, certain of the Group's inventories with an aggregate carrying amount of approximately RMB57,995,000 (2015: RMB293,646,000) were pledged as security for the Group's bills payable (note 29(a)).

21. TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**247,471**	86,369

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

21. TRADE RECEIVABLES (continued)

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

	2016 RMB'000	2015 RMB'000
Within 3 months	**237,550**	78,673
More than 3 months but less than 1 year	**9,921**	7,696
	247,471	86,369

An aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**247,471**	86,369

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

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepayments to suppliers	**515,034**	405,350
Rebate receivables	**480,607**	430,880
Loans to third parties[i]	**200,000**	845,000
Insurance commission receivable	**21,247**	54,010
Due from a related party[ii]	**910**	–
Others	**165,890**	216,486
	1,383,688	1,951,726

Notes:

(i) As of 31 December 2016, the Group granted entrusted loans to third parties with an amount of RMB200,000,000 (31 December 2015: RMB700,000,000), which are guaranteed by Mr. Feng Changge, ("the Chairman of the Company") and 河南和諧實業集團有限公司 (Henan Hexie Industrial Group Co., Ltd. ("Hexie Industrial Group", which is under control of Mr. Feng Changge)). The entrusted loans bear interest at 4.35% per annum (31 December 2015: 17% to 20% per annum) and mature in June 2017.

The loans granted to a third party with an amount of RMB145,000,000 as of 31 December 2015 are guaranteed by the Chairman of the Company and Hexie Industrial Group. The loans granted to the third party bore interest at 18% per annum in 2015 and matured in April 2016.

(ii) As of 31 December 2016, the Group had balances with its associate, Yongda Hexie. The balance is unsecured and non-interest-bearing and has no fixed repayment term.

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

23. STRUCTURED DEPOSITS

The amounts were deposited in banks and matured in 2015 with expected interest rate of 3.2% per annum.

24. AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB'000
Available-for-sale investments	38,000

The available-for-sale investments were wealth management products issued by banks in the PRC and is redeemable at demand.

25. PLEDGED AND RESTRICTED BANK DEPOSITS

	2016 RMB'000	2015 RMB'000
Deposits pledged	131,817	384,298
Restricted bank deposits	2,300	–
	134,117	384,298

The pledged bank deposits were denominated in RMB.

26. CASH IN TRANSIT

	2016 RMB'000	2015 RMB'000
Cash in transit	26,323	39,435

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

27. CASH AND BANK BALANCES

	2016	2015
	RMB'000	*RMB'000*
Cash at banks and in hand	**1,586,710**	2,666,488
Time deposits	**1,382,388**	823,400
Cash and bank balances	**2,969,098**	3,489,888

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

	2016	2015
	RMB'000	*RMB'000*
RMB	**1,698,291**	1,754,268
US$	**11,091**	10,377
HK$	**1,259,716**	1,725,243
	2,969,098	3,489,888

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

28. BANK LOANS AND OTHER BORROWINGS

	2016		2015	
	Effective interest rate ***(%)***	***RMB'000***	Effective interest rate *(%)*	*RMB'000*
CURRENT:				
Bank loans	**4.4–8.7**	**1,087,696**	4.6–8.7	1,798,504
Other borrowings	**4.0–8.7**	**736,721**	7.5–8.7	596,588
		1,824,417		2,395,092
NON-CURRENT:				
Bank loans	**7.5–8.7**	**38,942**	8.7	21,360
		1,863,359		2,416,452

28. BANK LOANS AND OTHER BORROWINGS (continued)

		2016 RMB'000	2015 RMB'000
Bank loans and other borrowings representing:			
– secured	(a)	**148,884**	326,945
– guaranteed	(b)	**720,461**	1,190,784
– secured and guaranteed	(a)(b)	**994,014**	898,723
		1,863,359	2,416,452
Analysed into:			
Bank loans repayable:			
Within one year		**1,087,696**	1,798,504
In the second year		**21,332**	15,360
In the third to fifth years, inclusive		**17,610**	6,000
		1,126,638	1,819,864
Other borrowings repayable:			
Within one year		**736,721**	596,588
		1,863,359	2,416,452

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

(i) mortgages over the Group's prepaid land lease payments situated in Mainland China, which had an aggregate carrying value of approximately RMB11,897,000 as at 31 December 2016 (2015: RMB12,297,000);

(ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB28,761,000 as at 31 December 2016 (2015: RMB31,245,000); and

(iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB382,823,000 as at 31 December 2016 (2015: RMB367,279,000).

28. BANK LOANS AND OTHER BORROWINGS (continued)

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

(i) certain of the Group's bank loans and other borrowings amounting to RMB1,394,014,000 were guaranteed by the Chairman of the Company as at 31 December 2016 (2015: RMB1,048,723,000);

(ii) certain of the Group's bank loans and other borrowings amounting to RMB18,914,000 were guaranteed by the Chairman of the Company and Hexie Industrial Group as at 31 December 2016 (2015: RMB36,720,000);

(iii) certain of the Group's bank loans and other borrowings amounting to RMB301,547,000 were guaranteed by the Group's subsidiaries as at 31 December 2016 (2015: RMB454,064,000);

(iv) certain of the Group's bank loans amounting to RMB15,000,000 were guaranteed by the Chairman of the Company, and secured by certain land of 河南和諧置業有限公司 (Henan Hexie Property Co., Ltd., which is controlled by the Chairman of the Company) at 31 December 2015; and

(v) certain of the Group's bank loans amounting to RMB535,000,000 were guaranteed by the Chairman of the Company and Henan Hexie Property Co., Ltd. as at 31 December 2015.

(c) All the Group's bank loans and other borrowings are denominated in RMB.

29. TRADE AND BILLS PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	**87,399**	157,531
Bills payable	**201,989**	706,563
Trade and bills payables	**289,388**	864,094

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

	2016 RMB'000	2015 RMB'000
Within 3 months	**266,303**	769,762
3 to 6 months	**15,999**	91,549
6 to 12 months	**4,300**	789
Over 12 months	**2,786**	1,994
	289,388	864,094

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

(a) Certain of the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB57,995,000 as at 31 December 2016 (2015: RMB293,646,000).

(b) Certain of the Group's bills payable amounting to RMB52,318,000 were guaranteed by the Chairman of the Company as at 31 December 2015.

(c) Certain of Group's bills payable amounting to RMB4,223,000 were guaranteed by Hexie Industrial Group as at 31 December 2015.

30. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Payables for purchase of items of property, plant and equipment	**78,500**	70,072
Advances and deposits from distributors	**1,627**	3,146
Advances from customers	**296,759**	328,565
Taxes payable (other than corporate income tax)	**575,588**	547,082
Lease payables	**38,479**	33,140
Staff payroll and welfare payables	**53,592**	48,846
Payable for acquisition of a subsidiary	**49,909**	–
Capital contribution payable to an associate	**46,917**	–
Due to a related party[(i)]	**534**	1,417
Others	**89,973**	150,943
	1,231,878	1,183,211

(i) As at 31 December 2016, the Group had balances with its related party, Yongda Hexie, which is unsecured, interest free and has no fixed term of repayment.

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

31. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the People's Republic of China (the "PRC") state regulations, the subsidiaries of Mainland China participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The Mainland China subsidiaries are required to make contributions to the local social security bureau at 14% to 21% of the previous year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries.

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

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

As at 31 December 2016, the Group had no significant obligation apart from the contributions as stated above.

32. DEFERRED TAX

Deferred tax assets

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

	Losses available for offsetting against future taxable profits	Accruals	Deferred rental expenses	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	4,758	9,471	6,942	5,437	26,608
Disposal of a subsidiary	(1,050)	–	(150)	–	(1,200)
Deferred tax credited to statement of profit or loss during the year	13,216	2,741	1,493	9,172	26,622
At 31 December 2015 and 1 January 2016	16,924	12,212	8,285	14,609	52,030
Deferred tax credited/(charged) to statement of profit or loss during the year	25,426	(226)	(5,402)	10,702	30,500
At 31 December 2016	42,350	11,986	2,883	25,311	82,530

As at 31 December 2016, deferred tax assets have not been recognised in respect of tax losses arising in Mainland China of RMB209,760,000 (2015: RMB7,524,000) that will expire in one to five years for offsetting against future taxable profits as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

32. DEFERRED TAX (continued)

Deferred tax liabilities

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

	Fair value adjustments arising from acquisition of a subsidiary	Capitalised interest expense	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2015	–	16,127	16,127
Deferred tax charged to the statement of profit or loss during the year	–	5,069	5,069
At 31 December 2015 and 1 January 2016	–	21,196	21,196
Acquisition of a subsidiary *(note 38)*	7,883	–	7,883
Deferred tax (credited)/charged to the statement of profit or loss during the year	(94)	3,695	3,601
At 31 December 2016	7,789	24,891	32,680

32. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

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

	2016	2015
	RMB'000	*RMB'000*
Tax losses	**209,760**	7,524
Deductible temporary differences	**32,596**	–
	242,356	7,524

The above tax losses are available indefinitely 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.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2016, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries, joint ventures and associates established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries, joint ventures and associates will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries, joint ventures and associates in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,760,946,000 at 31 December 2016 (2015: RMB1,683,271,000).

33. SHARE CAPITAL

	2016 Number of shares at HK$0.01 each	2016 Equivalent to RMB'000	2015 Number of shares at HK$0.01 each	2015 Equivalent to RMB'000
Ordinary shares	**1,565,789,191**	**12,419**	1,563,211,046	12,399
Restricted shares *(note (a))*	**9,911,486**	**79**	12,489,631	99
	1,575,700,677	**12,498**	1,575,700,677	12,498

	Number of issued and fully paid shares	Nominal value of shares HK$'000	Share premium without proposed final dividend HK$'000	Equivalent nominal value of shares RMB'000	Equivalent share premium without proposed final dividend RMB'000	Declared final dividend RMB'000	Equivalent share premium RMB'000
At 1 January 2015	1,094,236,898	10,942	1,513,603	8,633	1,194,164	(67,251)	1,126,913
Issue of new shares *(note (b))*	481,463,779	4,815	3,300,188	3,865	2,647,174	–	2,647,174
Restricted shares exercised *(note (a))*	–	–	33,137	–	26,181	–	26,181
Final 2014 dividend declared	–	–	–	–	–	(102,405)	(102,405)
Share issue expenses	–	–	(77,450)	–	(68,490)	–	(68,490)
At 31 December 2015 and 1 January 2016	1,575,700,677	15,757	4,769,478	12,498	3,799,029	(169,656)	3,629,373
Restricted shares exercised *(note (a))*	–	–	17,161	–	13,558	–	13,558
Final 2015 dividend declared	–	–	–	–	–	(158,074)	(158,074)
As at 31 December 2016	1,575,700,677	15,757	4,786,639	12,498	3,812,587	(327,730)	3,484,857

Notes:

(a) Pursuant to the resolution of the Board of the Company on 28 May 2013, 19,110,898 restricted shares of HK$0.01 each were allotted and issued and to be converted as fully paid at par on 13 June 2013, by way of capitalisation of the sum of HK$191,000 (equivalent to approximately RMB151,000) standing to the credit of the share premium account. These restricted shares were issued for the purpose of the Company's restricted share unit scheme ("RSU Scheme") and managed by a professional trustee. As at 31 December 2016, 9,199,412 (2015: 6,621,267) restricted shares were exercised and converted to ordinary shares. For further details of the RSU Scheme are set out in note 34 below.

33. SHARE CAPITAL (continued)

(b) During 2015, the issues of new shares were as follows:

(i) On 21 January 2015, the Company issued 90,113,000 new ordinary shares of HK$0.01 each at a price of HK$6.08 per share with gross proceeds of HK$547,887,000 (equivalent to approximately RMB439,294,000). The amount of HK$546,986,000 (equivalent to RMB438,572,000) in excess of the par value of the Company's share was credited to the share premium account, before share issue expenses.

(ii) On 2 March 2015, the Company issued 128,734,000 ordinary shares of HK$0.01 each at a price of HK$4.73 per share with gross proceeds of HK$608,911,000 (equivalent to approximately RMB492,149,000). The amount of HK$607,624,000 (equivalent to RMB491,109,000) in excess of the par value of the Company's share was credited to the share premium account, before share issue expenses.

(iii) On 3 June 2015, the Company issued 262,616,779 new ordinary shares of HK$0.01 each at a price of HK$8.18 per share with gross proceeds of HK$2,148,205,000 (equivalent to approximately RMB1,719,596,000). The amount of HK$2,145,578,000 (equivalent to RMB1,717,493,000) in excess of the par value of the Company's share was credited to the share premium account before share issue expenses.

34. RSU SCHEME

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

34. RSU SCHEME (continued)

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

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

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

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

34. RSU SCHEME (continued)

The fair value of the RSU awards granted as at the grant date was RMB82,554,000 (RMB4.32 each), of which the Group recognised a total RSU award expense of RMB5,251,000 during the year ended 31 December 2016 (2015: RMB4,150,000) and a total share award reserve with an amount of RMB13,558,000 (2015: RMB26,181,000) was transferred to share premium account upon the conversion into ordinary shares during the year ended 31 December 2016.

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

As at 31 December 2016, a total of 4,755,215 RSU awards were forfeited due to the resignation of certain RSU Participants and 9,199,412 RSU awards were exercised. At the end of the year, the Company had 5,156,271 RSU awards outstanding under the RSU Scheme.

35. SHARE OPTION SCHEME

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

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

35. SHARE OPTION SCHEME (continued)

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

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

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

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

35. SHARE OPTION SCHEME (continued)

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

	2016 Weighted average exercise price HK$ per share	**2016** Number of options '000	2015 Weighted average exercise price HK$ per share	2015 Number of options '000
At 1 January	**10.60**	**45,000**	–	–
Granted during the year	**–**	**–**	10.60	45,000
Forfeited during the year	**10.60**	**(5,100)**	–	–
At 31 December	**10.60**	**39,900**	10.60	45,000

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

31 December 2016

Number of options '000	Exercise price* HK$ per share	Exercise period
39,900	**10.60**	**1-1-2019 to 31-12-2020**

31 December 2015

Number of options '000	Exercise price* HK$ per share	Exercise period
45,000	10.60	1-1-2019 to 31-12-2020

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

35. SHARE OPTION SCHEME (continued)

The fair value of the share options granted on 29 June 2015 and 2 July 2015 was RMB90,997,000 (RMB1.89 each and RMB2.05 each), of which the Group recognised a share option expense of RMB17,580,000 during the year ended 31 December 2016 (2015: RMB10,502,000).

The fair value of equity-settled share options granted during the year 2015 was estimated as at the date of grant, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2015
Dividend yield *(%)*	1.19% to 1.24%
Expected volatility *(%)*	44.18% to 44.33%
Historical volatility *(%)*	44.18% to 44.33%
Risk-free interest rate *(%)*	1.70% to 1.83%

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

At the end of the reporting period, the Company had 39,900,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 39,900,000 additional ordinary shares of the Company and additional share capital of HK$399,000 (equivalent to RMB358,000) (before issue expense).

At the date of approval of these financial statements, the Company had 39,900,000 share options outstanding under the Scheme, which represented approximately 2.5% of the Company's shares in issue as at that date.

36. RESERVES

(i) Statutory reserve

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

(ii) Merger reserve

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

(iii) Exchange fluctuation reserve

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

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

None of the non-controlling interests is considered as individually significant.

38. BUSINESS COMBINATION

On 1 August 2016, the Group acquired a 100% interest in Zhengzhou Huadebao Automobile Sales and Services Co., Ltd. ("Zhengzhou Huadebao") from a third party. Zhengzhou Huadebao is engaged in the sale of automobiles and provision of after-sales services. The acquisition was made as part of the Group's strategy to expand its motor vehicle sales and service business in Zhengzhou. The purchase consideration for the acquisition was in the form of cash with total amount of RMB70,000,000, of which RMB20,091,000 paid at the acquisition date and the remaining RMB49,909,000 would be paid in May 2017.

38. BUSINESS COMBINATION (continued)

The fair values of the identifiable assets and liabilities of Zhengzhou Huadebao as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	13	57,422
Inventories		66,597
Cash and bank balances		21,293
Trade receivables		1,177
Prepayments and other receivables		65,014
Intangible assets	15	30,511
Bank loans and other borrowings		(103,094)
Trade and bills payables		(61,840)
Accruals and other payables		(7,089)
Deferred tax liabilities	32	(7,883)
Total identifiable net assets at fair value		62,108
Goodwill on acquisition	16	7,892
Satisfied by:		
Cash		20,091
Other payable		49,909
		70,000

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

Cash consideration paid	(20,091)
Cash and bank balances acquired	21,293
Net inflow of cash and cash equivalents included in cash flows from investing activities	1,202

38. BUSINESS COMBINATION (continued)

Since the acquisition, Zhengzhou Huadebao contributed RMB233,754,000 to the Group's revenue and RMB11,994,000 to the consolidated profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue and loss of the Group for the year would have been RMB10,788,790,000 and RMB364,811,000, respectively.

39. DISPOSAL OF A SUBSIDIARY

	Note	2015 RMB'000
Net assets disposed of:		
Property, plant and equipment		29,995
Cash and bank balances		3,354
Prepayments and other receivables		71,859
Deferred tax assets		1,200
Bank loans and other borrowings		(80,000)
		26,408
Gain on disposal of subsidiary	5(b)	18,592
		45,000

	2015 RMB'000
Satisfied by:	
Cash	41,000
Other receivables	4,000
	45,000

39. DISPOSAL OF A SUBSIDIARY (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2015 *RMB'000*
Cash consideration	41,000
Cash and bank balances disposed of	(3,354)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	37,646

40. FINANCIAL INSTRUMENTS BY CATEGORY

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

2016

Financial assets

	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Available-for-sale investment	–	38,000	38,000
Trade receivables	247,471	–	247,471
Financial assets included in prepayments, deposits and other receivables	791,051	–	791,051
Pledged bank deposits	134,117	–	134,117
Cash in transit	26,323	–	26,323
Cash and bank balance	2,969,098	–	2,969,098
	4,168,060	38,000	4,206,060

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2016 (continued)

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	**289,388**
Financial liabilities included in other payables and accruals	**263,460**
Bank loans and other borrowings	**1,863,359**
	2,416,207

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

2015

Financial assets

	Loans and receivables *RMB'000*
Trade receivables	86,369
Financial assets included in prepayments, deposits and other receivables	1,412,726
Structured deposits	305,000
Pledged and restricted bank deposits	384,298
Cash in transit	39,435
Cash and bank balances	3,489,888
	5,717,716

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2015 (continued)

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	864,094
Financial liabilities included in other payables and accruals	230,715
Bank loans and other borrowings	2,416,452
	3,511,261

41. CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no significant contingent liabilities.

42. COMMITMENTS

(a) Capital commitments

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

	2016 **RMB'000**	2015 RMB'000
Contracted, but not provided for:		
Land leases and buildings	**149,610**	209,588
Capital contribution payable to an associate*	**–**	154,000
	149,610	363,588

* 河南和諧汽車貿易有限公司 (Henan Hexie Automobile Trading Co., Ltd, ("Hexie Automobile Trading"), a subsidiary of the Company) and Henan Harmony Futeng LP agreed to make joint capital contributions to establish Aiche Company, with a registered capital of RMB550 million, which would be owned as to 33.7% by Hexie Automobile Trading and 66.3% by Henan Harmony Futeng LP. Aiche Company acquired 87.57% equity interests in 浙江綠野汽車有限公司 (Green Field Motor Co., Ltd.) for the purpose of researching and developing new energy vehicles. The capital contribution was subsequently paid in January 2016.

42. COMMITMENTS (continued)

(b) Operating lease commitments

As lessee

At each reporting date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016		2015	
	Properties	**Land**	Properties	Land
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Within one year	**90,182**	**18,867**	105,616	16,366
In the second to fifth year, inclusive	**214,968**	**78,915**	278,116	71,603
After five years	**125,914**	**204,336**	164,355	203,896
	431,064	**302,118**	548,087	291,865

The Group is the lessee in respect of a number of properties and land held under operating leases. The leases typically run for an initial period of one to thirty years, with an option to renew the leases when all the terms are renegotiated.

43. PLEDGE OF ASSETS

Details of the Group's assets pledged for its bank loans and other borrowings and bills payable are disclosed in note 13, note 14, note 20 and note 25 to these financial statements.

44. RELATED PARTY TRANSACTIONS AND BALANCES

Mr. Feng Changge is the Chairman of the Company and is also considered a related party of the Group.

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

(a) Balances with related parties

The Group had the following significant balances with its related parties as at each reporting date:

Due from a related party:

	2016	2015
	RMB'000	*RMB'000*
Non-trade related:		
– Yongda Hexie	**910**	–

Due to a related party:

	2016	2015
	RMB'000	*RMB'000*
Non-trade related:		
– Hexie Industrial Group	**534**	1,417

Balances with related parties are unsecured and non-interest-bearing and have no fixed repayment terms.

44. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) Compensation of key management personnel of the Group

	2016	2015
	RMB'000	*RMB'000*
Short term employee benefits	**4,951**	3,809
Equity-settled share award expense	**1,896**	8,525
Equity-settled share option expense	**5,477**	2,643
Post-employee benefits	**187**	244
Total compensation paid to key management personnel	**12,511**	15,221

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

(c) The Chairman of the Company has guaranteed certain bank loans made to the Group of up to RMB1,394,014,000 (2015: RMB1,048,723,000) as at the end of the reporting period, as further detailed in note 28(b) to the financial statements.

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

The fair values of bank loans and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, and the fair values also approximate to their carrying amounts. The Group's own non-performance risk for bank loans and other borrowings as at 31 December 2016 was assessed to be insignificant.

At the end of the year, the Group had no financial assets or liabilities measured at fair value (2015: Nil).

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

The Group has no significant interest-bearing assets other than loans to third parties (note 22), structured deposits (note 23), pledged and restricted bank deposits (note 25) and cash and bank balances (note 27).

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

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

Foreign currency risk

The Group's businesses are located in Mainland China and all transactions are conducted in RMB. Most of the Group's assets and liabilities were denominated in RMB, except for certain bank balances denominated in US$ and HK$ as disclosed in note 27.

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

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of structured deposits, pledged and restricted bank deposits, cash in transit, cash and bank balances, trade and other receivables included in the financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2016, all pledged and restricted bank deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

Liquidity risk

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

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

	As at 31 December 2016					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans and other borrowings	–	592,204	1,286,238	46,912	–	1,925,354
Trade and bills payables	11,469	266,844	11,075	–	–	289,388
Other payables and accruals	263,460	–	–	–	–	263,460
	274,929	859,048	1,297,313	46,912	–	2,478,202

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

	As at 31 December 2015					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans and other borrowings	–	452,418	2,023,028	25,428	–	2,500,874
Trade and bills payables	17,592	790,038	56,464	–	–	864,094
Other payables and accruals	230,715	–	–	–	–	230,715
	248,307	1,242,456	2,079,492	25,428	–	3,595,683

Capital management

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

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

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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

	2016 ***RMB'000***	2015 *RMB'000*
Bank loans and other borrowings	**1,863,359**	2,416,452
Trade and bills payables	**289,388**	864,094
Other payables and accruals	**1,227,878**	1,183,211
Less: Cash and bank balances	**(2,969,098)**	(3,489,888)
Structured deposits	**–**	(305,000)
Net debt	**411,527**	668,869
Equity attributable to owners of the parent	**5,439,108**	5,855,761
Gearing ratio	**7.6%**	10.3%

47. EVENTS AFTER THE REPORTING PERIOD

On 23 January 2017, the Company has announced a share buy-back program. As of 31 March 2017, the Company has repurchased 32,748,000 shares.

48. 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:

	2016	2015
	RMB'000	*RMB'000*
NON-CURRENT ASSETS		
Interests in subsidiaries	**2,621,666**	2,104,605
Total non-current assets	**2,621,666**	2,104,605
CURRENT ASSETS		
Cash and bank balances	**1,238,723**	1,704,984
Total current assets	**1,238,723**	1,704,984
CURRENT LIABILITIES		
Other payables and accruals	**3,534**	6,115
Total current liabilities	**3,534**	6,115
NET CURRENT ASSETS	**1,235,189**	1,698,869
NET ASSETS	**3,856,855**	3,803,474
EQUITY		
Share capital	**12,498**	12,498
Reserves *(note)*	**3,844,357**	3,790,976
Total equity	**3,856,855**	3,803,474

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

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

	Share premium	Share award reserve	Share option reserve	Exchange fluctuation reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	1,126,913	52,613	–	15,409	(31,627)	1,163,308
Final 2014 dividend declared	(102,405)	–	–	–	–	(102,405)
Total comprehensive income for the year	–	–	–	156,611	(19,874)	136,737
Issue of shares	2,578,684	–	–	–	–	2,578,684
Equity-settled share award expense	–	4,150	–	–	–	4,150
Restricted shares exercised	26,181	(26,181)	–	–	–	–
Equity-settled share option expense	–	–	10,502	–	–	10,502
At 31 December 2015	3,629,373	30,582	10,502	172,020	(51,501)	3,790,976
Final 2015 dividend declared	(158,074)	–	–	–	–	(158,074)
Total comprehensive income for the year	–	–	–	218,749	(30,125)	188,624
Equity-settled share award expense	–	5,251	–	–	–	5,251
Restricted shares exercised	13,558	(13,558)	–	–	–	–
Equity-settled share option expense	–	–	17,580	–	–	17,580
At 31 December 2016	3,484,857	22,275	28,082	390,769	(81,626)	3,844,357

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2017.

Financial Summary

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
RESULTS					
REVENUE	**10,695,872**	10,620,244	10,195,890	8,332,749	5,656,744
Cost of sales and services	**(9,925,790)**	(9,498,495)	(9,106,560)	(7,335,607)	(4,993,298)
Gross profit	**770,082**	1,121,749	1,089,330	997,142	663,446
Other income and gains, net	**326,227**	524,781	474,072	303,160	236,658
Selling and distribution costs	**(775,392)**	(592,221)	(515,668)	(426,408)	(237,030)
Administrative expenses	**(180,754)**	(134,719)	(124,097)	(117,584)	(71,611)
Other expenses	**(73,709)**	–	–	–	–
Profit from operations	**66,454**	919,590	923,637	756,310	591,463
Finance costs	**(95,040)**	(157,056)	(202,199)	(194,839)	(116,403)
Share of profits and losses of:					
Joint ventures	**(101,817)**	(587)	–	–	–
Associates	**(189,942)**	1,308	4,916	501	222
(Loss)/Profit before tax	**(320,345)**	763,255	726,354	561,972	475,282
Income tax expense	**(47,302)**	(194,566)	(180,650)	(154,847)	(124,563)
(Loss)/Profit for the year	**(367,647)**	568,689	545,704	407,125	350,719
Attributable to:					
Owners of the parent	**(370,674)**	563,393	544,365	404,135	350,822
Non-controlling interests	**3,027**	5,296	1,339	2,990	(103)
	(367,647)	568,689	545,704	407,125	350,719
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**9,599,689**	11,055,264	8,218,577	7,609,013	4,375,138
TOTAL LIABILITIES	**(4,130,231)**	(5,168,197)	(5,472,814)	(5,371,893)	(3,773,099)
NON-CONTROLLING INTERESTS	**(30,350)**	(31,306)	(19,610)	(16,271)	(13,281)
	5,439,108	5,855,761	2,726,153	2,220,849	588,758